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CITY COUNCIL AGENDA

DATE: July 13, 2017

TO: CITY COUNCIL

FROM: JENNIFER CALLAWAY, ADMINISTRATIVE SERVICES DIRECTOR JC

SUBJECT: PG&E RULE 20A UNDERGOURND UTILITY CREDITS

RECOMMENDATION:
CONSIDER AUTHORIZING THE CITY ADMINISTRATOR TO NEGOTIATE THE SALE OF THE CITY'S RULE 20A PG&E CREDITS

BACKGROUND:

The California Public Utility Commission (CPUC) requires electrical utilities to set aside work credits each year for the undergrounding of existing overhead utilities. The program requirement is commonly referred to as "Rule 20A." Since 1967, overhead utilities in California have been underground through the CPUC's Rule 20. The CPUC created Rule 20 as a means of eliminating the visual blight of utility poles with cross arms, wires, transformers and associated hardware. Besides the aesthetic improvement to the general neighborhood, some properties can realize view enhancements. The intent of these Rule 20A allocations is for them to be used to: 1) fund current utility undergrounding projects, 2) reserve the credits for future projects, and/or 3) borrow from up to five years' worth of future credits for current projects.

Under Rule 20A, undergrounding is paid through accumulated or acquired credits from the electric utility provider (PG&E). Rule 20A credits are established under CPUC approved formula, with an annual accrual to each community serviced by PG&E. The City of Sonora currently has $1,226,284 in Rule 20A credits and annually accrues $29,992 worth of credits.

DISCUSSION:

Cities and Counties are able to trade or sell unallocated Rule 20A credits. There are examples of municipalities selling their unused credits for less than full dollar value of the credits themselves.

By example, following negotiations and Council approval in July 2013, the City of Newport Beach entered into a memorandum of Understanding (MOU) with the City of Mission Viejo to purchase unallocated Rule 20A credits at a cost of $0.55 on the dollar. Mission Viejo also granted Newport Beach the first right of refusal to purchase future Rule 20A allocations between July 1, 2013 and July 1, 2015 at the same rate of $0.55 on the dollar. Mission Viejo agreed to sell its credits because it did not have undergrounding projects planned for the near future.

Similarly, the City of Foster City recently negotiated the transfer of over $400,000 of its Rule 20A credits to the City of Half Moon Bay for $0.46 on the dollar.

Staff contacted the PG&E representative for undergrounding to understand process. According to the representative, cities and counties can create agreements between themselves to transfer Rule 20A credits under varying conditions as long as they provide PG&E documentation of the agreement. Such documentation could include a letter on City letterhead accompanied by a Council approved Resolution authorizing the agreement and sale.

A list of cities with qualifying Rule 20A projects is available on the PG&E website. Staff has reached out to six of those Cities to gauge interest level in possibly purchasing the City's credits. One City is already in negotiations to purchase credits from another jurisdiction, and one City is definitely interested and needs approximately $1 million in credits for an imminent project. Should the Council wish to pursue this option, staff would reach out to additional cities and begin negotiating price.

Use of PG&E Allocation

Utility undergrounding is very expensive and financial projections indicate that the City would likely not have enough available credits or funds to augment those credits to complete an undergrounding project in the near future. This is especially true when consider the more imminent existing infrastructure, maintenance and repair projects that are needed.

The City Engineer was consulted to determine possible projects and use of the allocations. The City Engineer identified at least four areas, Mono Way, Stewart St, S. Washington St., and N. Washington St, where undergrounding would benefit the City. While the primary intent of the PG&E Rule 20A credits is beautification and to help eliminate blight, the City Engineer felt that utilizing the PG&E Rule 20A credits would be in alignment with the Vision Sonora plan. The City Engineer recommends that the City retain the funds and either utilize them to complete a small project or continue to allow them to accrue until a larger project can be completed. Based on staff's review of other Cities that have completed projects, it is estimated to cost approximately $2,800 per linear foot to underground distribution lines. Higher voltage transmission lines would be even more expensive. With the Cities current balance of $1.2 million dollars the City could undertake an undergrounding project of approximately 440 linear feet in distance. In addition, there would be a cost to underground individual services. Previously, cities used Redevelopment funds for this purpose, if within a Redevelopment area. With the dissolution of the Redevelopment Agency this would now be a property owner cost.

Use of Revenue

If the City Council were to approve the sale of the PG&E credits and staff is able to negotiate agreeable terms at a fair price, the City would generate one-time funds from the sale of the Rule 20A credits. These one-time funds should not be used for on-gong expenditures but could be allocated in any number of ways. As an example, five possible options for use of the funds are identified and briefly discussed below:

Option 1: General Fund Reserves - Reimburse general fund reserves for excess expenditures over revenues incurred during FY 2016/17.

Option 2: Establish Dedicated Reserves - Use revenues to seed four separate reserve funds, (1) Equipment Replacement; (2) Facilities Maintenance; (3) Vehicle Maintenance; and (4) Capital Improvement. These funds would then be set aside to fund repair, maintenance to city facilities, equipment and vehicles as well as the development of a capital improvement plan. Staff's recommendation would be to continue to fund these reserves at some level on an annual basis to maintain funding for future needs.

Option 3: PERs Side-Fund – Pay down the City's PERS Side Fund for the miscellaneous classification, which is approximately $800,000. This would reduce current payments and save the City on interest payments to PERS.

Option 4: IRS Pension Trust – Establish an IRS Section 115 Pension Trust, which accumulates assets to pre-fund the unfunded liabilities. The City would make periodic payments to the trust over time, building an asset portfolio that is irrevocably dedicated to funding pension obligations. The trust can be set-up with alternative investment objectives from the aggressive approach used by CalPERS, which could serve as a hedge against the volatility of placing all the City's available funds into the CalPERS Pension Trust. The City would retain local control of the trust and therefore, in future budget years where there are fiscal challenges, the City could draw monies out of this trust to pay for pension expenditures, freeing other General Fund operating revenues to be used for other expenditure categories. In addition, monies can be transferred out of this trust at any time with Council approval to fund additional discretionary payments to pay down CalPERS unfunded liability.

Option 5: City Control Pension Reserve – Establish a City Pension OPEB Reserve. This would keep funds with the City and under the City's control and discretion if the Council wishes to later use the funds for something else.

Staff would explore these five options and any others for Council consideration and direction should the City reach agreement to sell the Rule 20A credits.

Conclusion

The Finance Committee met on Friday, July 14, 2017 to discuss the sale of Rule 20A credits. An update as to the Committee's recommendation will be provided to the full Council during the

Council meeting. It is staff's recommendation that the Council authorize the City Administrator to negotiate the sale of the City's PG&E credits. With this authorization the City Administrator can negotiate price, terms and conditions and bring back a final contract for City Council consideration.