



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

date, 2012

Mr. John Arntz
Department of Elections
City Hall, Room 48
Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

RE: Proposition X - Ordinance requiring a plan to identify new water and energy resources and end use of the Hetch Hetchy dam and water supply system

Dear Mr. Arntz,

Should the proposed ordinance be adopted, in my opinion, there would be costs and benefits to the City and County. The costs would vary widely depending on how the City implements the ordinance, and on whether or not voters approve a Charter amendment that is specified in the ordinance. Planning costs over the next several years would be no more than \$8 million. Future infrastructure costs could range from \$3 billion to \$10 billion if the voters approve a future Charter amendment. Benefits cannot be accurately determined at this time for the large-scale resource and environmental objectives in the ordinance.

The ordinance specifies a planning process that would require the City to study and create; 1) an implementation plan for new water storage and treatment facilities and energy generation facilities sufficient to replace the capacity currently in the Hetch Hetchy system and; 2) an implementation plan for removal of the Hetch Hetchy Reservoir and environmental restoration of the affected areas and resources. The ordinance requires that the City draft a Charter amendment to allow a public vote in 2016 on these implementation plans. The ordinance specifies a wide variety of water, energy, and environmental goals that must be detailed in the plans, and requires studies of costs and financing methods for each. The water and energy supply plan would require implementation by 2025 and the plan for removal of the dam and related environmental restoration would require implementation by 2035.

There would be near-term costs under the ordinance of a maximum of \$8 million under a provision requiring that the City appropriate funds for the planning effort. This amount is likely to be insufficient to complete the required work—in 2005, the State of California Resources Agency estimated the cost for a comparable planning and study process at \$65 million.

The ordinance specifies that funds for the planning process and studies be appropriated from any legally available source and that other governmental or private sources could supplement City funding.

Significant long-term costs could occur as a result of the ordinance if a Charter amendment is eventually approved by the voters requiring development of new water and energy storage, transmission, and treatment facilities, removal of the Hetch Hetchy Reservoir, and implementation of environmental goals. There are multiple possible methods for approximating these costs and estimates range widely. Under any method, the amounts are certainly substantial—in the billions of dollars. The State’s compilation of estimates shows a range, in 2005 dollars, of not less than \$3 billion, and up to \$10 billion for these facilities and programs, depending on which elements of the water, energy and environmental resource issues are included. This estimate does not include increased operations and maintenance costs associated with the new infrastructure. In addition, the Public Utilities Commission estimates that the loss of hydroelectric energy and lost revenue from energy sales would cost the City an additional \$41 million annually.

The ordinance states that funding sources for the water and energy facilities and the environmental programs that are called for could include federal, state and private sources. Typically, water and energy facilities are funded by issuing 20 to 30 year bonds and the cost of this debt is recovered through charges to ratepayers. If ratepayer bonds were issued to replace Hetch Hetchy and build new water and energy facilities, customers of San Francisco’s water and power utilities would experience rate increases. The Public Utilities Commission estimates that for every \$1 billion in project costs, residential water users in San Francisco would pay between \$60 and \$170 more annually depending on how costs were distributed among local and regional users of the Hetch Hetchy system. For a \$10 billion project, San Francisco users would pay between \$590 and \$1,720 more annually throughout a 30 year bond financing period. As noted above, these large-scale costs would result not directly from the ordinance, but from voter approval of a future Charter amendment that is specified in the ordinance.

Sincerely,

Ben Rosenfield
Controller

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller’s statement appears in the Voter Information Pamphlet.