DATE: February 22, 2012

TO: Honorable Members of the City Council

FROM: Jay M. Goldstone, Chief Operating Officer

SUBJECT: Misleading News Report on Public Utilities Department

Local media have been looking into water rates to determine if they are correct related to cost-recovery. Articles appeared in the U-T as well as KPBS radio and television segments on Monday, February 20.

Unfortunately for all of us at the city, the reporting was very misleading -- in fact, Don Billings, former chair of the Independent Rates Oversight Committee (IROC), labeled the reporting “worse than sloppy.”

The article claims the Public Utilities Department is sitting on $630 million in “excess” funds. That figure was a snapshot in time and is out of context. As anyone who works in the field knows, water projects require a long build-out time with sufficient planning to be properly completed. The facts are as follows:

- The Public Utilities Department is required to have at least $127 million in reserves. City policy requires a healthy reserve as the rating agencies typically look at these reserves to determine the credit ratings of the city’s water and wastewater revenue bonds.

- $125 million is committed to projects where the contracts have been signed, the work is proceeding and payments to vendors will be made in the very near future.

- An estimated $70 million is savings because we were able to complete projects at a lower cost than we initially estimated in 2007. The general cost of paying for these projects has dropped significantly since 2007 because of economic conditions. By city policy, this Dedicated Reserve from Efficiencies and Savings (DRES) money can be used for only two things: 1) preventing future water-rate increases or 2) paying for future capital projects.
• The balance is dedicated for capital projects the Council has already approved through the annual budget process, all of which are in varying stages of activity. These projects include continuing to replace much of the city’s 3,000 miles of water pipes, a quarter of which are more than 50 years old. These funds will be drawn down as the projects demand.

The article goes on to state that the Department has finished only 39 of the 111 projects that were identified back in 2007. There are several problems with this assertion: 1) the reports from 2007 clearly state that projects may be changed; 2) this assumes all projects are created equal. They are not.

That said, of those 111 projects:

• 39 are finished, including the largest projects such as 3 water-treatment-plant upgrades, 10 pump-station fixes and 53 miles of water-line replacements.

• 16 have been cancelled after post-2007 developments determined they were no longer needed. Water-flow reductions due to the 2009-2011 drought and conservation efforts played a role in eliminating the need for some of these projects.

• 10 are on hold while they are being re-evaluated to determine whether they are, in fact, necessary and if so, what the scope should be.

• 9 are actually on-going projects that we perform every single year – such as replacing and rehabbing our sewer mains. Over the past four years, we have fixed or replaced roughly 163 miles of sewer lines. Partly as a result of this work, the city experienced fewer sewer spills in 2011 – 33 – than at any time in modern city history. (A decade ago, we were averaging one sewer spill a day.)

• 37 are projects that are currently underway but simply have not yet been finished. Most if not all of these projects should be finished by 2014.

Also, a substantial driver of water rate increases over the past several years is directly attributable to the increased prices the city pays its water wholesaler. Since 2008 our water supplier has raised rates five separate times. Four of those times the city passed along the cost to our customers. The fifth time – last year – the Public Utilities Department was able to avoid increasing our customer’s water rates by utilizing funds available as a result of efficiencies and cost savings, a fact we pointed out to the reporters but that they chose not to include in the article. The cost of absorbing this last wholesale rate increase will require $17 million each year.

The Public Utilities Department is prepared to present to the council’s Natural Resources & Culture Committee at its Feb. 29 meeting. Should you want additional information, please contact mayoral policy advisor Almis Udrys.