

Date of Hearing: July 3, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

SB 699 (Hill) – As Amended March 27, 2019

SENATE VOTE: 38-0

SUBJECT: San Francisco Bay Area regional water system.

SUMMARY: Extends the sunset dates of the state's oversight authority of and bond authority for Bay Area regional water system projects. Specifically, **this bill:**

- 1) Extends the sunset date on the Wholesale Regional Water System Security and Reliability (WRWSSR) Act until January 1, 2026.
- 2) Extends the sunset date on the San Francisco Bay Area Regional Water System Financing Authority's (RFA) ability to issue revenue bonds until January 1, 2030.
- 3) Contains findings and declarations to support its purposes.
- 4) Specifies that no reimbursement is required by this act because a local agency has the authority to levy service charges, fees, or assessments sufficient to pay for the program or level of service mandated by this bill.

FISCAL EFFECT: According to the Senate Appropriations Committee, this bill contains:

- 1) Ongoing minor costs, potentially in the low tens of thousands of dollars over the extended sunset period, to the Department of Public Health and the Seismic Safety Commission for continued oversight. These costs are reimbursed by the San Francisco Public Utilities Commission (SFPUC).
- 2) To the extent revenue bonds are issued and a surcharge is imposed on water customers, there could be state costs associated with increased water rates paid by state entities located in the service area. Staff notes, however, that revenue bonds have never been issued to date, and it appears unlikely that the authority to issue bonds will be exercised to pay for remaining projects.
- 3) No state costs associated with the state-mandated local program because affected local entities can recover any costs through fees.

COMMENTS:

- 1) **Hetch Hetchy.** San Francisco operates the Hetch Hetchy Water System, which transports water from the Sierra Nevada to San Francisco and provides domestic and industrial water to people in Alameda, San Francisco, San Mateo, and Santa Clara counties. While San Francisco operates the water system, customers across the Bay Area depend on it for their water. Rather than rely on San Francisco to adequately plan for the entire region's water needs, the Legislature enacted laws to guarantee that customers across the Bay Area had a reliable water system.

SB 1823 (Papan), Chapter 841, Statutes of 2002, enacted the WRWSSR Act, which required San Francisco to adopt a specified program of capital improvement projects designed to restore and improve the Bay Area regional water system. The SFPUC executes these projects through its Water System Improvement Program (WSIP). The goals of the program include:

- a) Maintaining high-quality water and a gravity-driven system;
- b) Reducing vulnerability to earthquakes;
- c) Increasing delivery reliability;
- d) Meeting customer water supply needs;
- e) Enhancing sustainability; and,
- f) Achieving a cost-effective and fully-operational system.

Under the WRWSSR Act, the state maintains oversight over WSIP projects through annual reports submitted to the Joint Legislative Audit Committee, the Alfred E. Alquist Seismic Safety Commission, and the State Water Resources Control Board. The water transmission system improved under WSIP now serves 27 distribution systems (including San Francisco) that provide water to over 2.7 million users and 30,000 businesses.

Initially, the WRWSSR Act was to sunset on 2015, but due to weather conditions, the discovery of naturally-occurring asbestos, and construction material shortages, SFPUC was not able to complete all projects before the scheduled sunset date. SB 1345 (Committee on Natural Resources), Chapter 489, Statutes of 2014, extended the sunset until 2022. The extension allowed state oversight to ensure that SFPUC continues to move forward with projects included in the plan. WSIP now includes 87 projects and is approximately 97% complete. While projects have progressed, additional delays have occurred, and SFPUC expects to complete a couple of projects after 2022. This includes the Alameda Creek Recapture Project, which captures water released from the Calaveras Dam and bypassed around the Alameda Creek Diversion Dam, and the Regional Groundwater Storage and Recovery Project, which stores water in wet years and recovers that water for use during dry years.

2) **San Francisco Bay Area Regional Water System Financing Authority.**

SB 1870 (Speier), Chapter 849, Statutes of 2002, created the RFA, and authorizes the RFA, comprised of wholesale customers not including San Francisco, to issue revenue bonds until December 31, 2020. These bonds can be used to improve the reliability of San Francisco's regional water system, and SB 1870 allows bond proceeds to be made available upon meeting certain terms and conditions, including imposing a surcharge to generate revenue to pay the debt service on the revenue bonds issued by the RFA. This provides wholesale customers a fund source they control, as opposed to fund sources SFPUC controls, to finance regional water system projects, which may be in addition to WSIP projects. While wholesale customers have had this authority since 2002, they have not used this authority to finance previous WSIP projects.

- 3) **Bill Summary and Author's Statement.** This bill extends the sunset date on the WRWSSR Act until January 1, 2026. This bill also extends the sunset date on the RFA's ability to issue revenue bonds until January 1, 2030. The Bay Area Water Supply and Conservation Agency is the sponsor of this bill.

According to the author, "Senate Bill 699 would extend the existing sunset provisions for state oversight of San Francisco's required capital program from January 1, 2022, to January 1, 2026. This bill would also extend RFA and authorizes the RFA to issue revenue bonds and take other actions to improve the reliability of the regional water system of San Francisco."

- 4) **Policy Consideration.** The WRWSSR Act and the state's oversight of the SFPUC does not currently sunset until January 1, 2022. On August 31, 2018, the SFPUC submitted its latest report on the WSIP stating, "The last project forecast to complete construction is the Regional Groundwater Storage and Recovery Project, scheduled to close out at the end of the program in December 2021." The supporters of the bill argue that, due to additional challenges, the remaining projects may not be completed by the 2022 sunset date. If even more challenges arise or new essential projects are identified that cause further delays to the completion of the WSIP, another sunset extension beyond this bill may need to be adopted by the Legislature. The Committee may wish to consider if the sunset date extension is premature given these factors.
- 5) **Arguments in Support.** According to the SFPUC, "There are two projects included in the WSIP that may not be complete by January 1, 2022, the current sunset date of the Act. They are the Alameda Creek Recapture Project, and the Regional Groundwater Storage and Recovery Project. These two water supply projects have each encountered different obstacles and have some remaining schedule risk. In keeping with the original intent of the Act, the repeal date and the Regional Financing Authority's ability to issue revenue bonds should be extended until the WSIP is complete."
- 6) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Bay Area Water Supply and Conservation Agency [SPONSOR]
San Francisco Public Utilities Commission

Opposition

None on file

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