CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Government Audit and Oversight Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 2, 2025 Government Audit and Oversight Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a Memorandum of Agreement (MOA) between Daly City and the San Francisco Public Utilities Commission (SFPUC) to formally establish the partnership, delineate responsibilities, and commit up to $35 million for funding, construction, and operation of the Vista Grande Drainage Basin Improvement Project. The agreement has a five-year term and is effective upon approval of the proposed resolution.

Key Points

- The Vista Grande Project is a joint effort between Daly City and the SFPUC focused on improving the Vista Grande watershed, canal, and tunnel system which is currently undersized to handle peak storm flows. The systems run from Daly City to Fort Funston.
- Due to increased urban development, ground absorption rates in the area have decreased, resulting in excess runoff entering the canal and tunnel system, causing storm-related flooding and property damage in Daly City and around Lake Merced. This diversion has also contributed to the decreasing Lake Merced water levels and water quality.
- The Vista Grande Drainage Basin Improvement Project will upgrade the canal and tunnel system to improve stormwater flow and potentially divert it to Lake Merced instead of the ocean. The project is currently in pre-construction.

Fiscal Impact

- The proposed MOA would approve SFPUC's contribution of up to $35 million for the $172 million project with Daly City. Daly City is responsible for the remaining project costs.
- No funds have been spent to date toward the $35 million, but the SFPUC did previously contribute $205,500 for planning and design.
- In addition to the $35 million commitment, the SFPUC will spend $3 million to manage required mitigation plantings within the Lake Merced area for five years.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Vista Grande Drainage Basin Improvement Project

The Vista Grande Project is a joint effort between Daly City and the San Francisco Public Utilities Commission (SFPUC) focused on improving the Vista Grande watershed, canal, and tunnel system. The watershed is located primarily in Daly City and unincorporated San Mateo County, [1] with a portion in southern San Francisco around Lake Merced.[2] The canal and tunnel system, built in the 1890s and now operated by Daly City, collects, treats, and diverts stormwater from the watershed to the Pacific Ocean. However, due to increased urban development, ground absorption rates have decreased, resulting in excess runoff entering the system. During storms, this causes storm-related flooding and property damage in adjacent low-lying residential areas in Daly City, as well as uncontrolled overflows from the canal across John Muir Drive into Lake Merced. Exhibit 1 below shows a map of the area.

[1] A watershed is a land area that channels rainfall and snowmelt to creeks, streams, and rivers, and eventually to outflow points such as reservoirs, bays, and the ocean.

[2] The SFPUC maintains Lake Merced for recreation and as a wildlife habitat, while retaining the capability to use the lake as a non-potable emergency water supply.

Exhibit 1: Vista Grande Drainage Basin Improvement Project Area

Source: SFPUC

Additionally, Lake Merced has experienced a decline in water levels. These declines are generally attributed to the diversion of stormwater away from the lake following the construction of the Vista Grande canal and tunnel in 1897, as well as 20th-century urban development, drought conditions, and regional groundwater pumping. Lake Merced is owned and maintained by the SFPUC.

The existing Vista Grande canal serves as the only stormwater outlet for northwestern Daly City. The existing canal and tunnel do not have adequate hydraulic capacity to convey peak storm flows to the Pacific Ocean.[3] Furthermore, at the Pacific Ocean outlet (Fort Funston), coastal erosion has highlighted the existing tunnel structure, necessitating its replacement.

According to SFPUC, concerns over low lake levels led to stakeholder complaints filed with the State Water Resources Control Board in approximately 2009, naming Daly City and the SFPUC, which culminated in the Vista Grande Project.

The Vista Grande Drainage Basin Improvement Project aims to improve stormwater flows in the Vista Grande watershed by upgrading the capacity of the canal and tunnel system and enabling the potential to divert stormwater from the canal to Lake Merced rather than into the ocean. The project is currently in the pre-construction phase.

[3] Currently, the canal can handle 500 Cubic Feet Per Second (CFPS). However, the tunnel can only handle 275 CFPS, leading to overflow during storms.

Environmental Review

On December 11, 2017, Daly City (serving as the lead agency) certified a Final Environmental Impact Report (EIR) for the Vista Grande Drainage Basin Improvement Project under the California Environmental Quality Act (CEQA).

On June 9, 2025, Daly City adopted an Addendum to the Final EIR. The Addendum addressed Project modifications, permit conditions, and construction staging changes, including canal staging, water recirculation, Lake Merced habitat restoration (required by the California Coastal Commission), using the Pacific Rod and Gun Club, and revising Fort Funston as work areas, updating power to diesel generators, using ventilation fans, and removing Ocean Outlet wing walls. Daly City adopted and implemented CEQA findings and mitigation measures.

The EIR/EIS identified significant and unavoidable impacts related to the loss of historic structures (tunnel and canal) and the alteration of coastal landforms. According to SFPUC staff, concerns regarding these impacts have primarily been raised by the California Coastal Commission; however, stakeholders are generally supportive of the project as it addresses long-standing flooding issues and the challenges of managing lake levels. The California Coastal Commission required habit restoration as part of its approval of the project.

On July 8, 2025, the SFPUC Commission approved and authorized the General Manager of the SFPUC to execute a Memorandum of Agreement (MOA) with Daly City.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a Memorandum of Agreement (MOA) between Daly City and the San Francisco Public Utilities Commission (SFPUC) to formally establish the partnership, delineate responsibilities, and commit up to $35 million for funding, construction, and operation of the Vista Grande Drainage Basin Improvement Project. The agreement has a five-year term and is effective upon approval of the proposed resolution.

This is in addition to the $205,500 that the SFPUC previously provided for planning and design, and the $3 million estimate of internal SFPUC costs for managing the required mitigation plantings within the Lake Merced area in the five years after construction is complete.[4]

Scope of Project

The project will upgrade the drainage system capacity to handle a 25-year storm (a large storm event with a 4 percent chance of occurring in any given year) by upgrading the tunnel capacity to match the canal's and replacing approximately 1,500 feet (42 percent) of the canal's 3,600-foot length with new structures, including a collection box and debris screening device, creating a new

[4] The mitigation plantings include 10 acres of native plant habitat restoration (including arroyo willow riparian, freshwater marsh, and coastal scrub species) mandated by the California Coastal Commission to compensate for the loss of environmentally sensitive habitat areas and coastal wetlands caused by the increase in Lake Merced's water elevation to its former level.

connection to divert treated stormwater into Lake Merced, and restoring 10 acres of habitat (including constructing 2.6 acres of treatment wetland).

The project aims to reduce uncontrolled overflows, enhance stormwater quality, and increase Lake Merced levels to mitigate the impacts of the SFPUC's implementation of the Regional Groundwater Storage and Recovery and San Francisco Groundwater Projects.

Duration and Timeline

Construction for the Project is scheduled to last for five years, from August 4, 2025, to August 31, 2030. This initiative is Phase 1 of the SFPUC's broader "Lake Merced Water Level Restoration Project". Phase 2 was a component of the broader restoration project, which entailed the design and installation of a device to add oxygen to Lake Merced to improve water quality, at a cost of approximately $800,000. Phase 2 construction was completed in 2017 and is not part of the current scope of work. Phase 3 is a future, SFPUC-led initiative that will install a new pipeline to divert highly treated recycled water into Lake Merced to improve water levels and water quality. For five years after the project, SFPUC is responsible for maintaining the mitigation plantings required by the California Coastal Commission.

Memorandum of Agreement Terms

The purpose of the MOA is to identify the Parties' respective obligations for implementing the Project.

Roles and Responsibilities

Daly City

Daly City is responsible for all project capital costs exceeding the SFPUC's $35 million contribution, including real estate acquisition, permits, and California Coastal Commission mitigation measures (design, installation, and the initial five years of a ten-year monitoring and maintenance period for plantings). They will also cover wastewater treatment costs for temporary stormwater diversion during construction, as well as an estimated $200,000 for temporary relocation and support of SFPUC utility infrastructure.

As the lead CEQA agency, Daly City will manage all project contracts and solicit bids for a general contractor upon receipt of the permits. Responsibilities include constructing and operating key infrastructure, managing stormwater diversion to Lake Merced, and implementing water quality monitoring and mitigation measures required by federal and state environmental acts.

SFPUC

The SFPUC will provide up to $35 million (approximately 27 percent of the total estimated project cost) and continue monitoring Lake Merced's water quality. After Daly City's initial five-year management, the SFPUC will manage mitigation planting maintenance for years six through ten, with an estimated cost of $3 million for plant/infrastructure repair, replacement, and staffing. However, Daly City will remain responsible for all required monitoring and reporting to the California Coastal Commission throughout the entire 10-year monitoring and reporting period.

The SFPUC also must share data with Daly City on Lake Merced water levels/quality, groundwater pumping, emergency notices, and lake connection changes.

Consultants

No general contractor is currently in place. Daly City anticipates issuing an open bid in the fall of 2025. The MOA specifies that the selected contractor will be an independent contractor of Daly City, not an agent or employee of the SFPUC. However, Daly City must provide the SFPUC with ten business days to review any proposed modifications or change orders to construction contracts.

FISCAL IMPACT

The proposed MOA would approve SFPUC's contribution of up to $35 million for the $172 million project with Daly City.[5] Daly City is responsible for the remaining project capital. Exhibit 2 below details the project budget.

No funds have been spent to date toward the $35 million, but the SFPUC did previously contribute $205,500 for planning and design. In addition to the $35 million commitment, the SFPUC estimates an internal cost of $3 million for management of the required mitigation plantings within the Lake Merced Tract in years six through ten.

Exhibit 2: Project Budget

Category	Amount
Design	$11,600,000
Environmental	4,700,000
Permitting	2,000,000
Bid and Award	200,000
Construction	141,300,000
Construction Management and Engineering Support	12,200,000
Total	**$172,000,000**

Source: SFPUC

Rationale

The SFPUC determined the $35 million amount based on the estimated volume of water benefit (including diversions to Lake Merced and recharge to the underlying aquifer),[6] evaluated against

[5] The initial construction cost was $130 million. However, on September 18, the SFPUC informed us that Daly City's increased the projected cost to approximately $141 million. The San Francisco Public Utilities Commission's contribution will remain $35 million.

[6] The Vista Grande project is expected to provide an additional 210 acre-feet per year (AFY) of water supply, with approximately 94 AFY flowing into the lake and 116 AFY into the aquifer. The existing water treatment facilities in

the average cost of existing groundwater and recycled water projects over a 30-year capitalization period with escalation.

Ongoing Expenditures

The SFPUC project will spend $3 million for maintaining mitigation plantings for five years, as shown below in Exhibit 3. SFPUC staff indicate that these funds cover internal costs for plant and infrastructure repair/replacement, as well as expenses for SFPUC, Recreation and Park Department staff, and consultants.

Exhibit 3: SFPUC Maintenance Costs

Category	Annual Cost	5-Year Total
Staff Costs (Field World & Project Management)	$400,000	$2,000,000
Equipment, Irrigation & Plant Replacement	$200,000	$1,000,000
Total	**$600,000**	**$3,000,000**

Source: SFPUC

In addition to all project capital costs in excess of SFPUC's contribution amount, Daly City is responsible for other costs, including acquiring Project-related real estate, permits, wastewater treatment costs for the temporary diversion of stormwater during construction, and temporary relocation of SFPUC utility infrastructure, and maintenance of mitigation plantings (years one through five).

Funding Source

Funding is allocated from the Water Enterprise capital revenues, which include customer revenues, revenue bonds, and other government loans and grants.

RECOMMENDATION

Approve the proposed resolution.

San Francisco collectively produce about 9,050 AFY. Over a 30-year capitalization period, the combined cost per acre-foot is estimated at $5,508. This suggests a potential capital cost value of approximately $35 million for the project.