



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: September 8, 2020

TO: Honorable Mayor Kevin L. Faulconer and Members of the City Council

FROM: Kris McFadden, Director, Transportation & Storm Water Department
via Johnnie Perkins, Deputy Chief Operating Officer, Public Utilities

SUBJECT: Utilities Undergrounding Program Status Report

A handwritten signature in blue ink, likely belonging to Kris McFadden, is written over the "FROM" line of the memorandum.

Background

Recent years have brought about changes to the Utilities Undergrounding Program (UUP) with the intent of increasing the pace at which the City converts the overhead utilities in communities throughout San Diego. Fiscal Years 2015 to 2018 brought expanded City resources to the program, and starting in Fiscal Year 2019, a partnership to accelerate undergrounding was established with San Diego Gas & Electric (SDG&E). Recently that partnership encountered difficulties over concerns about compliance with public contracting regulations and increased project costs from SDG&E, which became compounded when City staff, in close consultation with the City Attorney's Office, had determined that SDG&E was not complying with terms of the 2001 Memorandum of Understanding (MOU) Regarding Implementation of Franchise Underground Obligation. The non-compliance, which centered around SDG&E limiting access to records that staff needs to review to validate procurement and costs, has been communicated in a June 5, 2020, memorandum (attached) from Deputy Chief Operating Officer Johnnie Perkins, addressed to the Mayor and City Council.

Going forward, the intent is to continue cooperative negotiations with SDG&E to resolve the remaining issues and gain access to their records. In the interim, the City has ceased payment on SDG&E invoices from December 2019 onward. Any of the costs on these invoices found to be valid will need to be paid from the Fiscal Year 2021 budget. Depending on the findings of the cost review, it might be necessary to increase the Fiscal Year 2021 appropriation to cover both past and present obligations, which will need Council approval. It is estimated that the projected fund balance in the Underground Surcharge Fund of approximately \$184.2M will be sufficient for this purpose.

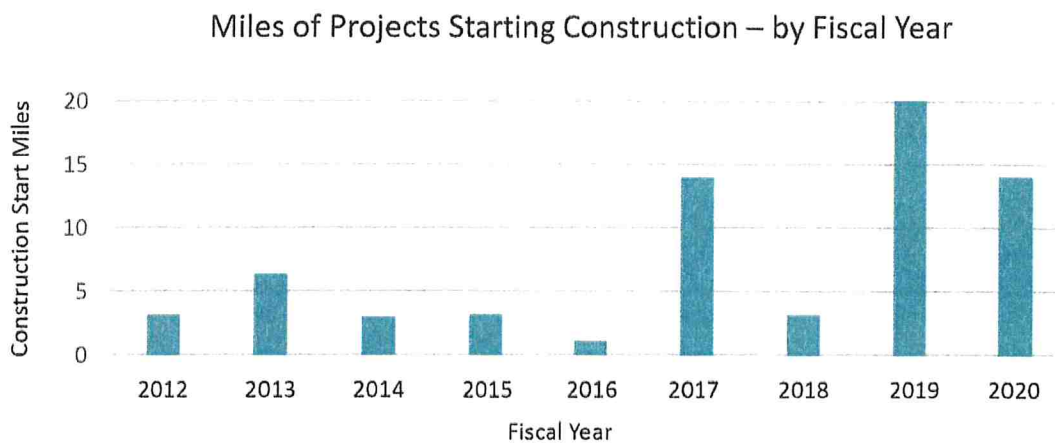
This report provides both a year-end status for Fiscal Year 2019 and a description of progress made during Fiscal Year 2020. The year-end report for Fiscal Year 2020 will be provided in the next program memorandum.

The following information about the UUP can be found on the Program website at <https://www.sandiego.gov/undergrounding>:

- General program information including funding sources
- Status of individual active projects (on the interactive “Info Map”)
- Estimated timelines for future projects (on the interactive “Info Map”)
- The “Undergrounding Info Line” phone number and email address

Status of Undergrounding Projects

The program is succeeding at getting more projects into construction. Fiscal Year 2019 brought 20 miles into construction, and Fiscal Year 2020 added an additional 14 miles. Combined with projects that started construction in earlier years, there is a total of 45 miles of projects currently in construction. The high ratio of newer construction to older construction shows that many of the older projects that had been lingering in construction for many years have now been cleared from the queue and progress on new work is on the upswing. The following table displays the number of miles of projects starting construction since Fiscal Year 2012.



These increases in production can be attributed to increased City resources provided to the program combined with stronger commitments from the outside utility partners. SDG&E had committed to completing 19 miles of undergrounding in Fiscal Year 2020. SDG&E was only able to complete 0.3 miles within Fiscal Year 2020, and review by City staff has determined that SDG&E’s construction timelines were too optimistic and included insufficient contingency for typical setbacks that often occur during construction. A second factor that impacted project completion timelines were the concerns about transmitting the COVID-19 virus, which has slowed down the work on private property. City staff are currently working with SDG&E to make improvements that will address these issues in Fiscal Year 2021.

While the completed Fiscal Year 2020 mileage was lower than expected, we did see significant increases in other phases of work that will result in additional, completed mileage in Fiscal Year 2021. This progress included the completion of 12 miles of open-trench conduit installation, 5.6 miles of cabling, and the completion of electrical panel conversions on over 2,000 properties. City staff are currently reviewing SDG&E’s revised

project schedule estimates for project completion in Fiscal Year 2021. If the remainder of the 19 miles from the Fiscal Year 2020 projection can be completed within FY 2021 then the program will surpass the 15-mile target set for Fiscal Year 2021.

The increased City staff added in recent years to support this program are continuing to help utility partners to troubleshoot and overcome obstacles to keep construction on schedule. The need to focus staff resources on this effort continues and will continue for years to come. Currently staff are working to resolve issues that are holding up construction progress on the following four projects:

- Residential Undergrounding Block 2S1 in Mission Beach – Utilities are encountering space limitations on private property that make it difficult to meet utility clearance standards.
- Residential Undergrounding Block 2S2 in Mission Beach – SDG&E is having difficulty finding space with sufficient land rights for placement of transformers.
- Residential Undergrounding Block 1M in Muirlands – SDG&E has not been able to continue digging on some of the streets because of concerns with underlying soil conditions.
- Redwood Street (Rule 20A project) in North Park – Utilities have discovered problems regarding land rights which were not identified during the time of design.

City staff delivered 43 miles of design-ready projects to SDG&E in Fiscal Year 2019. Historically it would have taken SDG&E several years to process this number of projects. With SDG&E's expanded design resources, a result of earlier partnering, and with adequate Surcharge Funds to maintain high production levels, the first of these projects are estimated to start construction by late Fiscal Year 2021, with the last of the projects finishing around 2027. City staff are currently preparing additional projects for design initiation. Estimated timelines will be provided in future program reports.

Recently the City had taken initiative to directly manage the design and construction of undergrounding projects. Construction was recently completed for the first in this series, Block 7G2 in the Rolando neighborhood. Two other projects, Block 4Y in Jamacha Lomita and Block 8R in Egger Highlands, will be starting construction in Fiscal Year 2021. There is still not enough data to do a cost comparison, but a preliminary review finds that the City could save money by directly managing the undergrounding work. When the City leads the project there are other benefits such as greater cost transparency, improved coordination with other City work, and faster responses to inquiries from the public and Council offices. Three additional City-managed projects are estimated to start design in early Fiscal Year 2022.

Enhanced Customer Service

In the interest of improving customer satisfaction, direct communication with community members within project boundaries was increased by promoting the use of the program's

“Info Line” which has been receiving an increased number of calls, and by conducting over 200 site visits to verify that customer concerns were addressed.

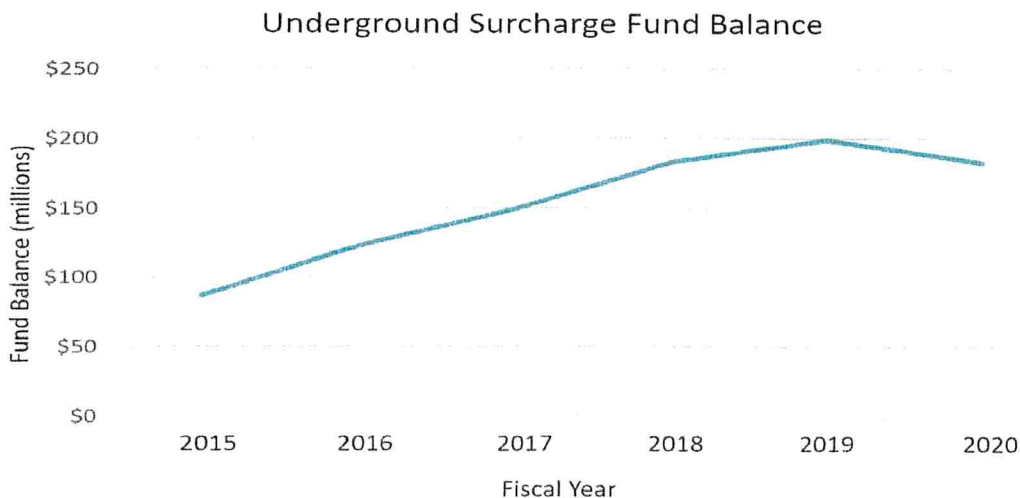
The practice of performing pre-design and additional pre-construction forums with stakeholders in each project area will continue. The pace of those forums will accelerate along with the number of projects entering those phases of effort.

Status of Program Finances

In Fiscal Year 2019, the program received approximately \$73.3 million in revenue and expended approximately \$49.5 million. At the end of Fiscal Year 2019, the Underground Surcharge Fund had a fund balance of \$199.0 million. Revenue for Fiscal Year 2020 is projected at approximately \$68.2 million and expenditures are projected at approximately \$83.0 million. The following table displays the actual cash flows for Fiscal Year 2019 and projected cash flows for Fiscal Year 2020.

	Fiscal Year 2019	Fiscal Year 2020
Beginning Fund Balance	\$ 175.2	\$ 199.0
Revenue	\$ 73.3	\$ 68.2
Expenditures	\$ 49.5	\$ 83.0
Ending Fund Balance	\$ 199.0	\$ 184.2

As recommended, the program has been successful in accelerating the pace of expenditures from the Underground Surcharge Fund while continuing to operate with ample reserves. The pace of expenditures from the fund is expected to increase in the next fiscal year with the addition of projects entering construction and the rising costs associated with those projects. The following table displays the Underground Surcharge Fund balance from Fiscal Year 2015 to present.



Compliance with Franchise MOU

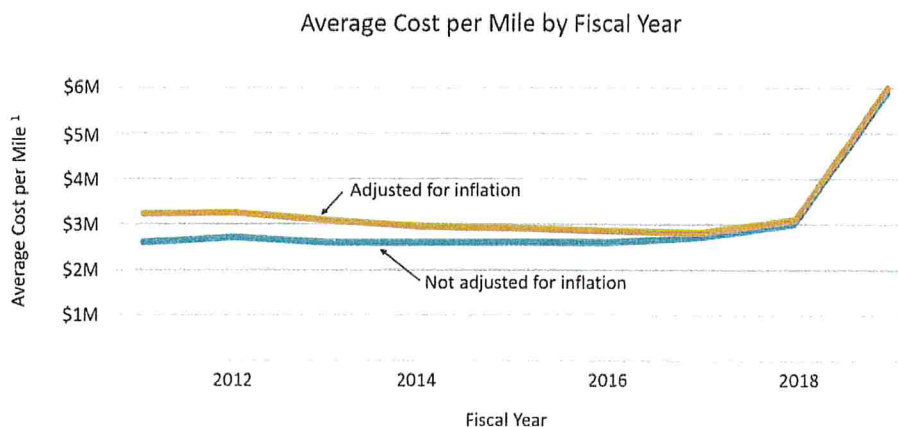
As stated in the “Background” discussion, SDG&E has received letters and other communications regarding compliance with requirements to provide City staff with access to records necessary to understand and verify SDG&E’s procurement process and costs.

The UUP operates on a “pay-as-you-go” basis. That means that the full cost of the project is not encumbered up front as with Capital Improvement Program projects. Because of this, City staff were not aware of increasing SDG&E costs until around April 2019 when SDG&E began providing invoicing forecasts for the first time. Progress by staff in determining the validity of these increased costs was hindered by limited access to SDG&E records. Communications with SDG&E regarding its contractual obligation to provide access to cost related records has achieved some progress, but not enough to proceed with paying the invoices received from December 2019 onward.

By the end of October, we hope to have an update regarding the current discussion of project costs and contracting regulations. For now, some implications for the program operations are highlighted as follows:

- Recent forecasted costs for a mile of undergrounding are significantly higher than historical costs after they are adjusted for inflation. This could result in less “buying power” if review of SDG&E records find that these are valid construction cost increases that are beyond SDG&E’s control.
- In some cases, actual costs have come in significantly higher than the forecasted costs.

The following chart displays the average cost per mile of undergrounded utilities from Fiscal Year 2012 to 2019.



Footnotes: 1. Averaged over all project costs and miles reported to City Council for the stated fiscal year

With the electrical franchise agreement coming up for renewal, there is an opportunity to revise terms of that agreement to ensure a better control of undergrounding progress and

costs. Until then the department intends to use all available authority under the current franchise agreement to ensure that control over costs is in line with public interest.

Continuing Program Management Improvements

Financial forecasting model – A financial modelling tool is now available to forecast program finances up to ten years in the future. This is a critical tool for planning decisions that affect project pace and volume. Verification of cost estimates from SDG&E will need to be completed to improve the accuracy of the model.

New program database – Work has concluded on a centralized database with geospatial capabilities. This improves management of the program by:

- Eliminating errors and labor inefficiencies associated with not having the data centralized.
- Connecting directly to available City software, allowing the data to be analyzed in ways useful for visualizing how the program is performing.
- Improving the efficiency and accuracy of performing project cost and schedule variance analysis.
- Reducing human error through the use of automation.

Measuring customer satisfaction – An independent review of public communication practices was recently completed. Recommendations are being implemented and updated staff training materials are planned for Fiscal Year 2021. These will bring further refinements to how the Undergrounding Information Line is managed, and how information is communicated to the public through a suite of printed and digital materials and public forums.

It must be noted that the stay-at-home orders issued for slowing the spread of COVID-19 have made it difficult to provide the level of customer interaction planned for the program. Program staff are currently experimenting with new online/distance methods for maintaining a constructive dialogue with affected communities.

We anticipate that the current cost verification review with SDG&E will soon be resolved. Should that occur, staff will include revised projections for design and construction efforts in the Fiscal Year 2020 year-end report memorandum anticipated for delivery in October.

Staff stands ready to provide any additional program detail requested by Council and again recommends visiting the program's informational website at <https://www.sandiego.gov/undergrounding>.



Kris McFadden
Director, Transportation & Storm Water Department

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Honorable Mayor Kevin L. Faulconer and Members of the City Council
September 8, 2020

Attachment: June 5, 2020, Memorandum from Johnnie Perkins to Honorable Mayor
Kevin L. Faulconer and Members of the City Council in response to a City
Attorney Memorandum regarding the Utility Undergrounding Program

cc: Aimee Faucett, Chief of Staff, Office of the Mayor
Kris Michell, Chief Operating Officer
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Jeff Sturak, Assistant Chief Operating Officer
Rolando Charvel, Chief Financial Officer
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