



San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

**SAN FRANCISCO PUBLIC UTILITIES
COMMISSION**

City and County of San Francisco

London N. Breed
Mayor

SPECIAL MEETING MINUTES
Friday, January 14, 2022
9:00 AM
(Approved February 8, 2022)

This meeting was held by Teleconference Pursuant to the Governor's Executive Order N-29-20 and the Twelfth and Forty-First Supplements to Mayoral Proclamation Declaring the Existence of a Local Emergency Dated February 25, 2020

Commissioners

Anson Moran, President
Newsha Ajami, Vice President
Sophie Maxwell
Tim Paulson
Ed Harrington

Dennis J. Herrera
General Manager

Donna Hood
Secretary



1. Call to Order
Chair Ajami called the meeting to order at 9:00 AM.
2. Roll Call
Present: Moran, Ajami, Maxwell, Harrington, and Paulson
3. Summary of January 7, 2022 Budget Hearing #1 Questions
Laura Busch, Budget Director, indicated that the summary of Commissioner questions and staff response was provided to the Commission and stated that the Commission Secretary updated the posted agenda to include the document.

Commissioner Harrington discussed his previous question as to what the effect no rate increase during the next year would have and the staff response that the retail rate increase is not directly tied to a specific impact on the capital plan. He stated that the SFPUC has chosen an unfunded capital plan and he noted the largest items in the budget are rates and capital. He indicated that delinking them and having an unfunded portion is an issue for him and will postpone important decisions. He discussed potential impacts of the decisions that are being made. Charles Perl, Acting CFO, noted that there is a balanced capital plan presented for FY 2023 and acknowledged the unfunded portion for the remaining nine years. He stated there is a commitment to work on agency needs prioritization to determine if there are available resources to deliver capital programs. He stated a rebalanced capital plan will be presented to the Commission next year. Commissioner Harrington said there is little sense in looking at the unfunded capital plan after the first year if this is the case. Mr. Perl provided additional response and discussion ensued.

Mr. Perl responded to a question from Chair Ajami as to how many items in the capital budget are due to “demand” and which are in a “wish list”. Commissioner Paulson acknowledged the discussion and the need to move forward. Chair Ajami discussed demands, uncertainty, and stated that in addition to debt financing, staff should look at alternative financing options. Discussion ensued.

Greg Norby, Assistant General Manager (AGM) Wastewater, provided his experience with capital projects and deliverability. He stated his priority for Wastewater is the need to absorb and deliver projects. He discussed affordability, indicating cost-of-service is important.

President Moran discussed the current budget proposal, noting the value in keeping programs in the budget, even if unfunded. He stated that discussions on delivery should occur. He noted that rate increases are not the issue and that the organizational capacity issue need to be addressed. He stated that objectives and constraints need to be clear and that rates shouldn't be a constraint. General Manager (GM) Herrera provided remarks and the need to fiscally balance needs with ratepayer sensitivity.

Chair Ajami stated considerations needs to include, multiple problems and challenges the agency faces, including stress challenges, and the impact of climate change. She stated the utility business is evolving and indicated there is a need to look at business in

a different way and consider new solutions to meet challenges. President Moran discussed thoughts and reasons for previous rate increases.

Public Comment

- *David Pilpel expressed agreement with Commissioner Harrington regarding the Capital Plan. He discussed rates and declining water sales and stated that there is a downward trend. He noted the change in tone of organizational capacity and priorities. He asked that the Asset Management Policy and other Commission policies be reviewed and applied during the budget development process.*
- *Ali Altaha stated that the SFPUC should be able to deliver projects with staff. He discussed SFPUC hiring.*
- *Francisco DaCosta discussed the General Manager search process and SFPUC operations.*
- *Nicole Sandkulla, BAWSCA CEO, stated she was pleased to hear the Commission challenge themselves to consider what is not working and needs to be changed. She stated using previously appropriated funds is appropriate. She stated adding staff resources will not solve problems and that project delivery needs to be reconsidered to meet obligations to deliver a reliable water source.*

4. Water Enterprise Budget and Capital Plan

- a) FY 2022-23 and FY 2023-24 Operating Budget
- b) FY 2022-23 through FY 2031-32 Capital Plan, including the FY 2022-23 Capital Budget

Steve Ritchie, AGM Water, noted the SFPUC's water system spans the width of California and serves 2.7 million customers, including Wholesale customers. He displayed a map of the Hetch Hetchy system and noted the varying costs to maintain the system, including those costs related to regulation.

AGM Ritchie presented the Water Enterprise organizational chart and introduced the Water Enterprise Deputy Manager and the Division Managers for Hetchy Water and Power, City Distribution, Water Supply and Treatment, Natural Resources and Land Management, Water Quality, and Water Resources.

AGM Ritchie reviewed the 2008 Water Enterprise Level-of-Service (LOS) Goals and discussed the implementation of each: (1) Water Quality (maintain high water quality); (2) Seismic Reliability (reduce vulnerability to earthquakes); (3) Delivery Reliability (increase delivery reliability and improve ability to maintain the system); (4) Water Supply (meet customer water needs in non-drought and drought periods); (5) Environmental Stewardship (maintain high environmental performance standards) and Sustainability and Environmental Stewardship (enhance sustainability in all system activities – environmental, economic, and social); and (6) Cost-effectiveness (achieve a cost-effective, fully operational system).

Mr. Ritchie indicated the two-year budget proposal is guided by the themes and objectives of responsible management, access, and affordability, and supporting people and communities, briefly reviewing each.

AGM Ritchie discussed the cost and challenges of operating and maintaining new facilities and equipment and addressed the effect regulatory changes have on the budget. He discussed: (1) need to manage increasing risks, including dam safety (tightening regulations and inspections post-Oroville), employee safety (onsite traffic control and staff training), and lands management (wildfire mitigation plans and vegetation management); (2) responding to state and federal regulations; and (3) responsible management (water quality laboratories, water treatment, capital project support, and facilities management).

AGM Ritchie reviewed the Water Enterprise Use of Funds for FY2022, FY2023, and FY2024; Water Enterprise Total Budget for FY2022, FY2023 and FY2024, noting a 2022-23 request of \$658.2M (4% change) and a FY2023-24 request of \$670.8M (2% change).

AGM Ritchie discussed the Water Enterprise total positions request for 2022-23 (1% change) and for FY 2023-24 (0% change).

AGM Ritchie reviewed the Water Enterprise 10-year Capital Improvement Program (CIP) spending plan for Local and Regional programs, with a proposed FY2023-32 budget of \$2,118.0 million (5% change). He noted the need to account for inflation.

He reviewed the Regional Water FY22-23 Capital Budget, with a FY2022-23 proposed budget of \$47.6 million. He indicated key projects for the Regional Water CIP are: (1) Water Treatment (Sunol Valley Water Treatment Plant projects); (2) Water Transmission (four major pipeline repair, replacement, and rehabilitation); (3) Buildings and Grounds (Millbrae Yard improvement Projects); (4) Storage Projects (Pilarcitos and San Andreas (not fully funded)); and (5) Alternative Water Supplies Project (in evaluation and planning stages).

AGM Ritchie continued with a review of the Local Water FY22-23 Capital Budget, with a FY2022-23 proposed budget of \$53.7 million. He indicated key projects for the Local Water CIP are: (1) Local Water Conveyance (water pipeline replacement projects, and lead component services replacement); (2) Buildings and Grounds (new CDD headquarters at 2000 Marin); and (3) Other projects (Lake Merced Water Level Restoration (joint project with Daly City)).

Chair Ajami recognized that the organizational chart showed 273 vacancies and stated that the focus should be on the filling of vacant positions rather than adding new positions. AGM Ritchie stated that most vacancies are due to retirements or resignations and emphasized the difficulty with the hiring process. He noted each year new positions are reviewed to see if they can be substituted for existing positions. Brief discussion ensued.

In response to a question from Chair Ajami and Commissioner Harrington as to whether there is enough in the budget to implement what is desired, AGM Ritchie indicated there is enough.

Commissioner Harrington discussed the lead program and questioned who is responsible for replacement on the customer side of the meter. Commissioner Harrington discussed LOS Goals and stated they seem to be more like staff goals. He suggested it may be a good idea to have the Commission adopt LOS goals as official SFPUC policy.

Chair Ajami questioned possible infrastructure funding to address lead lines. She stated that time and resources should be dedicated to rethinking water banking to ensure water is accessible when needed.

In response to questions from Chair Ajami, AGM Ritchie indicated the Recycled Water Projects funding is for the Westside Recycled Water Project; the Alternative Water Supply Projects include Regional and Local Projects; and as to the status of the Purified Water Project (included in Alternative Water Supply Projects) in San Francisco. Paula Kehoe, Water Resources Manager, provided additional response on a Purified Water Project. Brief discussion ensued.

Public Comment

- David Pilpel expressed support for the Water Enterprise budget. He suggested trading existing positions for new ones, if possible. He noted the need to continue sewer maintenance and repair. He stated the operation and maintenance costs for new assets and capital projects should be identified in the development phase. He asked that a summary of asset conditions by class/region be shown. He discussed Peninsula maintenance and stated an that internal city working group is needed.*
- Nicole Sandkulla, BAWSCA CEO, addressed Section 609 of the Water Supply Agreement which requires that the SFPUC meet with BAWSCA to review the 10-year CIP during development, including proposed new projects. She stated the review was incomplete and there are several new projects in the Water and Hetch Hetchy CIP and that BAWSCA doesn't have the necessary information to confirm that they understand the need for the projects or their scope, schedule, and budget. She expressed the hope that the SFPUC has taken steps to schedule the advancement of projects and funding needs. She requested a cash-flow diagram.*
- Ali Altaha stated that project progress cannot happen with the practice of micro-level racism. He stated comments made on LBE are out of line. He discussed outreach efforts.*
- Tom Francis, Water Resources Engineer, BAWSCA, thanked the Commission for the discussion, including the Alternative Water Supply Project. He thanked AGM Ritchie and staff for their work on the issues and the quarterly reports. He discussed water bank and challenges with accessing water.*

5. Hetch Hetchy Water Enterprise Budget and Capital Plan (discussion only)

- FY 2022-23 and FY 2023-24 Operating Budget
- FY 2022-23 through FY 2031-32 Capital Plan, including the FY 2022-23 Capital Budget

Steve Ritchie, AGM Water, indicated the presentation would address the Hetch Hetchy System and the Hetch Hetchy Water and Power Budget. He stated the 2008 Water

Enterprise LOS presented under the Water Enterprise budget are the same for Hetch Hetchy.

AGM Ritchie discussed responsible management; access and affordability; supporting people and communities; managing increased risks (disaster preparedness); environmental stewardship (air quality improvements and instream flow improvements); maintaining infrastructure (system reliability and sustainability); supporting people and communities (diversity and equity in the workforce); and payments to other governments (Lower Tuolumne River and Upper Tuolumne River).

He reviewed Hetch Hetchy Use of Funds for FY2022, FY2023, and FY2024; Hetch Hetchy total budget for FY2022, FY2023 and FY2024, with a 2022-23 request of \$94.3M (5% change) and a FY2023-24 request of \$95M (1% change).

AGM Ritchie discussed the Hetch Hetchy total positions request for 2022-23 (0% change) and for FY 2023-24 (0% change).

Mr. Ritchie reviewed the Hetch Hetchy 10-year Capital Improvement Program spending plan for Water, Power, and Joint programs/projects, with a proposed FY2023-32 total budget of \$974.4 million (-6% change).

He reviewed the Hetch Hetchy FY22-23 Capital Budget, with a FY2022-23 proposed budget of \$114.9 million. He noted key projects for the Hetch Hetchy Water CIP are: (1) Water (San Joaquin Pipeline Valve and Safe Entry Improvements); (2) Power (Electric Transmission Lines 7 & 8 upgrades; Moccasin powerhouse and GSU Rehabilitation Project; Electric Transmission lines Clearance Mitigations; and Moccasin Powerhouse Bypass Upgrade); (3) Joint (Mountain Tunnel Improvement Program (joint portion); Bridge replacement (two bridges); Moccasin Old Powerhouse Hazard Mitigation; Moccasin Dam & Reservoir Long Term Improvements; and O'Shaughnessy Dam Outlet Works Phase 1).

Public Comment

- David Pilpel stated that Hetch Hetchy Water and Power should eventually be placed under the Power Enterprise for better staff balance. He stated that the California Independent System Operator sets power cost formulas which create meaningful incentives to maintain assets. He stated he would like to see the Moccasin Powerhouse back in service. He stated decentralizing the Infrastructure Bureau would allow staff to focus on projects.*
- Nicole Sandkulla, BAWSCA, expressed appreciation for the new project data sheets which provide more detail than in the past. She recognized the work that it took to prepare the budget.*

6. Wastewater Enterprise (WWE) Budget and Capital Plan

- FY 2022-23 and FY 2023-24 Operating Budget
- FY 2022-23 through FY 2031-32 Capital Plan, including the FY 2022-23 Capital Budget

AGM Norby, stated that the Wastewater System is a combined system that also collects, conveys, and treats stormwater. He reviewed the WWE Divisions and introduced Division Managers for (1) Operations, (2) Maintenance, (3) Collection System, (4) Engineering, (5) Regulatory Compliance, (6) Urban Watershed Planning, and (7) Business Strategy and Performance.

He noted the WWE FY21-22 Operating Budget has total operating expenditures of \$411,942,867. He stated for FY21-22 there are 503 net total positions with 432 operating (118 vacant – 27%) and 71 non-operating (21 vacant – 30%). He reviewed the budget summary request and stated there is just under a 4% decrease in the total budget for the first year, and for the second year there is just about a 6% increase, which results in a total two-year Operating Budget change from baseline of 2%. He stated that debt service is the largest cost increase in dollars.

AGM Norby discussed the WWE Operating Budget priorities: (1) GIS Transition. GM Herrera responded to a question from Commissioner Harrington as to the opportunity the restructuring of Public Works offers, including the chance to bring work back to the SFPUC, stating that conversations have been initiated with Public Works. (2) Close the Capital Program Construction Inspection Gap; (3) Increased Regulatory Requirements; (4) Forward Racial Equity. In response to a question from Commissioner Maxwell, AGM Norby discussed the role of the Employee Resource Group (ERG) (formerly known as the Black Phoenix Alliance), which is to provide a place of community and opportunities for information sharing for WWE's most marginalized staff. He responded to follow up questions regarding what is done with the information that is collected from the ERG. He responded to Commissioner Maxwell's request to provide examples for the "trenchless method". (5) Partnership for Flooding Resilience and Green infrastructure Scaling; (6) Implementing the Asset Management Policies; and (7) Capital Rebalancing.

AGM Norby reviewed Use of Funds for FY2022, FY2023, and FY2024; Total Budget for FY2022, FY2023 and FY2024, with a 2022-23 request of \$397.3M (4% change) and a FY2023-24 request of \$402M (6% change).

AGM Norby discussed the WWE total positions request for 2022-23 (1% change) and for FY 2023-24 (1% change).

Mr. Norby stated he would get back to Chair Ajami regarding her question as to how much is spent and what resources are used to treat a gallon of wastewater. He responded to a follow-up question regarding the relationship between demand and the value of services provided. Chair Ajami discussed fixed versus variable costs and stated there is a need for the SFPUC to better understand those costs. She noted the amount of water used for wastewater and discussed alternative water supply options. AGM Norby provided comment.

Stephen Robinson, WWE CIP Director, presented the WWE Capital Budget and Plan, beginning with the evolution of the Sewer System Improvement Program (SSIP). He addressed affordability, LOS, asset management, market conditions, and delivery capacity, pace, and operations.

He noted the Commission adopted the Asset Management Policy on December 22, 2020 and stated asset management is an integral part of the never-ending asset life cycle. He indicated the intention is to move from a one-time large investment to a more sustainable strategic capital planning approach. Director Robinson discussed the Capital Planning strategy. He stated that the WWE Business Plan will help in the 20-year planning horizon.

Mr. Robinson discussed the current Wastewater CIP for: (1) All projects (including Biosolids and Headworks) – total request of \$6.13B over a 10-year duration. He stated there is just under a \$1B shortfall (with no shortfall in the first year); and (2) Wastewater CIP (excluding Biosolids and Headworks) – 10-year total request \$4.7B.

Director Robinson reviewed the \$687.4M WWE appropriation for FY22-23, as compared to previously approved appropriations, indicating it has increased. He noted there is no shortfall in the first year. He reviewed the WWE appropriation in the 10-year CIP for the SSIP and for Facilities and Infrastructure.

Mr. Robinson provided a review of the following projects: (1) Southeast Plant (SEP) Biosolids Digester Facilities Project (project cost increased from \$1,681M to \$2,373M); (2) SEP (project cost increased from \$619M to \$679M); and (3) R & R Collection System. He stated it was reduced in early years for affordability and has expanding from \$1,657M to \$2,840M for efficiency.

Mr. Robinson stated the WWE 10-year CIP total project budget (FY23-32) is \$12.4B.

Commissioner Paulson stated he found the WWE appropriations (10-year CIP) information helpful and useful.

Commissioner Maxwell thanked Mr. Robinson for a thoughtful and succinct presentation.

Public Comment

- David Pilpel stated the reference to debt service reminded him of Mr. Rydstrom's scorecard and suggested bringing it back. He indicated he would reduce vacant positions and salary savings to make the budget more accurate. He questioned how much asset management and IT should be in each Enterprise and how much should be in Business Services. He discussed work by Public Works and the need to reexamine the relationship and bring some of the work back to the SFPUC. He questioned the operating and maintenance costs for new Wastewater facilities and projects. He discussed data sheets. He noted the need to consider the effects of a rate freeze.*

Commissioner Maxwell stated that SFPUC rates aren't arbitrary and align with the real cost of water. She stated that public education is important.

7. Motion to continue meeting to a Special Meeting noticed for Thursday, January 20, 2022

*On motion to continue the meeting to January 20, 2022
Ayes: Ajami, Moran, Maxwell, Paulson, and Harrington*

(1:18 PM)