



MEMORANDUM

TO: Supervisor Scott Wiener

FROM: Drew Murrell, Controller's Office

CC: Ben Rosenfield, Controller

DATE: June 13, 2014

SUBJECT: Financing Options for Undergrounding City Utility Lines

Request:

This memo is in response to your request for an analysis of financial options for undergrounding city utility lines.

Financial Options:

There are approximately 470 miles of City utility lines that have not been undergrounded. The estimated cost to underground these lines totals \$3.6 billion, given an estimated undergrounding cost of \$7.56 million per mile. Existing funding allowances for this work, provided through the Rule 20A Undergrounding Program, have effectively been advanced for the next twenty years to complete prior work. We have reviewed three primary revenue strategies that could be pursued to fund the undergrounding program:

- **General Funds.**

Annual General Fund cash investments of approximately \$140 million would be required to complete approximately 18 miles of undergrounding annually and the overall program over a 25 year program horizon. To provide some relative scale, this value exceeds the current year General Fund capital budget for all City assets by more than 40%. Implementation over a 50 year horizon and approximately 9 miles per year would require approximately \$71 million annually, and \$35 million annually would be required to complete 4.5 miles annually and to meet a 100 year project schedule.

- **General Obligation Bonds.**

General obligation bonds (or G.O. bonds) are often used to fund large scale capital programs and projects, and require a 2/3rds vote of the electorate to approve. G.O. bonds are paid back over time through a property tax charge established to service the annual debt service on the bonds. To finance \$3.6 billion in G.O. bonds in order to complete the program in 25 years, with the bonds amortized over a comparable period, would result in an incremental 0.16% property tax

override rate, or an increase of approximately \$786 (13%) in annual property tax payments for a typical \$500,000 home. Structuring this program to be completed over 50 or 100 years through two sales would result in approximate property tax rate increases of \$393 (7%) and \$197 (3%) respectively for the same \$500,000 home. These figures reflect planning estimates; the actual timing and staging of bond issuances would affect ultimate property tax rates.

- **Utility User Taxes.**

The City’s current utility user tax (or UUT) for gas and electric services is 7.5% and only applies to commercial customers. Broadening the tax to residential customers would generate approximately \$30 million annually that could be applied to fund an undergrounding program. For the average residential customer this would result in an approximately \$9.30 increase to their monthly gas and electric bills. These revenues would be sufficient to underground approximately four miles annually, resulting in an overall program schedule of approximately 118 years. In addition to expansion of the utility user tax to residential customers, the commercial utility tax could be raised from 7.5% to 10%, generating an additional \$28 million annually.

Combined, these combined utility user tax increases would generate approximately \$58 million annually, sufficient to underground approximately 7.6 miles per year and to complete the overall program in approximately 62 years. These increases would require adoption by the electorate by a 2/3rds vote, assuming the increase was dedicated to this purpose.

Option	Annual Value	Annual Miles	Years to Complete
General Fund Subsidy			
	\$ 142.0	18.8	25
	\$ 71.0	9.4	50
	\$ 35.5	4.7	100
General Obligation Bond			
Leverage Property Tax Increase of 13%	\$ 142.0	18.8	25
Leverage Property Tax Increase of 7%	\$ 71.0	9.4	50
Leverage Property Tax Increase of 3%	\$ 35.5	4.7	100
Utility User Tax			
Apply to residential customers	\$ 30.0	4.0	118
Increase from 7.5% to 10%	\$ 27.7	3.7	128
Total	\$ 57.7	7.6	62