

## Agenda Report

October 19, 2015

**TO:** Honorable Mayor and City Council

**THROUGH:** Municipal Services Committee (08/25/15)

**FROM:** Departments of Finance, Public Works, and Water and Power

**SUBJECT: REVIEW OF UNDERGROUND UTILITY PROGRAM**

### **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is not a "project" as defined in the California Environmental Quality Act (CEQA), Public Resources Code Section 21065 and Section 15378(b)(5) of the State CEQA Guidelines and, as such, is not subject to environmental review; and
2. Accept the recommendations from Management Partners to enhance management practices of the Underground Utility Program.

### **MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:**

On August 25, 2015, the Departments of Finance, Public Works, and Water and Power presented professional management consulting firm Management Partners' 13 recommendations to enhance the Underground Utility Program to Municipal Services Committee (MSC). The MSC supported the staff recommendation to approve Management Partners' 13 recommendations, requested additional information and directed the departments to proceed to the City Council for approval.

### **BACKGROUND:**

The Underground Utility Program (UUP) was established in 1968 per the Pasadena Municipal Code (PMC) chapter 13.14. Under PMC 13.14, the City Council can call for public hearings to establish underground utility districts based on the public necessity, health, safety or welfare. City Council began using in the 1980s the following criteria for establishing underground utility districts:

1. Beautification of streets, to enhance major view corridors;
2. Street volume (based on the premise that more people will enjoy the results);
3. Streets where new or expanded power facilities are needed (to avoid installation of additional overhead lines);
4. Streets that can be completed in conjunction with major street work (to reduce impacts of multi-construction projects on businesses and residents);
5. Streets where expanded underground facilities will enhance new development; and
6. Streets needing new street lighting.

In 2003, new criteria were approved with the adoption of the FY 2004-2008 Capital Improvement Program Budget. The revised criteria included:

1. Streets where overhead lines are deteriorated and need replacement;
2. Streets where power lines are in conflict with tree and structural clearance;
3. Streets where there is a higher risk of fire hazards; and
4. Streets where major street construction is planned.

The Departments of Public Works and Water and Power continued to use these criteria in creating and prioritizing utility underground districts.

In December 2014, the City announced that approximately \$6.4 million had been embezzled from the Utility Underground Fund over an eleven year period. The embezzlement was discovered by staff while researching answers to inquiries made by City Council members at the Municipal Services Committee meeting during discussions regarding the Underground Utilities Fund. The embezzlement identified significant weaknesses with staff compliance of internal controls and fund oversight. In response, staff presented a series of recommendations to the City Council to address and strengthen policies and procedures. One of the recommendations included hiring an independent consultant to review and assess the Utility Underground Program's policies and procedures as it relates to how Departments of Finance, Public Works and Water and Power collaborate to deliver the UUP projects.

The professional management consulting firm Management Partners was selected to perform this assessment. Attachment A is Management Partners' complete report and analysis including 13 recommendations to enhance the management practices of the UUP among the three departments.

Generally the report found the City has taken action to cure the issues relative to the discovered embezzlement. It is important that the changes to be implemented are strategically developed, thoroughly vetted, and take into consideration best practices for establishing an internal control environment that supports the efficient and effective implementation of the UUP. This can be done while protecting City assets and ultimately allowing Pasadena to achieve the purposes identified in the underground utilities ordinance.

## Management Partners Recommendations

The Departments of Finance, Public Works and Water and Power reviewed the 13 recommendations. Staff from the three departments agree that all the recommendations should be implemented. The recommendations are summarized in below along with the staff responses and proposed timeline to complete found in Attachment B:

- 1. Assign ownership of UUP to Water and Power**
  - Public Works and Water and Power will immediately begin to transition several duties and responsibilities from Public Works to Water and Power in a manner that maintains the services of the Undergrounding program and minimizes any potential impacts to either department's core service functions.
  
- 2. Prepare written policies and procedures on new processes**
  - Public Works staff has begun to prepare written documentation of new policies and procedures that will be shared with Water and Power staff for their review and implementation.
  
- 3. Conduct training and provide regular information updates for UUP-related staff**
  - Public Works and Water and Power will incorporate regular updates into established inter-departmental coordination meetings and additional departmental meetings on a regular basis.
  
- 4. Complete implementation of the master contractor for work on private property**
  - The Private Property Overhead to Underground Electric Service Conversion project was awarded by the City Council to a master contractor, VCI Utility Services, on June 8, 2015. Construction is anticipated to begin in September 2015. Pending the outcome of the Hill Avenue Undergrounding Project, it is anticipated that the Alpine Street Undergrounding Project will follow a similar master contractor procurement process.
  
- 5. Evaluate the \$3,000 maximum reimbursement allowance over the next three years to determine whether it is having the desired outcome.**
  - Water and Power will review the metrics and make a recommendation whether to increase, decrease, or eliminate the rebate at a later date. Until such time, the maximum reimbursement allowance will remain at \$3,000. Any future changes would require staff to return to City Council for amendment.

**6. Provide more proactive information in right-of-entry letter to property owners**

- Public Works staff implemented the recommendations in the third and final right-of-entry request letters utilized on the Hill Avenue Undergrounding Project. Water and Power will continue the right-of-entry process on the Alpine Street Undergrounding Project using the revised right-of-entry letter.

**7. Establish written guidelines for determining authorized signers**

- The Department of Finance instituted an improved Signature Authorization Form and required all City departments to secure new signing authority approvals for all requisite staff. Additionally these new signing authority approvals have been incorporated into the workflow of the new Tyler Munis Enterprise Resource Program (ERP).

**8. Conduct regular W-9 compliance audits**

- The Department of Finance has initiated an audit of W-9 compliance.

**9. Ensure appropriate internal controls are implemented for new financial information software conversion**

- Internal controls are an integral part of the new ERP.

**10. Review procedures for charging engineering staff time to the Underground Utilities Fund**

- Water and Power will review procedures for allocating engineering staff time costs once the Underground Utility Program transitions to Water and Power.

**11. Add analytical staff to Public Works to increase capability for financial analysis**

- Department of Public Works recently added an additional Management Analyst II position (recruitment soon to begin) with responsibilities to monitor financial transactions of capital improvement projects. Additional staff will be needed to support the transfer of financial oversight of the Underground Utility Program to Water and Power.

**12. Review the goal of the UUP to determine the extent of undergrounding desired**

- Public Works and Water and Power are in the process of developing and reviewing alternatives. Staff will return to MSC in second quarter of FY 2016 with a preliminary recommendation on how much more undergrounding should occur.

**13. Determine if and when the surtax should be discontinued**

- Public Works and Water and Power are in the process of determining how much longer the surtax will need to be collected depending on the extent

of additional undergrounding desired. Staff returned to MSC on October 13, 2015 with a preliminary recommendation.

**COUNCIL POLICY CONSIDERATION:**

This project is consistent with the City Council's goals to maintain fiscal responsibility and stability, and improve, maintain and enhance public facilities and infrastructure.

**ENVIRONMENTAL ANALYSIS:**

State CEQA Guidelines Section 15378(b)(5) excludes from the definition of "project" subject to CEQA review organizational or administrative activities that will not result in direct or indirect physical changes in the environment. There is no environmental impact of this action. As future Undergrounding projects move through the City's approval process, the appropriate environmental analysis will be conducted and brought to the City Council.


**FISCAL IMPACT:**

The fiscal impact of the recommendations is not known at this time. When known, these will be addressed by amending the FY 2016 Capital Improvement Program and Operating budgets and/or incorporated into the FY 2017 budgets. Attachment C contains a summary of three completed Underground Districts' budgets and schedules.

Respectfully submitted and prepared by,

  
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JULIE A. GUTIERREZ  
Assistant City Manager

Concurred by:

  
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ERIC R. KLINKNER  
Interim General Manager  
Pasadena Water & Power

Approved by:

  
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MICHAEL J. BECK  
City Manager

**Attachments:**

- Attachment A – *Management Partners Underground Utility Program Review*
- Attachment B – Additional information requested by MSC: Proposed Implementation Schedule to Complete Management Partners' Recommendations
- Attachment C – Past UUP Projects' Budget and Schedule Summary