

2013-2014 ANNUAL REPORT OF THE SAN FRANCISCO PUBLIC UTILITIES REVENUE BOND OVERSIGHT COMMITTEE

The Public Utilities Revenue Bond Oversight Committee (RBOC) was created as a result of the passage of Proposition P (November 2002) adding Sections 5A.30 through 5A.36 to the San Francisco Administrative Code and was formed in November 2003. The RBOC has the responsibility of reporting publicly to the Mayor, San Francisco Public Utilities Commission (SFPUC) and the Board of Supervisors regarding the SFPUC's expenditure of revenue bonds on the repair, replacement and expansion of the City's water, power, and wastewater facilities. The San Francisco Board of Supervisors extended the sunset date of the RBOC to January 1, 2016.

The RBOC is required to issue annual reports on the results of its activities. This 2013-2014 Annual Report is RBOC's ninth report since its formation.

EXECUTIVE SUMMARY

The main achievements of RBOC for 2013-2014 include the following:

- Conducted hearings and reviews on the progress of the Water System Improvement Program (WSIP), with particular attention to the accuracy of budgeting and scheduling forecasts.
- Engaged RW Block consulting firm to assist the RBOC in determining the likelihood that the WSIP will be completed on time and on budget. Methodology included extensive document review, interviews and analysis of five key representative WSIP projects. RW Block also analyzed the impact on delivery costs (defined as soft costs or non-construction costs, including project and program management, planning, engineering, environmental review and permitting and construction management costs) to complete WSIP.

RBOC's key findings include the following:

- WSIP will not be finished on time and within budget as set forth on September 30, 2012, by the SFPUC with completion date of July 26, 2016, and budget of \$4.5856 billion. The conclusion is supported by the WSIP forecast included in the March 22, 2013, Notice of Posting for Consideration of Revisions to the SFPUC with project completion of April 11, 2019, and revised budget of \$4.6305 billion, which was corroborated by the RW Block report.
 - The primary reason for the schedule and budget impacts is due to unforeseen site conditions at the Calaveras Dam site, as confirmed by Steve Verigin, Pacific Region Manager (GEI Consulting Engineers and Scientists). His conclusion was that the SFPUC followed appropriate best practices and therefore could not have taken additional measures to avoid significant schedule and cost overruns.
- RBOC also concluded that the anticipated soft costs to complete WSIP will exceed budgeted soft costs, when compared to historical levels.
- RBOC recommended corrective actions to WSIP, as a consequence of these findings. Results of these corrective actions will continue to be evaluated in 2014 and 2015. RBOC worked closely with WSIP Directors, former director Julie Labonte and current director Dan Wade, to develop an agreed upon assessment and appropriate next steps.
- RBOC evaluated WSIP cost containment measures, costs disputed with contractors, operations and management costs, especially as related to Calaveras Dam, to ensure that further budget revisions will not be needed. RBOC will continue to do so.
- RBOC engaged RW Block to help identify “lessons learned” from WSIP to be applied to SSIP as appropriate. RW Block identified ten top-level categories of lessons to help the RBOC and the SSIP evaluate and oversee SSIP as that program develops.

FURTHER ACCOMPLISHMENTS DURING 2013-2014

Other work efforts completed or initiated by RBOC during the year included:

- Welcomed new RBOC members. Emily Brownlow, Chris Godwin, Kevin Harper, Marina Pelosi, Eric Sandler, and Christina Tang were appointed to

the RBOC during 2013 and 2014. RBOC is grateful for the service of Karen Donovan, Kevin Harper, Ian Hart, Larry Liederman, and John Ummel who left the RBOC in 2013 and 2014 owing to term completions, retirement or relocation.

- Updated RBOC By-Laws to reflect changes in how and when RBOC oversees WSIP and SSIP. Managed RBOC Funds in performance of oversight responsibilities for the public.
- Coordinated with the SFPUC and City Services Auditor (CSA) audit teams to avoid redundancy with audits that RBOC conducts.
- Regularly conducted hearings and evaluated performance of key WSIP projects, particularly in areas of budget and project schedule
- Given revised budget forecasts, evaluated WSIP cost-containment measures, disputed costs with contractors, operations and management costs and Calaveras Dam project to ensure no further revisions are needed.
- Toured SSIP project site to gain firsthand knowledge of challenges and opportunities of the SSIP capital program.
- Evaluated SSIP project initiation and level of services intended for project delivery

FUTURE ACTIVITIES

RBOC began to turn its attention to the Wastewater and Power Enterprise's capital programs in 2013-2014. With the guidance of WSIP Lessons Learned, RBOC will orchestrate several audits that will be the focus of RBOC's review efforts in 2014-2015.

Finally, RBOC plans to continue improving its outreach to the public and coordinate with the PUC Citizen Advisory and General Bond Oversight Committees to ensure greater public awareness and input related to the SFPUC's expenditure of revenue bonds.

ADDITIONAL INFORMATION ABOUT RBOC

Background

The purpose of the RBOC is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrading, and expansion of the City's water collection, power generation, water distribution, and wastewater treatment facilities. The goal of the RBOC is to make certain public dollars are spent according to authorization and applicable laws. Its purpose is to facilitate transparency and accountability in connection with the expenditure of revenue bond proceeds. The General Public is invited and welcomed to attend RBOC meetings and to provide input. (Specifics regarding RBOC's establishment and purpose can be found in Appendix 1.)

Committee Membership

The RBOC is comprised of seven appointed members: two by the Mayor, two by the Board of Supervisors, one by the City Controller, one by the Bay Area Water User's Association (BAWUA) under the auspices of the Bay Area Water Supply and Conservation Agency (BAWSCA). The seventh member is the Budget Analyst or his/her representative. At a minimum, the members appointed by the Mayor and the Board shall, individually or collectively, have expertise, skills and experience in economics, the environment, construction, and project management. The member appointed by the Controller shall have background and experience in auditing, accounting, and project finance. RBOC members serve no more than two consecutive terms, and upon their initial appointment, three members are assigned by lot to an initial term of two years and the remaining four members have an initial term of four years. Thereafter, each RBOC member shall serve a four-year term. Currently, one seat is vacant.

The members and officers of the RBOC who served during the past calendar year can be found in Appendix 2.

2013 and 2014 Meetings

The RBOC held 9 meetings in 2013 and 8 meetings to date in 2014, the substance of which is briefly described in Appendix 3. Full agendas and minutes for each meeting are available on www.sfwater.org. In addition to meetings held by the full RBOC, a sub-committee ("*Contracting Working Group*") met 4 times in 2013 and 1 time to date in 2014.

This subcommittee was responsible for developing guidelines for RBOC's use of consultants, coming up with a list of potential consultant task assignments, identifying options for getting the work done, providing preliminary input into potential scopes of work, and reviewing preliminary consultant work products.

Budget

Pursuant to Proposition P, the RBOC receives 1/20th of 1% of gross revenue bond proceeds to fund the cost of retaining the services of “outside auditors, inspectors and necessary experts“ to perform independent reviews.

As of December 31, 2013, RBOC had a pending account balance of \$1,481,886 with actual expenditures to-date (including encumbrances) of \$798,492. As of September 30, 2014, RBOC had a pending account balance of \$1,234,798 with actual expenditures to-date (including encumbrances) of \$1,045,580. A complete accounting of RBOC funds, and their expenditure, can be found in Appendix 4.

Acknowledgements

The RBOC would like to acknowledge and express appreciation to the SFPUC staff and others for facilitating the tasks of the Committee.

Specifically, we want to acknowledge WSIP Directors Julie Labonte and Dan Wade, Jeet Bajwa, Alan Johanson, and John Kinneen (WSIP); SSIP Director Karen Kubick, Deputy City Attorney Mark Blake; Deputy CFO Charles Perl; Richard Morales and Mike Brown and Pauson Yun from the SFPUC. From the Board of Supervisors, the RBOC wishes to thank Assistant Clerk Victor Young and Derek Evans for their work in support of the meetings.

The RBOC with Todd Rydstrom, Assistant General Manager (SFPUC) presented a certificate of honor to former RBOC Member John Ummel and further shared in the appreciation and commendation of his service, as Bay Area Water Supply and Conservation Agency representative and committee Vice-Chair for the RBOC, which has benefited the San Francisco Public Utilities Commission and the rate payers of the City and County of San Francisco and the system’s wholesale customers.

The RBOC also expresses its appreciation for the participation of members of the public and various stakeholders.

2014-2015 Meeting Schedule

Regularly scheduled meetings of the RBOC meet monthly on the following dates beginning at 9:00 A.M. at the SFPUC Building located at 525 Golden Gate Avenue, in San Francisco, unless otherwise specified. Meeting agendas of the RBOC will be posted on www.sfwater.org and at the SF Main Library, 5th floor. Public participation is always welcome.

Monday, October 6, 2014

Monday, November 17, 2014

Monday, December 8, 2014

Monday, January 12, 2015

Monday, February 9, 2015

Monday, March 9, 2015

Monday, April 13, 2015

Monday, May 11, 2015

Monday, June 8, 2015

Monday, July 13, 2015

Monday, August 10, 2015

Monday, September 21, 2015

Monday, October 19, 2015

Monday, November 9, 2015

Monday, December 14, 2015

Appendix 1

In furtherance of its purpose, the RBOC may:

1. Inquire into the disbursement and expenditure of the proceeds of the Commission's revenue bonds authorized by the bond resolutions and other applicable laws. This information may be obtained by receiving any and all published reports, financial statements, correspondence, or other documents and materials related to the expenditure of revenue bond funds from the San Francisco Public Utilities Commission;
2. Hold public hearings to review the disbursement and expenditure of the proceeds of revenue bonds;
3. Inspect facilities financed with the proceeds of revenue bonds;
4. Receive and review copies of any capital improvement project proposals or plans developed by the Commission relating to the Commission's water, power or wastewater infrastructure which are to be financed in whole or in part with revenue bonds;
5. Review the efforts by the Commission to maximize revenue bond proceeds by implementing cost saving measures, including, but not limited to;
 - a. Mechanisms designed to reduce the costs of professional fees, site preparation and project design,
 - b. Recommendations regarding the cost-effective and efficient use of core facilities,
 - c. The development and use of alternative technologies, and
 - d. The use of other sources of infrastructure funding, excluding bond refunding; and
6. Commission review and evaluation of the disbursement and expenditure of the proceeds of such revenue bonds by independent consultants and experts. The RBOC may comment to the Board of Supervisors on the development and drafting of proposed legislation pertaining to Commission revenue bonds prior to a Board determination of whether to submit the measure for voter approval, or authorizing the issuance of revenue bonds if voter approval is not otherwise required.

In addition, after reviewing materials provided by the Commission, the RBOC, after conducting its own independent audit, and after consultation with the City Attorney, may determine that proceeds of a revenue bond program were utilized for purposes not authorized in accordance with the authorizing bond resolution. It may be further determined that this surmounts to an illegal expenditure or waste of such revenue bonds within the interpretation of applicable law specific to the RBOC. By majority vote, the RBOC may prohibit the issuance or sale of authorized public utility revenue bonds which have yet to be issued or sold. The RBOC's decision to prohibit the sale of authorized, unsold revenue bonds may be appealed and overturned, or lifted, upon a two-thirds vote of all the members of the Board of Supervisors, if the SFPUC, in response to the report of the RBOC, provides evidence of corrective measures satisfactory to the Board of Supervisors.

Appendix 2

Member	Appointed By & Term	Qualifications
Kevin Cheng <i>Chair</i>	Mayor Appointee Appointed on 5/19/10 Term expires on 11/12/13 Hold Over Status	Former management consultant developing and executing strategy and operation work for major Fortune 500 corporations, with particular expertise in project management. Current managing partner of San Francisco based development company.
Holly Kaufman	Mayor Appointee Appointed on 2/15/12 Term expires on 11/12/15	CEO of a strategic advisory firm that designs and manages initiatives that integrate environmental and economic needs. Clients include the White House Council on Environmental Quality, Hewlett Packard, the California Wind Energy Association, the Union of Concerned Scientists and the Natural Resources Defense Council. Served in the Clinton Administration as a United Nations climate treaty negotiator representing the Departments of State and Defense. Speaks and publishes widely on green business, clean tech, climate change, sustainability, and ecological protection issues.
Marina Pelosi	Board of Supervisors Appointee Appointed on 1/8/2014 Term expires on 1/8/2018	Energy and Utility professional who has worked as an operating engineer on ocean going tankers, and ran a San Francisco based financial services company. A Certified Energy Manager by the Association of Energy Engineers with professional focus that includes initiating and managing energy efficient, facility improvement projects throughout California.
Christina Tang	Bay Area Water Users Association Appointee Appointed on 7/1/2014 Term expires on 7/1/2018	Senior Administrative Analyst for the Bay Area Water Supply and Conservation Agency (BAWSCA) representing its 26 members' collective interests in their relationship with the SFPUC on matters related to water supply, facility reliability, operations, water quality and wholesale water rates. Christina has over ten years of experience in financial operations with City and County governments and special district governmental entities, including debt issuance and debt management. Christina received her Master of Science degree in Finance from the University of Houston, and her Master of Public Administration from the University of Illinois at Springfield.
Chris Godwin	Budget Analyst Appointee Appointed on 1/6/2014 Term expires on 1/6/2018	Senior Analyst with the San Francisco Budget and Legislative Analyst's Office providing fiscal and policy analysis to the San Francisco Board of Supervisors. Previous experience in debt finance at the Maryland State Department of Budget and Management. Additional experience working for the City Council of Seattle and the Washington State Senate Ways and Means Committee.
Eric Sandler <i>Vice Chair</i>	Controller Appointee Appointed on 1/9/2014 Term expires on 1/9/2018	Eric L. Sandler is Director of Finance for East Bay Municipal Utility District. He has over 25 years of experience in municipal and infrastructure financing. Prior to joining the District, he was Director of Finance/Treasurer at the San Diego County Water Authority. He also served as Director of Financial Planning and Acting Director of Finance for the San Francisco Public Utilities Commission. Previously, he was employed by Lehman Brothers in the municipal investment banking group in San Francisco. He has a Bachelor's degree in Biology from Stanford University and a Master's degree in Business Administration from the University of California, Berkeley.
Vacant	Board of Supervisors Appointee	Application can be found here: http://www.sfbos.org/index.aspx?page=3111

Appendix 3

Meeting Dates	Key Activities
January 28, 2013	<ul style="list-style-type: none"> • SFPUC Update: WSIP Construction Management Update • RBOC Account Statement and Review: RWBlock • RBOC Evaluation of WSIP by RWBlock • Election of Officers • Review of RBOC Annual Report
February 25, 2013	<ul style="list-style-type: none"> • BAWSCA Update: "Comments on Proposed Budget and Schedule Revisions to the Water Service Improvement Program • SFPUC Update: WSIP Update, Update on Wastewater Bond Sale, Status Report of SFPUC WSIP Audits • RBOC Evaluation of WSIP by RWBlock
April 15, 2013	<ul style="list-style-type: none"> • RBOC Evaluation of WSIP by RWBlock: Report Presentation
May 13, 2013	<ul style="list-style-type: none"> • SFPUC Update: Update on WSIP and SSIP • RBOC Account Statement and Review: RWBlock • RBOC Evaluation of WSIP by RWBlock: Acceptance of Final Report
June 17, 2013	<ul style="list-style-type: none"> • SFPUC Update: Hetch Hetchy and Controller's Office Update on Audits • RBOC Evaluation of WSIP by RWBlock: SFPUC Responses / Comments • RBOC Account Statement and Review: RWBlock • Future Audit Activities
September 16, 2013	<ul style="list-style-type: none"> • SFPUC Update: SSIP Update, Update on Rim Fire and Its Impact on SFPUC • RBOC Account Statement and Review • Future Audit Activities
October 21, 2013	<ul style="list-style-type: none"> • SFPUC Report: SSIP Update and Level of Services • SFPUC Report: WSIP Update and Cost Containment Measures • RBOC Account Statement and Review
November 18, 2013	<ul style="list-style-type: none"> • SFPUC Report: Update on Calaveras Dam • RBOC Account Statement and Review • RBOC Request for Proposals: Evaluation of Lessons Learned and WSIP Disputed Costs
December 9, 2013	<ul style="list-style-type: none"> • SFPUC Report: Adjustments to Operations and Maintenance Costs Due to New Capacity and Infrastructure with WSIP
January 13, 2014	<ul style="list-style-type: none"> • SFPUC Report: SSIP Update, Level of Services and Summary of Existing Projects • SFPUC Report: WSIP Update and Bioregional Habitat Restoration
February 18, 2014	<ul style="list-style-type: none"> • RBOC: Consideration and Possible Approval of Contract to RWBlock • SFPUC: WSIP Update
March 10, 2014	<ul style="list-style-type: none"> • RBOC Evaluation of Lessons Learn by RWBlock • SFPUC: WSIP Construction Management Update • SFPUC: WSIP Related Audits by City Services Auditor
April 14, 2014	<ul style="list-style-type: none"> • RBOC Evaluation of Lessons Learn by RWBlock • SFPUC: WSIP Related Audits by City Services Auditor • SFPUC Report: Adjustments to Operations and Maintenance Costs Due to New Capacity and Infrastructure with WSIP • SFPUC: SSIP Update
May 12, 2014	<ul style="list-style-type: none"> • Southeast Waterwater Treatment Plant Tour
June 9, 2014	<ul style="list-style-type: none"> • SFPUC: WSIP Update • GEI Consulting Engineers and Scientists Independent Design Review of Calaveras Dam Project • RBOC Account Statement and Review: RWBlock
July 14, 2014	<ul style="list-style-type: none"> • RBOC Evaluation of Lessons Learn by RWBlock • RBOC Account Statement and Review: RWBlock • Election of Officers for RBOC • Appointment of Subcommittee Members • RBOC Account Statement and Review • RBOC Recognition: John Ummel
September 8, 2014	<ul style="list-style-type: none"> • RBOC Evaluation of Lessons Learn by RWBlock • RBOC Account Statement and Review: RWBlock

Appendix 4

RBOC Account Summary Sept 30, 2014

Funding Sources (\$)					
	<u>Series</u>	<u>5W Water</u>	<u>5C Wastewater</u>	<u>5T Hetchy Power</u>	<u>Total</u>
	2006 A Bonds	223,310	-	-	223,310
	2008 CREBS	-	-	3,163	3,163
	2009 A Bonds	236,598	-	-	236,598
	2009 B Bonds	206,000	-	-	206,000
	2010 A Bonds	28,473	23,525	-	51,998
	2010 B Bonds	208,860	96,258	-	305,118
	2010 D Bonds	35,680	-	-	35,680
	2010 E Bonds	172,100	-	-	172,100
	2010 F Bonds	90,480	-	-	90,480
	2010 G Bonds	175,735	-	-	175,735
	2011 A Bonds	301,358	-	-	301,358
	2011 B Bonds	14,488	-	-	14,488
	2011 C Bonds	16,798	-	-	16,798
	2011 QECBS	-	-	4,146	4,146
	2012 NCREBS	-	-	3,300	3,300
	2012A Bonds	295,805	-	-	295,805
	2012B Bonds	8,260	-	-	8,260
	2013B Bonds	-	165,793	-	165,793
A	Subtotal Sources - All	2,013,943	285,576	10,609	2,310,127
Charges Against Budget (\$)					
Actual Charges					
	WSIP Expenditures & CP (2006)	59,370	-	-	59,370
	Financial Review of WSIP (2007)	92,050	-	-	92,050
	WSIP Sunset Reservoir (2009)	71,890	-	-	71,890
	CSA Controller's Audit (2011/2012)	86,219	29,750	-	115,969
	Independent Review Panel (IRP) (2011/2012)	116,010	-	-	116,010
	LADWP for IRP (2011/2012)	11,489	-	-	11,489
	IBBS Consulting for IRP (2011/2012)	47,000	-	-	47,000
	CSA Audit - Final Bill Q3 12	29,625	-	-	29,625
	RW Block WSIP Evaluation - (invoice Nov 12 - Apr 13)	284,838	-	-	284,838
B	Subtotal Actual Charges	798,492	29,750	-	828,241
A - B	Available Funds Before Pending Charges	1,215,451	255,826	10,609	1,481,886
Pending Charges					
		-	-	-	-
C	Subtotal Pending Charges	-	-	-	-
A - B - C	Available Funds After Pending Charges	1,215,451	255,826	10,609	1,481,886

RBOC Account Summary Sept 30, 2014

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	2010 F Bonds	90,480	-	-	90,480
	2010 G Bonds	175,735	-	-	175,735
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	2011 B Bonds	14,488	-	-	14,488
	2011 C Bonds	16,798	-	-	16,798
	2011 QECBS	-	-	4,146	4,146
	2012 NCREBs	-	-	3,300	3,300
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