

Agenda Report

February 4, 2019

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (2/13/2018)

FROM: Water and Power Department

SUBJECT: UNDERGROUND UTILITIES SPECIAL ACTIVITY FUND

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act ("CEQA"), as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and,
2. Maintain the existing light and power surtax per Pasadena Municipal Code ("PMC") Chapter 4.24 – underground utilities special activity fund ("Underground Surtax") and use the Underground Surtax funds, subject to City Council review and approval, for the purposes stated in PMC Section 4.24.050; and,
3. Continue construction of underground utility projects in both existing and future underground utility districts created pursuant to PMC Chapter 13.14 – underground utility districts ("Underground Utility Districts Program").

MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:

On February 13, 2018, the Municipal Services Committee approved the staff recommendation with two votes in favor, one member abstaining, and one not present.

EXECUTIVE SUMMARY:

On March 14, 2016, staff presented a recommendation to the City Council to discontinue the Underground Utility Districts Program upon completion of the Hill Avenue and Alpine Street Underground Utility Districts and suspend collection of the Underground Surtax. These recommendations were based on the program's high cost and extremely long project timeframe. Completing the Underground Utility Districts Program is estimated to cost \$2 billion, or about \$90,000 per converted service; and it will take approximately 300 to 400 years to fund and build. Even upon completion, over 70 miles of utility lines would still remain overhead. It is possible, if not likely, that

technology changes will render the Underground Utility Districts Program obsolete long before its completion.

Following staff's presentation, the City Council took no action on staff's recommendation and directed staff to collect community input prior to making a determination on the future of the Underground Utility Districts Program and Underground Surtax.

Subsequent to public outreach and input from the community, staff now recommends that collection of the Underground Surtax and work on the Underground Utility Districts Program continue into the future. This was described as "Option 1 – Stay the Course" in public meetings and outreach related to the program.

To be clear, the Underground Surtax and Underground Utility Districts are two separate ordinances, initially adopted nearly two years apart in the mid-1960s. They do not cross reference each other and are not inextricably linked. The following provides further clarification to make distinction between Underground Surtax and Underground Utility District ordinances.

- The Underground Surtax ordinance prescribes funding for the following purposes: Additions to, and construction and extension of underground utility lines; conversion of overhead to underground utilities; street lighting improvements in connection with such conversions; and replacement and repair of underground utility lines in connection with such conversions within the city.
- Funding for Underground Utility District projects (that is, conversion of all overhead utilities to underground utilities and removing associated above-ground infrastructure) is one of the many allowed uses of the Underground Surtax.
- Underground Surtax funds can and have been used for other projects that do not fall within an Underground Utility District. Some of the examples include Pasadena Water and Power's ("PWP") undergrounding electric utility lines, underground fiber optics and traffic signal systems, street lighting improvements in connection with overhead to underground conversions.
- Choosing to suspend or terminate the Underground Utility Districts Program is a stand-alone decision and does not affect the Underground Surtax Ordinance.
- Choosing whether to suspend or terminate the Underground Surtax is also a separate decision; however:
 - If the decision is made to continue the Underground Utility Districts Program indefinitely, funding from the Surcharge or alternate source will be needed.
 - If the Underground Surtax was suspended for a longer period or terminated, substantial electric rate increases would be required to fund new construction and replacement and repairs of the existing underground utilities like PWP's electric distribution system and related fiber optics communication systems.
 - Alternative funding sources will be required for similar underground City-wide fiber optics communication, street lighting and traffic signal systems.

Historically, most of the Underground Surtax usage has been for Underground Utility District projects. Since actual expenditures on these projects did not occur as rapidly as initially envisioned, the Underground Surtax fund balance grew to approximately \$50.7 million by end of June, 2018. In the fiscal year ("FY") 2019 capital budget, the City Council approved approximately \$6.1 million from Underground Surtax funds for projects related to the underground electric distribution system, fiber optics related communication and traffic signal systems; all within the stated purposes in the Underground Surtax ordinance.

Given that Underground Surtax provides funding for a variety of underground projects ranging from fiber optics communication, street lighting, traffic signals and electric distribution systems spread all across Pasadena for the benefit of public health, safety and welfare, it is prudent and fiscally responsible to continue collecting the Underground Surtax, irrespective of whether the City continues the Underground Utility Districts program. However, were the City to discontinue that program, thought should be given to reducing Underground Surtax rate through a rebate until such time as the fund balance reaches some lower level.

Based on the informal and unscientific voting of residents who attended District meetings, it appears that residents wish to maintain the Underground Utility Districts program.

BACKGROUND:

Community Outreach

To help inform the community about the Underground Utility Districts Program and the options available for its future, PWP implemented a two-phase outreach campaign. Initially, outreach efforts focused on public awareness and educating the community about the program, its accomplishments to date, the current undergrounding schedule, as well as the program's benefits and challenges. The information was made available on PWP's website and other print media along with an educational video. The community was notified about the informational materials through a variety of print and electronic media, and customers were able to ask questions and provide feedback via the website.

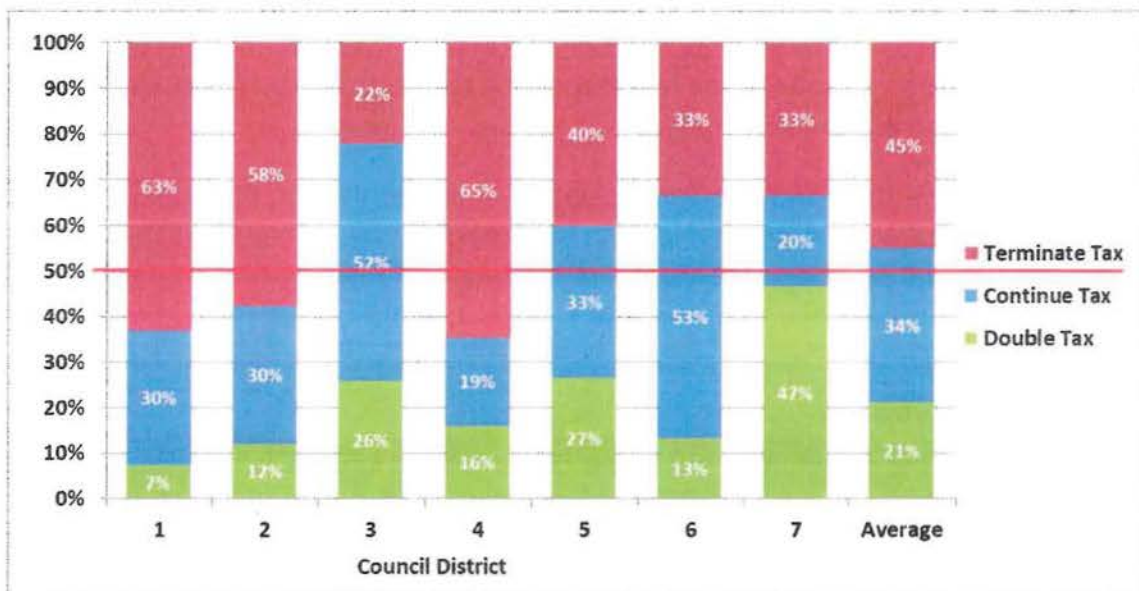
Staff presented this information at community meetings in each City Council District in October and November 2016, and presented three options for the future of the Underground Utility District Program to gauge the community's interest:

1. **Stay the Course:** Continue the Underground Program and Underground Surtax indefinitely at the current pace, completing approximately 0.5 to 0.7 miles per year;
2. **Terminate:** Cease collecting the Underground Surtax and discontinue the Underground Program whenever existing Underground Surtax funds are exhausted; or,
3. **Double Down:** Accelerate the Underground Program by obtaining voter approval to double the Underground Surtax rate and rate of project completion.

This informal polling shows opinion of attendees at these meetings and is not necessarily indicative of the opinion of the entire Pasadena community, and should not be construed as indicative of the vote of the people of Pasadena.

Figure 1 shows the results of an informal polling process conducted by a “show of hands” process at each City Council District meeting by Council District and the overall average. The options have been arranged to show support for continuing the program (bottom two bars) versus terminating the program (top bar). Overall, a slight majority (55%) of those polled supported continuing the program. Four of the seven Council Districts showed a majority support position, while three Council Districts preferred terminating the Underground Program and Underground Surtax.

Figure 1 – City Council District Meeting Attendee Polling Results



PWP also solicited comments on the website. Of 39 opinions submitted from October through December 2016, about 64% favored continuing the program.

Overall, the Community feedback received shows a slight majority in favor of continuing the Underground Utility District Program into the future.

Underground Surtax Rate and Fund Balance

Per the City’s current schedule of taxes, fees, and charges, the Underground Surtax rate starts at 4.34% for the first \$1,000 of electric charges and decreases to 1.21% for amounts over \$25,000. It costs the typical 500 kwh-per-month residential customer approximately \$44 per year. The Underground Surtax generates about \$5.5 million per year, enough revenue to fund the undergrounding of approximately one-half mile of existing overhead utility lines per year. Any increase to the Underground Surtax rates, as would be required to accelerate the Underground Utility Districts Program, would need to be approved by a two-thirds majority vote.

The Underground Surtax generated \$5.8 million in FY2018 and the Underground Utilities Surtax Fund (Fund 206) cash and assets totaled approximately \$50.7 million as of June 30, 2018. Staff anticipates that FY2019 expenditures funded from Fund 206 will be about equal to, or below, the amount of Underground Surtax revenues collected during FY2019 and therefore the end of year fund balance is likely to remain about the same or increase somewhat.

Prescribed Uses of Underground Surtax Fund

The purposes for use of Underground Surtax revenues are stated in PMC Section 4.24.050. These purposes include several uses in addition to the Underground Utility Districts Program. PMC Section 4.24.050 reads as follows:

The finance director is authorized and directed to create a special activity fund for the following purposes: Additions to, and construction and extension of underground utility lines; conversion of overhead to underground utilities; street lighting improvements in connection with such conversions; and replacement and repair of underground utility lines in connection with such conversions within the city. All moneys hereafter collected pursuant to this chapter shall be deposited in said fund.

Although not defined in the Underground Surtax ordinance, PMC Chapter 13.14 - Underground Utility Districts, Section 13.14.020(I) defines "utility" as:

"Utility" means any person or entity supplying electric, communication or similar or associated service by means of electrical materials or devices, whether private or municipally owned.

Thus, Underground Surtax funds could be used for a variety of underground utility capital and operational expenditures not associated with an underground utility district such as:

- a) New construction of underground utility lines (e.g., electric and telecommunications lines, including fiber for communications);
- b) The conversion of existing overhead utility lines to underground facilities;
- c) Street lighting improvements associated with the conversion of existing overhead utility lines to underground facilities; and,
- d) The replacement or repair of underground electric or communications utility lines in connection with such conversions in the City.

The City Attorney has opined that such uses are consistent with the PMC.

Historic Uses of Underground Surtax Fund

At its December 12, 2017 meeting, the Municipal Services Committee requested staff to review historic uses of the Underground Surtax Fund for purposes other than expenses directly related to the Underground Utility Districts Program. In reviewing expenses over the last twenty-plus years, staff has identified nearly \$5.3 million in such capital spending that has been funded from the Underground Surtax fund. Some of the larger expenditures include:

- *Miscellaneous Undergrounding Projects and Customer Rebates*. \$2.71 million funded by the Underground Surtax fund for small undergrounding projects and customers that undergrounded their utility services in areas outside of established districts;
- *La Loma Bridge*. \$2.17 million for underground utility work;
- *Pasadena Ice Rink*. \$258,000 for underground utility improvement plans; and,
- *Public Works Design and Planning for Future Districts*. \$112,000 for design work on anticipated future districts that were placed on hold (majority pre 1997 expenditures).

Current Staff Recommendation

Taking into account public feedback received to date and the authorized uses of the Underground Surtax fund, staff has revised its recommendation to: Continue collecting the Underground Surtax and use the Underground Surtax funds, subject to City Council review and approval, for the purposes stated in PMC Section 4.24.050 in addition to projects associated with underground utility districts created pursuant to PMC Chapter 13.14.

This approach would provide an overall greater community-wide benefit with respect to health and safety from increased reliability of electricity, street lights, traffic and communication networks while reducing the size of future electric rate increases. As an example, on November 14, 2017, the Municipal Services Committee received a presentation on the need to convert the City's aging high voltage street light system to a new low voltage system at an estimated cost of \$21 million. A portion of this work involving repair and replacement of underground utilities and/or conversion of any overhead utilities to underground could be funded by the Underground Surtax, however precise estimates of costs eligible for Underground Surtax funding have not yet been determined.

With recent concerns about potential wildfire risk and associated liabilities for operators of overhead power lines, staff is considering whether undergrounding electrical utilities in certain high risk areas within PWP's service territory would be a viable and cost-effective option to mitigate wildfire risk for the City.

Table I summarizes a conceptual plan for potential uses of Underground Surtax funds over the next five years, including construction of projects in undergrounding districts, customer rebates for undergrounding their electric services, expansion or installation of new underground electric and communications utilities, and eligible expenditures from street lighting, fiber optic communications, and underground communications in support of transit projects. In total, Fund 206 could provide approximately \$22 million for underground utility work that would otherwise be funded from the Light and Power Fund and \$4 million for that would otherwise be funded from the General Fund. These potential Underground Surtax revenues and expenditures are conceptual estimates at this time and would likely change with time.

Table I – Conceptual Underground Surtax Spending Plan (\$000)

Spending Category	FY2019	FY2020	FY2021	FY2022	FY2023	Total
New and Ongoing UG Districts (PW & PWP)						28,495
Hill Avenue	10	0	0	0	0	10
Alpine Street	775	10	0	0	0	785
Raymond Ave	50	750	7,500	7,500	4,500	20,300
Mountain Street	0	0	100	3000	2800	5,900
Future districts	0	0	50	50	1400	1500
Surtax Funded Customer Rebates	50	100	100	100	100	450
PWP Funded Underground Utilities						21,900
Replacement and Repair of Underground Electric Utilities	1,000	1,000	1,000	1,000	1,000	5,000
Construction of Underground Electric Utilities	3,000	3,000	3,000	3,000	3,000	15,000
Construction of Underground Communications Utilities	200	200	500	500	500	1,900
Other Underground Utility Expenses (non-PWP)						4,015
Street Lighting Associated with Overhead to Underground Conversion Projects (PW)	0	500	500	500	500	2,000
Replacement and Repair of Underground Electric Utilities (PW: Street Lights)	0	100	100	100	100	400
Construction of Underground Communications Utilities (DOT: Traffic)	0	200	200	200	200	800
Construction of Underground Communications Utilities (DoIT Telecom Fund)	245	180	150	120	120	815
Total Expenditures	5,330	6,040	13,200	16,070	14,220	54,860

As shown in Table II, this conceptual spending plan would result in a projected Underground Surtax Fund balance of approximately \$29 million at the end of FY 2023.

Table II – Projected Underground Surtax Fund Balance (\$000)

Surtax Fund Summary	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Initial Balance	47,544	50,709	51,479	51,554	44,469	34,444
Revenues	5,777	5,600	5,600	5,600	5,600	5,600
Interest and Misc. Revenues	732	500	515	516	445	344
Subtotal	54,053	56,809	57,594	57,669	50,514	40,388
Total Expenditures	-3,344	-5,330	-6,040	-13,200	-16,070	-14,220
Year-End Fund Balance	50,709	51,479	51,554	44,469	34,444	26,168

COUNCIL POLICY CONSIDERATION:

The recommended use of Underground Surtax funds is consistent with PMC Chapter 4.24 and the City Council's goals to: (i) maintain fiscal responsibility and stability; (ii) improve, maintain and enhance public facilities and infrastructure; (iii) improve mobility and accessibility throughout the City of Pasadena; (iv) support and promote the quality of life and the local economy; and, (v) ensure public safety.

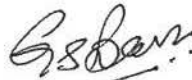
ENVIRONMENTAL ANALYSIS:

The proposed use of Underground Surtax funds is an administrative action that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

The proposed use of the Underground Surtax funds to support new underground utility construction and the replacement and repair of underground utilities constructed as part of the Underground Utility Districts Program consistent with the Underground Surtax ordinance would offset capital expenditures from the Light and Power fund by approximately \$22 million, subject to the City Council's approval, over the next five fiscal years. This would reduce the size of future electric rate increases. In addition, approximately \$4 million in General Fund capital expenditures could be offset by utilizing Underground Surtax funding for portions of such projects that qualify.

Respectfully submitted,



GURCHARAN BAWA
General Manager
Pasadena Water and Power

Approved by:



STEVE MERMELL
City Manager