



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 7, 2022
(Approved January 25, 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
President Moran called the meeting to order at 9:00 AM.

2. Roll Call
Present: Moran, Ajami, Maxwell, Paulson, and Harrington

President Moran stated that Vice President Ajami will chair the budget meetings.

Chair Ajami thanked President Moran and asked the Commission Secretary to read the first item.

3. Public Hearing and discussion of the proposed Budget Priorities (Administrative Code Section 3.3(b)). Staff Presentation and Overview
- a) Proposed FY 2022-23 and FY 2023-24 Operating and Capital Budget
 - b) Proposed FY 2022-23 through FY 2031-32 Capital Plan
 - c) Proposed FY 2022-23 through FY 2031-32 10-Year Financial Plan

General Manager (GM) Herrera began with an overview of the services provided by the SFPUC noting it is a growing, revenue-generating public utility that delivers drinking water to 2.7 million people in the San Francisco Bay Area; collects and treats wastewater and stormwater for the City and County of San Francisco; and generates clean power and serves electricity to more than 385,000 residential, business, and municipal customers in San Francisco. He noted the SFPUC has a diverse workforce that serves diverse communities.

He reviewed the following: (1) budget context; (2) budget priorities with three focus areas of (a) responsible management; (b) access and affordability; and (C) supporting people and communities.

Charles Perl, Deputy Chief Financial Officer (CFO), stated that on February 8, 2022 the SFPUC will conduct a hearing to approve the FY2022-23 and FY 2023-24 Operating Budgets, 2022-23 Capital Budgets, 10-year Capital Plans (FY 2022-23 to FY 2031-31), and 10-year Financial Plans (FY 2022-23 to FY 2031-31). He reviewed the Commission budget meeting schedule, indicating additional meetings will be held on January 14, 20, and if needed, January 27.

Laura Busch, Budget Director, reviewed: (1) SFPUC FY 2022-23 Total Uses by Enterprise, with a \$1.6 billion total FY 2022-23 Operating Budget (42% Water, 25% Wastewater, 18% CleanPowerSF, 9% Hetchy Power, and 6% Hetchy Water), which is a 5% increase over the current year; and (2) SFPUC 2022-23 Total Uses by Budget category (29% debt, 22% non-personnel, 21% energy, 17% personnel, 8% capital uses, and 3% programmatic projects). She noted the work-to-date on the budget process and reviewed the budget approach, noting the Racial Equity tool guided departments to assess how proposals impacted equity and the budget development process.

Director Busch reviewed the budget process timeline and development process. She then discussed: (1) FY 2021-22 to FY 2023-24 Total Uses; (2) FY 2022-23 and FY2023-24 budget changes (FY2022-23 proposed 5% change and FY 2023-24 proposed 3% change); and (3) Budget change drivers, stating that capital spending and power purchases are major drivers of the \$120M budget growth over two years (8%).

She reviewed: (1) Capital impact on the Operating Budget, stating the capital program is the largest driver with debt, plus revenue funded capital, making up 38% of operating uses. Debt service costs are increasing due to prior debt issued to fund capital projects and revenue-funded capital are decreasing to focus project spending on existing appropriation; (2) Position change highlights, noting 60 substitutions repurpose vacant positions for changing operational needs and to align job duties with classifications. She indicated there are 57 new positions requested over two years (2% increase) with 21 operating and 36 project. She noted the changes per enterprise/bureau; and (3) Operating Budget new proposal summary.

In response to a question from Commissioner Maxwell, GM Herrera stated that the Southeast Community Facility will benefit the city and the SFPUC with its programming.

Budget Director Bush responded to a question from Chair Ajami regarding the two-year capital impact on the Operating Budget and revenue funded capital, with a review of the budget change drivers. Mr. Perl provided additional comment on use of current appropriations. Ms. Busch responded to a follow-up question regarding the reasons for net-position changes for Power.

In response to a question from Commissioner Maxwell, Mr. Perl indicated that the SFPUC's debt service is consistent with other public utilities and the industry.

Mr. Perl reviewed FY-2022-23 to FY 2031-32 10-Year Capital Plan and discussed the objectives of this cycle. He noted a new direction for Capital Planning, stating competing priorities have forged a new path for SFPUC Capital Planning for this cycle.

Mr. Perl responded to Commissioner Harrington's request for information regarding the unfunded portion, stating that it will be discussed by each AGM during their budget presentation. Commissioner Harrington questioned what a 3% rate increase would do for the unfunded portion and requested information.

Chair Ajami requested that the operating budget pie chart include revenue spending by enterprise.

Mr. Perl reviewed: (1) FY 2022-23 to FY 2031-32 10-Year Capital Plan, which amounts to \$9.9 billion (Wastewater 62%, Water 21%, Hetch Hetchy 16% and CleanPowerSF 1%), for a 9% change; and (2) FY 2022-23 Capital Budget, with a FY2022-23 proposed amount of \$971.4M.

Deputy CFO Perl reviewed the SFPUC Capital Program, including amounts appropriated to date, 10-year CIP and post 10-year amounts for Wastewater, Water,

Hetch Hetchy Water, Power, and CleanPowerSF. He discussed the FY2022-23 to FY2031-32 10-year Financial Plan development stating it is consistent with City Charter requirements, with plans developed and adopted annually for each enterprise and CleanPowerSF.

Deputy CFO Perl reviewed: (1) FY2022-23 to FY2031-32 10-year Financial Plans key assumptions (sales volumes and projected expenses); and (2) Water, Wastewater, Hetch Hetchy Power, and CleanPowerSF Sales Volumes – historical and projected.

In response to Commissioner Harrington's question as to whether a sensitivity analysis has been conducted for water sales, Mr. Perl stated that such analyses are part of the financial planning process. He stated a detailed financial plan will be presented in February. Mr. Perl emphasized that water sales volumes differ from water supply projections. He stated a sensitivity line can be added to future sales volumes graphics.

Chair Ajami requested an estimate as to the change of per capita water use be provided and that the sensitivity analysis be based on that as well. She discussed her desire for a revised chart for historical sales volumes to see more years of progression.

President Moran noted that the water sales volumes historical and projected data does not include consumption levels and that the data shown is not water demand projections. He stated that consumption levels are unknown and that numbers can be biased for a variety of reasons. He stated it would be useful to have that information.

Chair Ajami asked that when looking at historical data, water supply demand projections and financial demand projections be provided on the same graph.

Mr. Perl reviewed 10-year Financial Plans and budget years rate projections for the following: (1) Water and Wastewater rate changes, indicating no retail water or wastewater rate increases for FY 2022-23; comprehensive retail water and wastewater cost of service study for multi-year rate packages starting FY 2023-24; and projected retail rate increases through FY 2023-24 to meet financial policies (Water 3% average annual rate increase and Wastewater 4% average annual rate increase); and (2) Power rate changes, indicating a cost of service study will conclude early spring 2022, and will inform rates for the next five years; General use municipal rates assumes 3 cent increase annually during budget years (increase from 1 cent per year previously); and projected average annual Hetchy Retail rate changes of 3% and CleanPowerSF rate change of 5% through FY 2023-24.

President Moran indicated that some costs respond to inflation while others don't and stated that those portions of the budget that respond to inflation should be broken out and managed responsibly within inflation guidelines. Commissioner Paulson concurred and noted ratepayer response to rate increases due to inflation and that messaging needs to be clear.

Chair Ajami stated decoupling of rates (fixed versus variable costs) for the Power Enterprise should be considered.

GM Herrera thanked everyone for their work on the budget preparation.

Public Comment

- *David Pilpel stated he did not see a slide summarizing Commission policies and how they influenced the budget development. He asked that there not be a request to increase the overall FTE and that position substitution be used. He requested that the organizational chart for the SFPUC be mailed to his home address. He provided comment on the 10-year Capital Plan and the 5-year water rate process.*
- *Peter Drekmeier, Tuolumne River Trust, stated he was pleased with the slide projecting water sales volumes historical and projected. He stated projections change and that additional slides may be needed for each 10-year financial plan. He discussed the Long-Term Vulnerability Assessment, the Bay Delta Plan, and demand projections.*
- *Nicole Sandkulla, BAWSCA CEO, discussed the prioritizing the use of existing appropriations and asked why the full appropriation has not been spent. She indicated she looks forward to discussion regarding unfunded capital plans. She expressed appreciation for comments made about the differences between financial planning and water supply planning numbers. She stated there is no financial basis for any adopted long-term plan.*

4. Proposed Bureau Operating Budgets for FY 2022-23 and FY 2023-24

a) Infrastructure

Alan Johanson, Acting Assistant General Manager (AGM), Infrastructure, discussed the Infrastructure Division's mission, roles, and responsibility. He presented their organizational chart and reviewed Infrastructure's functional service areas: (1) Office of the Assistant General Manager – 19 Full-Time Equivalencies (FTEs) (15 loaned), \$3.8M, with four program directors (\$800k); (2) Project Management Bureau – 83 FTEs, \$16.1M; (3) Environmental Management Group – 15 FTEs, \$4.4M; (4) Infrastructure Management and Administration (a) Project Administration – 19 FTEs, \$2.5M; (b) Workforce and Economic Program Services – 13 FTEs, \$1.7M; (c) Budget and Finance – 23 FTEs, \$20.7M (includes \$17M of operating expenses); (d) Department Personnel Liaison – 14 FTEs (13 interns), \$1.9M; and (e) Racial Equity – 1 FTE, \$100k.

Acting AGM Johanson reviewed filled and vacant positions for FY 2017 through FY 2022. In response to a question from Commissioner Harrington regarding what, if anything, can be added to the budget to address the number of vacant positions, Acting AGM Johanson discussed challenges faced with recruitment and retention. GM Herrera stated the hiring challenges are real and he indicated it is a priority to determine how it can be effectively addressed. Brief discussion ensued. He continued with a review of (1) Project Team Matrix Approach; (2) FY2020-21 workload; (3) SFPUC Capital Improvement Programs status summary; (4) Highlight of accomplishments for (a) Southeast Plant New Headworks Facilities Project; (b) Mountain Tunnel Improvement Project, (c) Southeast Community Center at 1550 Evans; (d) Contracting, jobs and LBE; (5) Deliverability Reviews; (6) On-going deliverability challenges, including hiring and recruitment,

procurement contracting timeline and COVID-19; (7) Infrastructure Division's Overhead; (8) Overhead formula; and (9) Total charges to project and multiplier comparison.

Acting AGM Johanson reviewed (1) Use of Funds; (2) Total budget for FY 2022 (adopted), FY 2023 (2% change requested), and FY 2024 (3% change requested); (3) Total positions (0% change requested). Mr. Johanson continued with a review of Infrastructure's Racial Equity priorities with a focus on hiring and recruitment; retention, promotion, professional development, and identifying needed resources.

b) General Manager's Budget

GM Herrera stated that biennial budget themes are reflected in all agency proposals and that they include responsible management, access, and affordability, and supporting people and communities. He presented the organizational chart for the GM's office and reviewed Use of Funds FY 2022, FY 2023, and FY 2024, indicating the GM's budget, including Human Resources Services (HRS), is \$35M with 116 FTEs. He stated there are no major changes and the driver of year-over-year growth is labor Cost of Living Adjustment (COLA). GM Herrera introduced Rachel Gardunio, Acting Chief People Officer, who presented the HRS budget.

Ms. Gardunio began with an review of the HRS organizational chart (81 FTEs) and then presented the following: (1) HRS Strategy Development and Strategic Plan; (2) HRS Priorities of continuous improvement, communication and transparency, data and technology, strategic partnerships, and diversity, equity, including and belonging. She touched on the evolution of HRS and noted a challenge of HRS is not meeting core functional services.

She discussed the HRS teams and core functions: (1) Talent Acquisition, noting onboarding and functional challenges; (2) Equal Employment Opportunity Programs; (3) Health and Safety; (4) People Strategy, Equity and Analytics; (5) Employee and Labor Relations and Return to Work Programs; (6) Learning and Development; and (7) Payroll. She discussed increased challenges with leaves, noting trends, and challenges with position requests.

Ms. Gardunio reviewed: (1) Use of Funds; (2) Total budget for FY 2022 (adopted), FY 2023 (5% change requested), and FY 2024 (2% change requested); (3) Total positions (0% change requested).

In response to a question from Commissioner Maxwell as to why employees are leaving, Ms. Gardunio indicated that HRS has begun conducting exit interviews, but indicated a current reason includes impact of the telecommute policy. Commissioner Maxwell requested to see exit data, when available.

Chair Ajami suggested that candidates who were not selected be placed in a pool to receive notice for future vacancies, to help expedite the recruitment process.

c) External Affairs

Emily Lam, Legislative Affairs Director, reviewed the core functions and noted priorities for External Affairs Divisions: (1) Communications: external communications, internal communications, and content production; (2) Policy and Government Affairs, and Strategic Initiatives; (3) Community Benefits: art and culture, education, youth job awareness and exposure, environmental justice and land use, equity and inclusion, social impact partnership, and the Southeast Community Center.

She stated all position substitutions remain within the current base budget, with no increase; three positions are being requested; moving three existing employees from temporary positions to “on budget” to not separate incumbents, and that all three positions perform legally mandated work associated with Public Records requests and the Citizens’ Advisory Committee to ensure the SFPUC is timely, responsive, and transparent.

Director Lam reviewed: (1) Use of Funds; (2) Total budget for FY 2022 (adopted), FY 2023 (6% change requested), and FY 2024 (4% change requested); (3) Total positions: FY 2022-23 – 2 operating positions, 5% change; and FY 2023-24 – 1 operating position, 2% change.

The Commission recessed at 12:38 PM and reconvened at 12:45 PM.

d) Business Services

Ron Flynn, Chief-of-Staff, recognized recently retired CFO Eric Sandler for his work. He stated Nancy Hom and Charles Perl are serving as co-acting CFOs.

Mr. Flynn stated SFPUC Business Services includes the following: (1) Customer Services (CSB) (106 FTEs); Information Technology Services (ITS) (83 FTEs); Financial Services (FIN) (67 FTEs); Strategy Innovation & Change (SIC) (5 FTEs); and Audit (3 FTEs).

He indicated that Business Services has a vision and priorities of impeccable stewardship, excellent service, financial sustainability and a culture of inclusion, equity, and excellence. He noted prior biennial budget cycle themes addressed increasing demand and driving efficiencies to meet the demands of an increasingly complex agency, developing the team to meet those demands, and managing debt service costs – the largest cost of the agency. He noted Business Services has responded to seismic shifts including COVID-19 response, wildfire and drought emergency response, public integrity response, and racial equity. He stated employee engagement is high.

Mr. Flynn stated Business Services priorities align with the themes of the budget cycle for responsible management, access, and affordability, and supporting people and communities. He broke down the Business Services budget by bureau, noting a total budget of \$79.6M.

He reviewed the budget proposals summary and the FY 2022-23 request of \$1,698,266 and FY 2023-24 request of \$1,598,663. He noted the following proposals: (1) ITS: Cyber Security, applications licensing and maintenance, Radio Project positions, and Data Maturity Initiative; (2) CSB: SFPUC Capacity Charge Program; staff resources for the 49 SVN Permit Center, and CSB Support Technology Proposal; (3) Administration: Grants and Loan Manager; and (4) Finance: Centralizing payment of Controller's Office Work Order.

Mr. Flynn reviewed: (1) Use of Funds; (2) Total budget for FY 2022 (adopted), FY 2023 (-3% change requested) and FY 2024 (4% change requested); and (3) Total positions: FY 2022-23 – 6 positions, 4% change; and FY 2023-24 1% change.

President Moran questioned some of the functions that are under Business Services and the changes that have been made in the interim with Mr. Sandler's retirement. Mr. Flynn responded to a question as to which positions will fall under the Chief Financial Officer. Brief discussion ensued.

Commissioner Harrington discussed the need for cyber security and the budget requests to address.

Public Comment

- *David Pilpel stated Infrastructure could be restructured, for a smaller bureau with centralized common services and with a chief engineer and staff in each enterprise. He stated the amount of contracted engineering work should be reduced and more in-house staff hired. He stated HRS should move under Business Services. He recommended having three major divisions under HRS. He recommended moving External Affairs under the Chief-of-Staff, without an AGM. He stated he challenges the Data Maturity Initiative. He supports the work presented by staff. He thanked Marge Vizcarra and her staff for their helpful and pleasant work with the public.*

Commissioner Maxwell thanked Mr. Pilpel for his thoughtful comments.

President Moran stated an outstanding issue for him is the reconfiguration of the capital program and extending it with two possible approaches: (1) do, and commit less, or (2) try to solve the capacity problem and do more. He stated both need to be considered to make sure it is the appropriate size and that funding is appropriate for the agency to take care of its needs.

Commissioner Paulson expressed appreciation for the commitment of the GM and for his level of energy and excitement.

Chair Ajami thanked Mr. Sandler for his time and effort on the budget and the budget process. She thanked staff for their presentations.

5. Motion to continue meeting to a Special Meeting noticed for Friday, January 14, 2022

On Motion to continue the Special Meeting notice for January 14, 2022

Ayes: Moran, Ajami, Maxwell, Paulson, and Harrington

Meeting continued at 1:28 PM.

San Francisco