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2 Public Utilities Revenue Bond Oversight Committee

3  
4 **MINUTES**

5  
6 Monday, February 23, 2009  
7 San Francisco Public Utilities Commission  
8 1155 Market Street (between 7<sup>th</sup> & 8<sup>th</sup> Streets) 4<sup>th</sup> Floor Conference Room  
9 San Francisco, CA 94103  
10

11  
12 **1. Call to Order and Roll Call**

13 Vice Chair Kyle Rhorer called the meeting to order at 2:07 p.m. and roll  
14 call was taken.

15 Present: Kyle Rhorer, Stan Jones, David Sutter and Patrick Sweetland

16 Absent: Brian Browne

17 Excused: Aimee Brown

18 There was a quorum.  
19

20 **2. Public Comment: Members of the public may address the RBOC on**  
21 **matters that are within the RBOC's jurisdiction and are not on**  
22 **today's agenda**  
23

24 There was no public comment.  
25

26 **3. Discussion and possible action relating to the Indirect Cost Study**  
27

28 Charles Perl, Acting Finance Director, SFPUC, stated that the SFPUC has  
29 received a draft of the Indirect Cost Study. The SFPUC will respond to the  
30 report and distribute copies to the RBOC shortly.  
31

32 There was no public comment.  
33

34 **4. Report from Julie Labonte, SFPUC, Manager, concerning the WSIP**  
35 **Quarterly Update Report**  
36

37 Julie Labonte, Manager, SFPUC, presented an overview on the WSIP  
38 Quarterly Update, Q2, FY 2008/09.

39 90% of program cost is currently spent on the regional project.  
40

41 The three major areas addressed to mitigate risk are the planning of  
42 system shutdowns, documentation of the construction management  
43 capabilities, and improvement of the contracting environment.  
44

45 In 2008 the BOS approved a supplemental appropriation of 1.9 billion  
46 dollars. The breakdown of the funds are as follows: 6% for delivery cost,  
47 13% for financing, and 81% for construction.  
48 As of December 2008 there were five projects remaining in planning  
49 stages of which 60% are in the design phase.  
50 The environmental review phase is the cause for the majority of the delays  
51 in various projects

52  
53 Mr. Sutter asked if there was a generic problem that was delaying EIRs on  
54 WSIP projects. SFPUC staff stated that the responsibility for conducting  
55 environmental review is with the Planning Department. Some  
56 environmental review can take anywhere from 3-5 years. The delay in  
57 environmental reviews can lead to escalation in cost of approximately  
58 3.5% annually.

59  
60 The cost variance is the difference between the latest forecasted  
61 scheduled completion date versus the approved completion date as of  
62 2007. One cause of cost variance is the need to balance compliance with  
63 requests of environmental groups versus lengthy legal battles that would  
64 involve a long environmental review process. Naturally occurring  
65 asbestos is also causing delays as it increases the cost and productivity  
66 rate because of asbestos abatement issues; however, there have been  
67 some projects where the cost estimates have gone down.

68  
69 Cost estimates may decrease as the cost for materials have fallen in  
70 recent months. Cost savings have been seen on smaller projects and  
71 hopefully will translate over to the larger projects.

72  
73 Mr. Sutter asked if SFPUC was using specific project prequalified  
74 contractors. Ms. Labonte stated that contractors need to be pre-qualified  
75 in order to bid. The pre-qualification process is an open process and  
76 contractors can apply at any time. There are currently more contractors  
77 bidding on various projects in comparison to the recent past. In addition,  
78 the LBE [Local Business Enterprise] program has been expanded to make  
79 it easier for smaller firms to bid on contracts and a contractor outreach  
80 program has been enacted.

81  
82 In 2009 seven draft EIRS are to be completed and over 50 permit  
83 applications will be submitted to state and federal agencies for regional  
84 projects. It is anticipated that SFPUC will advertise 15 construction  
85 contracts worth over \$1 billion during the next year. The implementation  
86 of a construction compliance program and factory surveillance program is  
87 also anticipated.

88  
89 Public Comment: In response to questions from Steve Lawrence, Ms.  
90 Labonte stated that there is a demonstration of progress at the Calaveras

91 Dam project and the construction period will not have a negative impact  
92 on water supply. Everything will be done to get the Calaveras Dam  
93 project completed on time. The San Jaquin Pipeline Rehabilitation project  
94 is still active. Any elimination of a project must be reported to the state  
95 and approved by the SFPUC. Tesla Treatment Facility is still on schedule  
96 and will be ready on time for the planned water system shutdown.  
97  
98  
99

100 **5. Report from Jon Loiacono, SFPUC, concerning the Wastewater**  
101 **Masterplan**

102  
103 Jon Loiacono, SFPUC, presented an overview on the Sewer System  
104 Masterplan and the Wastewater Enterprise.  
105

106 On April 17, 2009 a completed report will be presented to the SFPUC on  
107 the Wastewater Master Plan.  
108

109 One of the major concerns is the aging issue with major wastewater  
110 infrastructure. The average age of the sewer system is 70 years old.  
111 There is approximately 900 miles of sewers in addition to the 786 miles of  
112 sewers 36 inches in diameter or smaller. We are currently on a 240 year  
113 replacement cycle on 80% of the system. Over the next 30 years the  
114 SFPUC is trying to replace 450 miles of sewers at a cost of approximately  
115 \$3 million per mile. At the moment the SFPUC is implementing spot  
116 repair because there is not enough funds for needed replacements.  
117

118 Estimates for the replacement program is between \$ 3.4 to \$4.1 billion.  
119 The collection system alone is 1.7 billion dollars.  
120

121 The SFPUC is currently spending \$17-\$18 million a year on the Repair  
122 and Replacement Program. 1/3 of the funds goes to the treatment plant  
123 and 2/3 goes to the sewer system, which includes spot repairs and  
124 administration.  
125

126 An update will be available after April 17, 2009.  
127

128 There was no public comment.  
129

130 **6. Discussion and possible action regarding the Contracting Working**  
131 **Group's Meeting of February 13, 2009**

132  
133 Mr. Sweetland reported the activities of the Contracting Working Group to  
134 the RBOC.  
135

136 The Robert Kuo LLC contract was extended to March 2, 2009; however, it  
137 is unlikely that additional work will be added to the contract.

138  
139 The Contracting Working Group did agree to a scope of work for the next  
140 auditing project to review a completed project. The Sunset Reservoir, a  
141 regional project, was chosen as a possible choice because it is close to  
142 completion. However, there are other possible projects that can also be  
143 considered as a possible auditing target.

144  
145 Mr. Sutter moved, seconded by Mr. Jones, to direct the Contracting  
146 Working Group to proceed with the auditing of a completed regional  
147 project.

148 The motion to approve the motion passed unanimously.

149

150 There was no public comment.

151

152 **7. Discussion and possible action regarding the approval of the**  
153 **minutes from the meeting held on January 12, 2009**

154

155 Mr. Sweetland moved, seconded by Mr. Jones, to approve the minutes of  
156 the January 12, 2009 meeting.

157 The motion to approve the minutes passed unanimously.

158

159 There was no public comment.

160

161 **8. Discussion and possible action relating to RBOC member**  
162 **information requests raised in today's meeting**

163

164 Mr. Sweetland requested a list of approved projects, closed projects and  
165 projects that are about to close out.

166

167 All members of the RBOC received a copy of the Change Order Update  
168 from Harvey Elwin, SFPUC.

169

170 There was no public comment.

171

172 **9. Discussion and possible action for future agenda items**

173 Mr. Sutter requested a report on the five Wastewater Capital Improvement  
174 Programs.

175

176 Mr. Sutter requested a discussion on the possible extension the sunset  
177 date for the RBOC and requested an opinion from the City Attorney as to  
178 how to reconcile the complete date of the WSIP extending beyond the  
179 sunset date of the RBOC.

180

181 Mr. Jones inquired as to the status of the appointment of another member  
182 to the RBOC. Possible candidates have been submitted to the Mayor's  
183 Office.

184  
185 There was no public comment.  
186

187 **10. Adjournment**

188 At the hour of 3:55 p.m., Mr. Sweetland moved, seconded by Mr. Jones, to  
189 adjourn the meeting.

190  
191 The motion passed unanimously.  
192

193 Mr. Browne's Attachment (e-mail sent by Mr. Browne on 2/25/09):  
194

195 Ms. Brown -  
196 Chair - RBOC  
197

198 I turned up today at the SFPUC and learned I had written  
199 down the wrong date. I regret this failure to show,  
200 apologize, and can only explain this organizational failure  
201 on a very nasty cold. I wanted to attend. I had some  
202 questions based on the agenda.

203 BAWSCA passed AB1823 and when it sunset, passed AB2428 in  
204 2008. Both AB1823 and AB2437 have two firm dates for  
205 expenditure completion 2010 -50% and 2015 100%.

206 Mr. Jensen does not see these benchmarks as triggers. Then  
207 why write them into law? BAWSCA also mandates in both  
208 AB1823 and now AB2058 the water/power policy for the Hetch  
209 Hetchy system. So does the Federal Raker Act of 1913. Is  
210 there a conflict between the state and federal Acts? BAWSCA  
211 (2002 AB2058) is able to absorb SFPUC-RWS (in exchange we  
212 receive 30% governance)

213 We are entering the final lap for the Master Water Sales  
214 Agreement (1984 to 2009). The allocation of volumes from  
215 the HH system will impact rates based on revenue bond  
216 expenditures. SFPUC is assuming average Hetch Hetchy system  
217 deliveries of 265MGD and hence a continuation of the 1884  
218 184/81 MGD split between the peninsula and city.

219 In 2000, a combined task force of SFPUC and BAWUA (now  
220 BAWSCA) estimated annual average system reliability at 239  
221 MGD (RWS system has not really been enhanced since). Since  
222 1984, when the previous MWSA was signed (a good run of wet  
223 years), the average system delivery was 250 MGD. I had  
224 data to present today, for the RBOC's consideration, to  
225 challenge the accuracy of these key CIP volumetric

226 assumptions assumptions. These assumptions impact the rate  
227 quotients.  
228 Volumes are the denominator in the price quotient.  
229 Projected rates for revenue bond debt service must be  
230 realistic. On this subject the SFPUC is now estimating rate  
231 elasticities using econometric techniques. Better late than  
232 never - it has taken me nearly 10 years of badgering. The  
233 suggestion that 265 MGD was spurious and that if current  
234 elasticities or future elasticities (the longer a high  
235 price persists the greater becomes the demand elasticity)  
236 were greater than -1 seemed (less total revenues and an  
237 impact on the ability to pay down the debt) to generate  
238 some less than positive comments by Mr. Jensen about  
239 economists, at least all he has worked with.  
240 I hope you can put an agenda item reflecting my above  
241 concerns. I will also ask that my notes be included.  
242 Again, my apologies for missing the meeting.  
243 Brian Browne  
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