San Francisco Public Utilities Commission
Citizens’ Advisory Committee

MEETING MINUTES
Tuesday, January 17, 2017
5:30 p.m. – 7:00 p.m.
525 Golden Gate Ave., 3rd Floor Tuolumne Conference Room

Mission: The purpose of the SFPUC CAC is to provide recommendations to the SFPUC General Manager, the SFPUC Commission, and the Board of Supervisors regarding the agency’s long-term strategic, financial, and capital improvement plans.

Members:
Wendy Aragon, Chair (D1)       Kelly Groth (D7)       Nicole Sandkulla - (M-Reg’l Water Customers)
Suki Kott (D2)                  VACANT (D8)         Rebecca Lee, (M-Eng./Financial)
Leslie DeTaillandier (D3)       Ernesto Martinez (D9)       VACANT (M-Lg Water User)
Amy Zock (D4)                   Anietie Ekanem (D10)      Owen O’Donnell (B-Small Business)
Ted Loewenberg (D5)             Jennifer Clary (D11)      Misty McKinney (B-Env Justice)
Mark Connors (D6)               VACANT (M-Env.Group)

M = Mayoral appointment, B = Board President Appointment
Staff Liaison: Tracy Zhu, Justin Gardner

ORDER OF BUSINESS

1. Call to order and roll call: The meeting was called to order at: 5:38 pm.

   Members present at roll call: (9) Kott, Loewenberg, Connors, Martinez, Ekanem, Clary, Sandkulla, Lee, O’Donnell

   Members absent at roll call: (5) Aragon, DeTaillandier, Zock, Groth, McKinney

   Members of the public present at the meeting: Amy Nagengast

2. Presentation and Discussion: Financial Policies and Rate Study Update, Charles Perl, Deputy CFO, Business Services Bureau

   Presentation Topics:
   - Financial Policy Review: Background
   - Financial Policy Review: Timeline
   - Fund Balance Reserve Policy: Objectives
   - Trade-offs to Consider
   - Existing Fund Balance Reserve Policy
   - Peer Survey: Types of Reserve Funds
   - Peer Survey: Operating Reserve Targets
   - Simple Ways to Align Our Policy with Peer Agencies
   - Proposed Changes to Fund Balance Reserve Policy
Member McKinney arrives at 5:51. 10 members present. Quorum is maintained.

Topics of Discussion:

- Member Martinez: Is the fund balance ratio rate currently 1.25?
  Perl: The policy is at 1.25
  Member Martinez: What is the actual reserves?
  Perl: It depends on the enterprise. Water has been above this. Our indenture allows us to include our savings account in this metric so our numbers tend to be higher than the typical agency. Another metric is the Current Coverage Ratio which only considers revenue so it's the amount of revenues per year compared to the debt service. SFPUC current minimum in that regard is 1 so if we spend $100 million in debt service we have to have at least $100 million in revenue, but in the case of a policy like this we would want between $101 and $105 million.

- Member Loewenberg: Is debt service just the interest?
  Perl: Its principle interest.
  Loewenberg: And the principle goes into another fund?
  Perl: No, it's all together
  Loewenberg: You don't pay it off until the bond is mature right?
  Perl: Correct.

- Member Ekanem: When one considers impact to rate payer, what is the percentage increase which gets people upset?
  Perl: Rates go up for all sorts of reasons, so there is no right answer other than it should be to be low as possible. There have been significant changes recently (7-10% increase annually)

- Member Sandkulla: What do you see as downside risk of changing the debt service policy service?
  Perl: Right now we have a policy that speaks to three factors: revenues, expenses or minimum debt service coverage. The issue that that has created is the revenue number tends to be larger of all of those factors. If the policy is that you need to meet one or more of these goals, the fund balance has tended to be higher larger than it really needs to be. The revenue number is the biggest number so if you are saying your overall fund balance needs to be this level and your actually daily needs are lower, there could be a rate reduction. In terms of coverage, taking that out would not have a rate impact. As far as I know there is not a downside.

- Member Ekanem: You mentioned conservation reserve. Could you clarify?
  Perl: Commission Moran has posed a question to us. In those years when we as an agency sell more water than expected, we take those funds, put it aside and use it to fund conservation programs in subsequent years.

- Member Clary: how do you prevent the need to raise rates in a drought?
  Perl: One could keep a rate stabilization reserve. The idea behind a rate stabilization reserve is to stabilize rates in times of drought or other emergencies.

- Member Clary: Could the reserve be used for both (Conservation and Rate Stabilization)?
  Perl: Yes it could be used for both

- Member Loewenberg: By changing the language, can one move money that has been approved under the old rate structure from one bucket to the other?
  Perl: No. It depends on the language in the upcoming fund balance policy.

- Member Loewenberg: As you go forward with the policy and it goes before the Rate Fairness Board, if they are changes to the policy, would the whole process of reviewing the policy start over again?
  Perl: It depends on how restrictive the policy is.

- Member Clary: How is building a reserve permissible under Proposition 218?
Perl: There is nothing impermissible about setting money aside. That would not be considered profit. The question is how big is too big.

- **Member Clary:** Does the American Waterworks Association have standards/best practices for reserves, and what would they be?
  Perl: AWA does have best practices defined for a certain amount of time and that is specific about the uses for the reserves.
- **Member Loewenberg:** In the recent drought, did the agency use its reserves?
  Perl: We used quite a bit of our reserves to make it through this last drought
- **Member Martinez:** Is the staff suggesting that the reserve policy be changed to 25% of operating revenues?
  Perl: Correct.
  Martinez: Is the 25% reserve enough to prevent revenue impact if we experience a similar drought as the one we just experienced?
  Perl: The fund reserve policy is just one part of way we will try to resolve revenue impact. The coverage policy will also contribute. Also the policy is only setting the minimums. In practice we will have a larger reserve than the minimum established by policy.
- **Member Sandkulla:** Will you be examining a rate stabilization fund in the rate study so that it will have the weight behind it to deal with prop 218 issues?
  Perl: Yes.
- **Member O’Donnell:** Do the expenditures include repair and maintenance? Or does the SFPUC create a fund so that when doing a repair, it will not have to borrow money to repair, maintain, and improve capital structures?
  Perl: Yes, every year we set a budget to cover maintenance. The capital project goes into our capital out if which we determine which percentage is cash and what percentage credit. I personally advocate as much cash as possible.
- **Member Clary:** Do you anticipate having one policy for all 3 enterprises?
  Perl: We are going to try to do that.
- **Sandkulla:** Do we have a report from the peer survey?
  Perl: Not yet. We will let you know when we do.

3. **Approval** of the October 18, 2016 and November 15, 2016 meeting minutes (5 minutes)

Motion was made (Clary) and seconded (Loewenberg) to approve the October 18, 2016 and November 15, 2016 meeting minutes.

The motion PASSED by the following vote:

YES: (10) Kott, Loewenberg, Connors, Martinez, Ekanem, Clary, Sandkulla, Lee, O’Donnell, McKinney
NOES: (0)
ABSENT: (4) Aragon, DeTaillandier, Zock, Groth

Public Comment: None

4. **Report from the Chair – Vice Chair Lee**

- Chair Aragon is absent. She is planning on speaking at the February 28 Commission meeting. She will be primarily sharing the results of the CAC Survey. If any member has anything they want highlighted by Chair Aragon to the Commission, they should reach out to Chair Aragon.
- CAC Quarterly Report to the Commission is scheduled for February 28
• Tamar Barlev has stepped down from CAC so the seat representing a Large SF Water User is open.

Info Request:
• Staff Zhu will send members a list of the top ten water retail water users in San Francisco along with the vacancy posting so that members can share with their networks.

Public Comment: None

5. Subcommittee Reports

• Rebecca Lee, Power Subcommittee
  o CleanPowerSF is a big focus of the Power Enterprise. The rollout is going smoothly
  o Member Sandkulla added that the financial books in Power Enterprise are significant issue. There are a lot of capital needs and not a lot of money. This issue impacts the other Enterprises.
  o Member Clary added that traditionally the Commission does not set the rates at a level to cover needed capital power-related improvements.
  o SFPUC is starting to think about energy storage capacity and Electric Car charging capacity.

• Amy Zock, Wastewater Subcommittee Chair
  o Zock is absent due to illness, so Chair Aragon will make time at the next meeting for Wastewater Subcommittee report.

• Jennifer Clary, Water Subcommittee Chair
  o The Water Subcommittee priorities that were discussed at last year’s retreat included developing a leadership pipeline. Topics that we would like to address are infrastructure, customer service and drought.
  o A new supervisor has been elected for District 11 and there is a possibility that Member Clary does not retain her seat.
  o We supported a position over the past few years on submetering (state legislation was passed last year).
  o Last year’s presentations that we want to follow up on are My Account and groundwater. The city is planning on supplementing water supply with groundwater from the West Side aquifer.
  o Member Clary is excited about an upcoming presentation on the Natural Resources program to provide an update on the Environmental Stewardship Policy passed in 2005. SFPUC is working to expand access to some of its watershed lands in San Mateo County. Member Clary requested that the presentation cover Lake Merced.
  o Member Sandkulla added that there will be a scoping meeting tomorrow (Wednesday) for the Draft EIR hosted by the Planning Department on impacts of increasing trail access.

Topics of Discussion
• Member Lee: Could we have an Enterprise 101 presentation about power in an upcoming full CAC meeting?
  Staff Zhu: Yes.

• Member Ekanem: In regards to power, what is the intersection between the PG&E and the SFPUC?
  Member Lee: That issue is perfect to cover during the Enterprise 101 presentation about power.
  Staff Zhu: These are the types of issues that have been brought up in the Power Subcommittee that are outside of jurisdiction of the PUC, such replacing LED lights on PG&E owned street poles.
Member Ekanem: What are the issues with Lake Merced?
Member Clary: It is partnership with Rec and Park Department. The land is owned by SFPUC but managed by Rec and Park, and it is the city’s emergency water supply.
Saff Zhu: The Environmental Stewardship Policy is supposed to cover all PUC watershed land.

Member O’Donnell: Do you cover the age of the pipes and leakage in Water Subcommittee?
Member Clary: Yes, that is a frequent topic. Part of the work in the Water System Improvement Program is to show what we will do to improve and maintain the pipes.
Member Sandkulla: Under the 10 year capital plan, there is a specific line item for pipeline repair and replacement with a goal of a certain amount of mileage per year. It is something we plan on prioritizing.

Public Comment: None

6. Staff Report
   - Water Quality and Odor Issues update, Suzanne Gautier, Water Enterprise Communications Liaison
     - Groundwater is not yet being pumped into system.
     - Starting around December 1, a number of people reported that their water had a dirty taste, depending on personal sensitivity.
     - The odd smell is caused by Geosmin a harmless byproduct of blue green algae.
     - Algae is not common in winter but because of this situation, the agency will now be testing regularly for this.
     - We now have switched reservoirs so the taste should go away in next few days.

Public Comment: None

7. Future Agenda Items and Resolutions (5 minutes)
   - CAC Survey Results (February)
   - Biosolids and Headworks construction updates (February)
   - Enterprise 101 presentations for Water, Power, and Sewer (tentative)
   - Strategic Plan (tentative)
   - Address from the General Manager (August)

Members recommended future agenda items:
   - Capital Financing Policy – Member Clary
   - Wastewater Subcommittee Update
   - Framework for Land Management – Member Clary
   - Environmental Justice Policy – Member Clary
   - Technology and Security Policy – Member Loewenberg

Public Comment: None

8. Announcements/Comments – The next scheduled meeting for the Full CAC will take place at our regularly scheduled time on Tuesday, February 21, 2017.
   - Member Lee: Balboa Reservoir RFP has been released. Goal of the RFP is to get at least 50% affordable housing on site.

Public Comment: None
9. Adjournment

Motion was made (Clary) and seconded (Sandkulla) to adjourn meeting.

Public comment: none

Meeting was adjourned at 7:01pm.