

AGENDA ITEM 6c
Treasure Island Development Authority
City and County of San Francisco
Meeting of October 11, 2023

Subject: Resolution Authorizing the Adjustment of Fees for Treasure Island Development Authority Utility System Customers on Treasure Island and Yerba Buena Island (*Action Item*).

Contact: Robert Beck, Treasure Island Director

SUMMARY

Treasure Island Development Authority (the “Authority”) provides water, sewer, electric, and natural gas services in areas of Treasure Island and Yerba Buena Island served by former Navy utility infrastructure. To accomplish this task, the Authority contracts with the San Francisco Public Utilities Commission (“SFPUC”) to supply water, electricity and natural gas to the Islands, to operate and maintain the utility infrastructure, and to invoice customers for services.

Through the course of development, newly constructed buildings, including The Bristol on Yerba Buena Island and Maceo May Apartments on Treasure Island, and older buildings served by new infrastructure, like the Administration Building, will become PG&E customers for power and gas services and SFPUC customers for water service. When the new sewage treatment plant is constructed, they will also become SFPUC wastewater customers.

From 1999 to 2014 the fees charged to Treasure Island users for utility services were unchanged resulting in significant under recovery of expenses. Beginning in 2014, increases to the water, sewer, and electric fees were made to bring fees in line with the cost of service. Subsequent increases were made to the water fees in 2015, 2017, 2018 and 2020 to match the increasing cost of water delivered to the islands as the SFPUC implemented its \$4.8 billion Water System Improvement Program. Additional increases were made to gas fees in 2017, to sewer and electric fees in 2020, and to gas and electric fees in 2022 to keep those fees in line with cost of providing service and maintaining utility infrastructure on Treasure Island.

Most recently in early 2023, the Authority was notified by the SFPUC Power Enterprise that prices in the energy market have surged over the past year due to a combination of global and local issues (e.g. global energy shortages caused by trade disruptions and war, delays in new energy facilities due to supply chain delays, extreme winter and summer weather in the United States, etc.). This market increase impacted the SFPUC’s overall cost of power under its contract with the Western Area Power Administration (WAPA) contract through which power is delivered to Treasure Island.

As a result of these issues, the SFPUC's electricity commodity costs in FY23 to serve YBI/Treasure Island came in approximately \$665,000 above what was assumed when TIDA fees were adopted in November 2022. Natural gas rates also trended well above budget resulting in an under-recovery of approximately \$75,000. Due to these unforeseen cost increases, SFPUC Power did not have the sufficient appropriation authority to cover all electricity and gas costs in FY23, and the Authority extended its budgetary authority to assume responsibility over approximately \$740,000 of unexpected costs. The Authority agreed to provide additional budget and pay for 50% of the power/gas overages in the FY23 budget, and the Authority and SFPUC agreed to defray the remaining 50% of power/gas overages under the FY24 budget. In order to account for the overages in power commodity costs and natural gas costs in FY23 and plan for ongoing exposure to volatility in the energy and gas markets, the Authority is recommending a 10% fee increase to power and gas fees.

Secondly, the SFPUC has reported dramatic decreases in the metered water consumption over the last three fiscal years. While TIDA pays a fixed volumetric cost to the SFPUC for water supplied to the island, other costs of delivering water service are relatively fixed. Moreover, the costs of operating the former Navy wastewater treatment plant are largely fixed and the fees for wastewater service are determined by dividing the projected cost of operating the treatment plant and collection system by the projected water usage on the island. As the water usage declines, wastewater service fees must be increased to recover the projected costs of service. We anticipate further declines in metered water usage as certain commercial properties are removed from the leasing portfolio and existing residents relocated from the historical Navy housing to new units constructed on the island. The Authority is, therefore, recommending a 10% fee increase to metered residential water and sewer fees, and a nominal \$45.00 increase to the flat residential utility fee.

These rates exclude certain planned repair and rehabilitation projects on the wastewater system and certain emergency repairs to the electrical, water, or wastewater systems which would be paid out of other Authority funds.

BACKGROUND & FEE HISTORY

The Authority performs Base Caretaker duties on behalf of the United States Navy pursuant to the Base Caretaker Cooperative Agreement, as amended (the "Cooperative Agreement") between United States Navy and the Authority. The Cooperative Agreement was initially signed on March 12, 1997, between the City and the Navy. In November 1998, the Board of Supervisors authorized the Authority to enter into the Cooperative Agreement and assume the City's obligations thereunder. Under the Cooperative Agreement, the Authority is referred to as the "Caretaker."

Obligations of the Caretaker are described generally in Articles I – XI of the Cooperative Agreement, and specific duties of the Caretaker are described in Functional Annexes 1 – 9. Functional Annex 6 – Utilities Services, describes the responsibilities of the Caretaker with respect to operation and maintenance of the utilities systems at Treasure Island and Yerba Buena

Island. The SFPUC has been performing the Caretaker's responsibilities under Functional Annex 6 on the behalf of the Authority.

Utility use fees were initially established by the Navy to defray costs of utility commodities, operations and maintenance. Although the US Navy assigned the Caretaker the responsibility to manage the utility system in 1998, the US Navy continued to set fees through 1999. On October 1, 2000, Modification No. P00013 amended the Cooperative Agreement to allow the Caretaker to establish uniform fees for utilities consumers on Treasure Island and Yerba Buena Island. Section 6.2.3.1 of Functional Annex 6 in Modification No. P00013 provides that the Caretaker will operate and maintain the utility systems on the islands and "defray associated costs through revenues generated by charging uniform fees established by the Caretaker."

Although much of the former base has transferred from Navy ownership to TIDA ownership, the management and operation of the utility systems by TIDA and the SFPUC continue to follow the framework established under the Caretaker agreement for Navy and TIDA lands that have not yet been redeveloped. As new infrastructure is built out and accepted by the SFPUC and PG&E, the buildings served by that new infrastructure will be customers of those utilities and charged rates established by those utilities.

On March 8, 2006, the Authority's Board of Directors adopted Resolution No. 06-17-03/08 approving the establishment of uniform utility fees for all metered utility consumers on Treasure Island and Yerba Buena Island – federal utility consumers had previously been charged fees 15% below other users – and authorized Authority Staff to work with the SFPUC to make future recommendations to the Authority Board regarding utility fee adjustments.

On October 22, 2008, the Authority's Board of Directors adopted Resolution No. 08-63-10/22 which approved and authorized the execution of a Memorandum of Understanding with the SFPUC (the "MOU") which documented, but did not adjust, the electric, water, and sewer utility fees and established procedures for future fee adjustments. The MOU did adjust the pricing for natural gas service to reflect the California Department of General Services cost to purchase natural gas. The MOU called for Authority and SFPUC staff to work together to determine whether fees should be increased or decreased to pass through changes in the cost of supplies and materials and to recover the cost of unanticipated expenses. Under the MOU, when TIDA and SFPUC staff agree that a fee adjustment is necessary, TIDA staff would bring the recommendation to the Authority Board for review and approval.

On September 10, 2014, the Authority's Board of Directors adopted Resolution No. 14-37-09/10, authorizing adjustment of water and sewer metered utility fees for the first time since 1999. Although the required adjustments were substantial, the resulting fees charged on Treasure Island for water and sewer service were consistent with retail service rates charged by the SFPUC elsewhere in San Francisco. The fees for electrical and gas service were unchanged.

On May 13, 2015, the Authority's Board of Directors adopted Resolution No. 15-08-05/13 authorizing adjustment of metered utility fees. Only the fee for water was changed in 2015.

In 2016, the SFPUC made recommendations to TIDA for increases to utility charges for FY 2016-17 and FY 2017-18. However, TIDA elected to spread out the increases and do a single mid-year adjustment in FY 2016-17 instead of two consecutive years of increases.

On January 11, 2017, the Authority's Board of Directors adopted Resolution No. 17-2-0111 authorizing adjustment of utility fees. Effective December 1, 2016 for residential customers and effective July 1, 2017 for non-residential tenants, the fees for water and gas were changed and fees for sewer and power were unchanged.

On January 10, 2018, the Authority's Board of Directors adopted Resolution No. 18-1-0110 authorizing adjustment of utility use fees. Effective December 1, 2017 for residential customers and effective July 1, 2018 for non-residential tenants, the fees for water and gas were changed and fees for sewer and power were unchanged.

On August 12, 2020, the Authority's Board of Director adopted Resolution No. 20-20-0812 authorizing adjustment of utility fees for metered users of water, sewer, electric, and gas services and the per-unit utility fee charged to housing providers.

On November 9, 2022, the Authority's Board of Director adopted Resolution No. 22-20-1109 authorizing adjustment of utility fees for metered electric and gas services.

TIDA staff is seeking the Authority Board's approval for the Treasure Island Director to adopt new utility use fees for metered water, sewer, electric and gas service and the Flat Residential fee effective December 1, 2023 in accordance with the recommendations from Authority staff. See Exhibit A for the current and proposed utility use fees.

DISCUSSION

For electrical, gas and water services, the commodity cost of the electricity/gas/water provided accounts for approximately 70% of the total cost of service. Maintaining the island's aged infrastructure and responding to service calls account for the balance of expenses. By comparison, the costs of providing sewer services are driven primarily by the costs to operate the wastewater treatment plant and the Island's 43 pump stations. The plant and pump stations require round-the-clock supervision and monitoring to keep performance within operating parameters, and equipment routinely require maintenance and repair to keep the system operational.

TIDA and SFPUC staff have analyzed past and projected costs of service and have determined that an adjustment to the water, sewer, gas and electric utility service fees is advisable to address the increased cost of commodities supplied to Treasure Island and anticipated costs of system operation and upkeep. An increase in the fee for metered electric and gas service is consistent with the increased commodity costs of power and natural gas and will allow TIDA to continue implementing measures to improve the reliability of power service on the islands. Similarly, an increase in the fee for metered water and sewer service and to the Flat Residential fee will allow

TIDA to account for projected reduced metered water and sewer usage despite the cost to maintain the current system remaining fixed, or possibly even growing in costs over time. .

If adopted, the proposed utility fees effective December 1, 2023 on Treasure Island would be: (a) Water: \$17.78 per 1,000 gallons (kgal) (unchanged); (b) Sewer Service: \$21.16 per kgal (unchanged); (c) Electricity: \$0.25735 per kilowatt-hour (kWh); and (d) Natural Gas: \$1.02347 per therm. The proposed change in the electric use fees aligns with the SFPUC's currently adopted electric rate for retail customers. Exhibit A to this Staff Report compares these fees to fees currently charged to utility users on Treasure Island and to utility rates in San Francisco.

Residential units on Treasure Island are not individually metered to measure consumption. A uniform utility fee is levied for each residential unit averaging the unmetered consumption of water, electricity and gas across the occupied residential inventory. The monthly utility fee was increased to \$440.00/mo. in July 2020, and Authority staff recommends an increase of \$45.00 to \$485.00/mo. to the monthly fee.

This fee is not charged to residents, but is paid by the housing providers out of rents collected from residents. Rents in the former Navy housing on Treasure Island are inclusive of utility expenses, and housing providers are not allowed to raise the rents of existing tenants to "pass-through" increases in utilities or other expenses.

RECOMMENDATION

Staff recommends that the Authority Board of Directors authorize the adjustment of electric and gas utility fees for metered utility users on Treasure Island and Yerba Buena Island.

Prepared by Jamie Querubin
Finance Manager, TIDA

Attachments:

Exhibit A – Comparison of Current TI Use Fees, Proposed TI Use Fees and SF Retail Rates

EXHIBIT A

Comparison of Current TI Use Fee, Proposed TI Use Fee, and SF Retail Rate

	Current Treasure Island Rate	Proposed Treasure Island Rate	SF Retail FY 2023-24 Rate**
Water - Commercial (\$/kgal)	16.16	17.78	10.32
Water - *Flat Residential (\$/kgal)	16.16	17.78	10.32
Sewer - Commercial (\$/kgal)	19.24	21.16	13.42
Sewer - *Flat Residential (\$/kgal)	19.24	21.16	13.42
Power - Commercial (\$/kWh)	0.23395	0.25735	0.25675
Power - *Flat Residential (\$/kWh)	0.23395	0.25735	0.25675
Gas - Commercial (\$/therm)	0.93043	1.02347	n/a
Gas - *Flat Residential (\$/therm)	0.93043	1.02347	n/a
Flat Residential Utility Fee (\$/month)	440.00	485.00	

* - Residential units are not individually metered. Total consumption is averaged to establish a uniform utility charge per unit.

** - SF Retail Rates provided by SFPUC, from Rates Schedules and Fees effective July 1, 2023. There is no SFPUC Gas Enterprise so a comparable retail rate is not provided.

1 [Resolution Authorizing the Adjustment of Utility Fees]

2 **Resolution Authorizing the Adjustment of Fees for Treasure Island Development**
3 **Authority Utility System Customers on Treasure Island and Yerba Buena Island.**

4 WHEREAS, Former Naval Station Treasure Island is a military base located on
5 Treasure Island and Yerba Buena Island (together, the "Base"), which is currently owned by
6 the United States of America, acting by and through the Department of the Navy (the "Navy");
7 and,

8 WHEREAS, The Base was selected for closure and disposition by the Base
9 Realignment and Closure Commission in 1993, acting under Public Law 101-510, and its
10 subsequent amendments; and,

11 WHEREAS, On March 12, 1997, the City and the Navy entered into the Base
12 Caretaker Cooperative Agreement ("Cooperative Agreement") for the management and
13 operation of the Base; and,

14 WHEREAS, In November 1998, the Board of Supervisors authorized the Treasure
15 Island Development Authority (the "Authority") to assume the City's obligations under the
16 Cooperative Agreement; and,

17 WHEREAS, The San Francisco Public Utilities Commission (the "SFPUC") has
18 performed the Authority's responsibilities under Functional Annex 6 – Utilities Services,
19 including the operation and maintenance of the utility systems and the delivery of utilities
20 services to the Base, as a contract provider to the Authority; and,

21 WHEREAS, On October 1, 2000, the Cooperative Agreement was amended by
22 Modification No. P00013, to allow the Authority, as the Caretaker under the Cooperative
23 Agreement, to establish uniform fees for utilities consumers on the Base; and,

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1 WHEREAS, On March 8, 2006, the Authority's Board of Directors adopted Resolution
2 No. 06-17-03/08 establishing uniform utility use fees for all metered utility consumers on
3 Treasure Island and Yerba Buena Island, including federal utility consumers, and authorizing
4 Authority Staff to work with the SFPUC to make further recommendations to the Authority
5 Board regarding future utility fee adjustments; and,

6 WHEREAS, Residential rents on Treasure Island are inclusive of utility expenses and
7 housing providers may not raise the rents of existing tenants to pass-through increases in
8 utilities or other expenses; and,

9 WHEREAS, On October 22, 2008, the Authority's Board of Directors adopted
10 Resolution No. 08-63-10/22, authorizing a Memorandum of understanding with the SFPUC
11 documenting the utility fees in place since 1999, adjusting the fee for gas service, and
12 directing Authority and SFPUC staff to review fees on an as-needed basis and to make
13 recommendations to the Authority Board on future utility use fee adjustments; and,

14 WHEREAS, On September 10, 2014, the Authority's Board of Directors adopted
15 Resolution No. 14-37-09/10, authorizing the adjustment of utility fees; and,

16 WHEREAS, On May 13, 2015, the Authority's Board of Directors adopted Resolution
17 No. 15-08-05/13, authorizing the adjustment of utility fees, and only the water fee was
18 changed; and

19 WHEREAS, On January 11, 2017, the Authority's Board of Directors adopted
20 Resolution No. 17-2-01/11, authorizing the adjustment of utility use fees effective December
21 1, 2016 resulting in a mid-year adjustment to utility fees for water and gas; and

22 WHEREAS, On January 10, 2018, the Authority's Board of Directors adopted
23 Resolution No.18-1-0110, authorizing adjustment of utility fees effective December 1, 2017 for
24 residential customers and effective July 1, 2018 for non-residential tenants, the fees for water
25 and gas were changed and fees for sewer and power were unchanged; and

1 WHEREAS, On August 12, 2020, the Authority's Board of Directors adopted Resolution
2 No. 20-20-0812, authorizing adjustment of utility fees for metered users of water, sewer,
3 electric, and gas services and the per-unit utility fee charged to housing providers; and

4 WHEREAS, On November 9, 2022, the Authority's Board of Directors adopted
5 Resolution No. 22-20-1109, authorizing adjustment of utility fees for metered users of electric
6 and gas services; and

7 WHEREAS, Newly constructed buildings, including The Bristol on Yerba Buena Island
8 and Maceo May Apartments on Treasure Island, and older buildings served by new
9 infrastructure, like the Administration Building, will be PG&E customers for natural gas
10 services and SFPUC customers for electricity and water service and, after completion of the
11 new wastewater treatment plant, will be SFPUC customers for sewer service; and

12 WHEREAS, In preparation for the 2023-2024 Fiscal Year, Authority staff have reviewed
13 with the SFPUC projected utility demand and operating costs and recommend adjustments in
14 all utility use fees to reflect the increased projected operating costs for Treasure Island utility
15 systems for the 2023-2024 Fiscal Year; and,

16 WHEREAS, The age and condition of the utility infrastructure; the commodity costs for
17 electricity and natural gas; and staffing levels required for system operation provide little
18 margin for operation cost reductions; now, therefore, be it

19 RESOLVED, That the Board of Directors hereby approves the adjustment of electric,
20 gas, water, and sewer utility fees charged to metered utility users on Treasure Island and
21 Yerba Buena Island and the utility usage fee assessed to residential property managers to
22 allow TIDA to recover the projected cost of providing utility services; and be it

23 FURTHER RESOLVED, That the adjusted metered fees effective December 1, 2023
24 will be: Water: \$17.78 per kGal; Sewer: \$21.16 per kGal; Electricity: \$0.25735 per kilowatt-
25 hour (kW-hr); Natural Gas: \$1.02347 per therm., and \$485.00/month for each residential unit.

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CERTIFICATE OF SECRETARY

I hereby certify that I am the duly elected Secretary of the Treasure Island Development Authority, a California nonprofit public benefit corporation, and that the above Resolution was duly adopted and approved by the Board of Directors of the Authority at a properly noticed meeting on October 11, 2023.

Mark Dunlop, Secretary