



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 Breed

Acting Mayor
and
President of the Board of Supervisors

Minutes

SPECIAL MEETING

Budget Hearing #1

Thursday, January 18, 2018

(Approved February 13, 2018)

NOTE DIFFERENT TIME AND LOCATION

9:00 A.M.

525 Golden Gate Avenue, Second Floor
O'Shaughnessy Conference Rooms A, B, and C
San Francisco, CA 94102

Commissioners

Ike Kwon, President
Vince Courtney, Vice President
Ann Moller Caen
Anson Moran
Francesca Vietor

Harlan L. Kelly, Jr.

General Manager

Donna Hood

Secretary



For information, contact the Commission Secretary at 554-3165.
Minutes and other information are available on the SFPUC web site:
www.sfwater.org

1. Call to Order

President Kwon called the meeting to order at 9:10 AM.

2. Roll Call

Present: Kwon, Courtney, Caen, Vietor and Moran

President Kwon thanked everyone for their attendance, read the summary of the budget hearing items, and turned the gavel over to the Budget Hearing Chair, Commissioner Caen.

3. Public Hearing and discussion of the Proposed FY 2018-19 and FY 2019-20 Operating and Capital Budgets, the Proposed FY 2018-19 through FY 2027-28 Capital Plan, and the Proposed FY 2018-19 through FY 2027-28 Financial Plan for the San Francisco Public Utilities Commission

A. Budget Overview

GM Kelly provided introductory comments, thanked staff for their work, and presented the following:

General Manager's Message: (1) Looking back: (prior biennial budget adoption during historic drought, budget rebalanced spending to avoid unplanned rate increase, and mid-cycle assessment with no recommended changes to second year of biennial budget); (2) Looking ahead; and (3) Budget highlights.

GM Kelly responded to a question from Commissioner Moran as to how the SFPUC has built into the process an evaluation of change skill needs and functional requirements as retirements happen, and the need to fill vacant positions with the same or different skill sets. Commissioner Moran discussed the need to evaluate and possibly reshape vacant positions.

Commissioner Vietor requested that during the Power budget presentation a summary of the Power Revenue Bonds be included. GM Kelly provided brief response.

GM Kelly introduced Eric Sandler, CFO and Assistant General Manager (AGM) Business Services who presented on the following:

Timeline and Commission Actions: (1) Budget timeline; (2) Budget and rates timeline; (3) Commission hearings review; (4) Requested Commission action (planning, budgeting and financing); and (5) Requested Commission action (rates and charges).

Budget Development: (1) Prior budget development cycle (February 2016 adoption of two-year budget, key considerations at that time, and rebalanced budget around "drought continues"); (2) External considerations (economic, regulatory, and political); (3) Policy Framework (2020 Strategic Plan Goals,

and Commission policies); and (4) Budget development (internal development process).

Budget Overview: (1) Budget highlights; (2) Wastewater Enterprise priorities; (3) Water Enterprise priorities; (4) Power Enterprise priorities; (5) Total uses of funds FY 2017-18 to 2019-20; (6) Budget changes summary, excluding and including CleanPowerSF; (7) Change in authorized positions; (8) Attrition adjustment; (9) Two-year Capital Budget request; and (10) 10-Year Capital Plan summary.

CFO Sandler responded to a question from Commissioner Vietor regarding climate resiliency strategy (imbedded) in the list of priorities.

CFO Sandler responded to questions regarding the 12% CleanPowerSF budget changes.

Vice President (VP) Courtney requested for a breakdown of positions by classification number and FTE. CFO Sandler noted the pending retirement wave and the need for knowledge transfer and the ability to recruit.

Brief discussion ensued on the 10-Year Capital Plan summary. In response to general questions, CFO Sandler indicated the AGM's will expand on details during their respective Enterprise/Bureau presentations.

10-Year Financial Plan Overview: (1) 10-Year Financial Plan highlights; (2) Key assumptions; (3) Water, Wastewater, Power, CleanPowerSF sales volumes (historical and projected); and (4) 10-Year Financial Plan proposed rate changes (Water, Wastewater, and Power).

No public comment.

The Commission recessed at 10:36 am and reconvened at 10:50 am.

- B. Proposed Wastewater Enterprise (WWE) Budget, Capital and Financial Plans
- i. FY 2018-19 and FY 2019-20 Operating Budget
 - ii. FY 2018-19 through FY 2027-28 Capital Plan, including the FY 2018-19 and FY 2019-20 Capital Budget
 - iii. FY 2018-19 through FY 2027-28 Financial Plan

Brian Henderson, Acting AGM WWE, provided an overview of the Wastewater System (collection, conveyance, treatment, and discharge). He introduced his management staff. Mr. Henderson responded to a question from Commissioner Caen regarding vacant positions noted in the organizational chart.

Mr. Henderson reviewed the WWE's core business lines (WWE divisions and WWE essential activities). AGM Henderson showed performance

metrics; Oceanside innovation flow chart; and discussed associated savings in potable water use, energy use, and water content. He then reviewed the following:

WWE Accomplishments: (1) Awards and certifications; (2) Industry leadership; and (3) Academic collaboration.

Challenges: (1) Succession of experienced staff (64% of budget positions will need to be recruited and trained within five years); (2) Integrating new technology; (3) Green Infrastructure (GI) maintenance; (4) Aging infrastructure; and (5) Paving Program.

Priorities: (1) High performing organization and environmental stewardship; and (2) Modernizing the workforce.

AGM Henderson responded to a question from Commissioner Vietor regarding trainers for “train the trainers” program.

(3) GI maintenance areas: (redevelopment areas, streetscape collaboration, and SSIP Early Implementation projects). AGM Henderson noted the number of facilities within each area and reviewed the GI asset acceptance timeline; (4) GI preventative and corrective maintenance.

AGM Henderson responded to a question from Commissioner Vietor regarding how new technology functions will be budgeted (part of maintenance or separately budgeted).

Sarah Minick, WWE Utility Specialist, responded to a question from Commissioner Courtney regarding the “how” and “who” of the necessary maintenance work, and about the apprentice programs needed to complete the work. Commissioner Courtney expressed a desire to see the apprentice program curriculum. He requested the focus be on a public sector model vs. a private sector model. Discussion ensued.

VP Courtney requested for a breakdown of positions by classification and FTE. GM Kelly provided clarification on staffing needs versus vacancies.

(5) Operationalizing technology policy (economic, environmental, social and workforce development, and leadership and transparency).

Operating Budget Request: (1) Sources and uses of funds (FY 2018, FY2019, and FY2020); (2) FY-2019 and FY-2020 changes; (3) Total budget FY 2018, FY 2019, and FY 2020; and (4) Total authorized full-time positions.

GM Kelly responded to a question from Commissioner Vietor and VP Courtney regarding the GI maintenance positions and work that is performed, noting requirements under the Stormwater Ordinance and other mandates. Ms. Minick provided additional information regarding elements of the GI program and the “maintenance” work that is needed. Brief discussion ensued.

Commissioner Moran requested that clarification be provided on Chart Number 22 regarding GI maintenance.

In response to a question from Commissioner Moran, CFO Sandler indicated the positions noted on chart number 30 are ASO positions and are not budgeted FTE's. Commissioner Moran noted the need to be clear and transparent on the headcount. GM Kelly and CFO Sandler provided additional comments. Brief discussion ensued.

Kathy How, AGM Infrastructure, presented the WWE Capital Plan noting changes from the prior year plan (+\$1.4M). She reviewed the 10-Year Capital Plan, which includes Phase I, but does not include Sewer System Improvement Plan (SSIP) Phases II and III. She indicated \$494M remains in Phase II and \$636M remains in Phase III. She stated the two-year budget request ties back to the quarterly SSIP reports.

AGM How responded to a question from Chair Caen regarding Treasure Island.

She outlined the Capital Plan summary and moved onto the Wastewater 10-Year Capital Plan SSIP (Phases I, II, and III); and non-SSIP (Renewal and Replacement, Treasure Island, and Wastewater facilities and infrastructure). She discussed requests made for SSIP Phases I (overall increase of \$68M to Phase I budget for treatment facilities; includes \$60M for Headworks Project). Phases II and III have no overall increases, but anticipates planning and project design efforts for limited number of Phase II projects in FY19. Earliest start of Phase III projects will be in FY25 (Southeast Plant focus).

CFO Sandler responded to a question from Commissioner Moran regarding Capital Plan adjustments and any effect rate increases. CFO Sandler and GM Kelly provided additional response. AGM How offered renderings of the Westside and Mariposa Pump Stations.

Ms. How reviewed the 10-Year Capital Plan for the SSIP Stormwater Management/Flood Control (includes GI): Phase I (Early Implementation Projects, Stormwater Management, and Wawona Stormwater Detention); Phase II (projects and grants); and Phase III (projects and grants), totaling \$325.4M. AGM How and GM Kelly responded to questions from

Commissioner Vietor and VP Courtney regarding GI, grant funding, and work performed. Discussion ensued.

AGM How outlined 10-Year Capital Plan for Non-SSIP: (1) Renewal and Replacement (reduction in Spot Sewer Repair beginning in FY22; (2) Increase to Treatment Plant improvements); (3) Treasure Island New Treatment Facility (no change in request); and (4) Wastewater facilities and infrastructure (Ocean Beach protection of WVE conveyance facilities, New Southeast Community Center (1550 Evans), Southeast Outfall and Southwest Ocean Outfall Condition assessment and rehabilitation, and Islas Creek Crossing).

No public comment.

The Commission recessed at 12:09 pm and reconvened at 12:35 pm.

CFO Sandler presented:

10-Year Financial Plan: Key Assumptions: (1) Conforms with Commission-approved policies; (2) FYE 19/20 proposed Operating Budgets are incorporated; (3) Minimal increase in billed volumes projected as water usage increases slightly from drought; and (4) FYE 19/20 proposed Capital Budget and 10-Year Capital Plan updates are incorporated. CFO Sandler reviewed Sewer Volume Sales (FYE 2011-20) and major takeaways.

WWE Projections: (1) Sources (sewer charges, interest income, federal bond interest subsidy, and other miscellaneous income); and (2) Uses (operations and maintenance, debt service, and revenue-funded projects). He discussed net revenue, fund balance, net revenue, ending fund balance, and retail rate increase for FYE18-28.

Mr. Sandler reviewed: (1) Combined Water and Wastewater retail rates and charges (actual and projected); (2) Combined Water and Wastewater average single family monthly bill (actual and projected); and (3) Utility affordability (cost as a percent of median household income).

Staff did not present on the Water Enterprise Budget, Capital and Financial Plans. The item will be continued to the January 25, 2018 meeting.

- C. Proposed Water Enterprise Budget, Capital and Financial Plans
 - i. FY 2018-19 and FY 2019-20 Operating Budget
 - ii. FY 2018-19 through FY 2027-28 Capital Plan, including the FY 2018-19 and FY 2019-20 Capital Budget
 - iii. FY 2018-19 through FY 2027-28 Financial Plan

4. Motion to continue meeting to a Special Meeting noticed for January 25, 2018:
On motion to continue the meeting to a Special Meeting noticed for January 25:
Ayes: Kwon, Courtney, Caen, Vietor and Moran