

File No. 240452

Committee Item No. 10

Board Item No. 2

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Appropriations Committee Date May 22, 2024

Board of Supervisors Meeting Date June 11, 2024

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Motion                                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Resolution                                   |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Youth Commission Report                      |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| • MYR Submittal Letter 5/1/2024     |                                     |  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Form 126 – Ethics Commission                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Public Correspondence                        |

#### OTHER (Use back side if additional space is needed)

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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <u>MYR 30-Day Waiver Request 5/1/2024</u>                   |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <u>Presidential Action Memo – Temp Assignment 5/21/2024</u> |
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Completed by: Brent Jalipa Date May 17, 2024

Completed by: Brent Jalipa Date \_\_\_\_\_

# CITY AND COUNTY OF SAN FRANCISCO

## PUBLIC UTILITIES COMMISSION CAPITAL PROJECTS BUDGET AND SUPPLEMENTAL APPROPRIATION ORDINANCE

AS OF MAY 1, 2024



File No. 240452

Ordinance No. \_\_\_\_\_

FISCAL YEAR ENDING JUNE 30, 2025 and  
FISCAL YEAR ENDING JUNE 30, 2026

**AN ORDINANCE APPROPRIATING ALL ESTIMATED CAPITAL PROJECT RECEIPTS  
AND ALL ESTIMATED CAPITAL PROJECTS EXPENDITURES FOR THE  
PUBLIC UTILITIES COMMISSION**

**FOR THE FISCAL YEAR ENDING JUNE 30, 2025**

**and**

**THE FISCAL YEAR ENDING JUNE 30, 2026**

BE IT ORDAINED BY THE PEOPLE OF THE CITY AND COUNTY OF SAN FRANCISCO

**SECTION 1.** The amounts of estimated receipts, income, prior-year fund balance, prior-year reserves, de-appropriations, and revenue enumerated herein are hereby appropriated to the funds and departments indicated in this ordinance for the purpose of meeting appropriations herein provided.

**SECTION 2.** The amounts of proposed expenditures are hereby appropriated to the funds and departments as enumerated herein. Each department for which an expenditure appropriation is herein made is hereby authorized to use, in the manner provided by the law, the amounts so appropriated for the purposes specified in this appropriation ordinance.

**SECTION 3.** The Controller is authorized to record transfers between funds and adjust the accounting treatment of sources and uses appropriated in this ordinance as necessary to conform to Generally Accepted Accounting Principles and other laws.

**SECTION 4.** Of the appropriated amount enumerated herein, \$3,020,068 in fiscal year 2024-25 and \$2,952,074 in fiscal year 2025-26 representing 0.2% of the expenditure budget net of bond financing and audit costs, shall be allocated to support the Controller's Audit Fund, pursuant to Charter Appendix F1.113; and \$772,318 in fiscal year 2024-25 and \$751,934 in fiscal year 2025-26 representing 0.05% of gross bond proceeds, shall be allocated to support the Public Utilities Commission Revenue Bond Oversight Committee, pursuant to Administrative Code Section 5A.31 (and only allocated to the Revenue Bond Oversight Commission if the term of that commission is extended by a separate Board of Supervisors' action). These appropriations may be decreased by the Controller based on changes to expenditure appropriations or actual gross bond proceeds to conform to the applicable Charter and Administrative Code formulas.

**SECTION 5.** \$1,551,317,002 in fiscal year 2024-25 and \$1,510,763,748 in fiscal year 2025-26 of the total appropriation in the respective fiscal year, is hereby placed on Controller's Appropriation Reserve, as set forth below. Release of appropriation reserves by the Controller is subject to the Controller's certification of funds availability, including proceeds of any Financing (defined below), and for construction related expenditures (excluding program management, planning and design) for these projects, as applicable, is also subject to the prior occurrence of the SFPUC's and the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects, following review and consideration of completed project related environmental analysis, where required.

**SECTION 6.** Associated bond financing costs up to \$227,544,360 in fiscal year 2024-25 and \$222,270,486 in fiscal year 2025-26 are also hereby appropriated, including but not limited to, issuance costs, debt service reserve, capitalized interest, rating agency, and disclosure costs, all on Controller's Reserve pending receipt of bond proceeds. To the extent that net available bond proceeds after financing costs are more than budgeted, the SFPUC may use such surplus bond proceeds as a substitute for other sources budgeted in this ordinance.

**SECTION 7.** This Board, by Ordinance No. 03-16, authorized the SFPUC to enter into one or more State of California State Water Resources Control Board Installment Sale Agreements under the Clean Water State Revolving Fund (State Loan Funds), and amended and supplemented Ordinance No. 89-10 to authorize, in addition to the issuance of Water revenue bonds, the execution and delivery of State Loan Funds to finance projects, provided that any such indebtedness shall not exceed in an aggregate principal amount \$1,737,724,038. Ordinance No. 03-16 also authorized the SFPUC to accept State Water Resources Control Board Grant funds (State Grant Funds) to be applied to pay for the costs of the San Francisco Westside Recycled Water Project, as approved by SFPUC Commission Resolution No. 15-0196, adopted September 22, 2015. The Board is concurrently considering with this Ordinance a SFPUC Water Revenue Bond issuance, including authorization to obtain State Loan Funds or Federal Loan Funds, not to exceed \$1,035,007,350. The Sources of Funds herein appropriated in Section 1 of this Ordinance, or previously appropriated by Ordinance 103-14, may include State Loan Funds, State Grant Funds, Federal Grant Funds, or Federal Loan Funds when available, subject to compliance with the terms of the authorizing legislation for such Funds.

**Department: PUC Public Utilities Commission**

		2024-25 Proposed Budget		2025-26 Proposed Budget	2025-26 Change From 2024-25
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**Uses Summary**

Capital Outlay		1,558,539,859		1,566,367,820	7,827,961
Debt Service		227,544,360		222,270,486	(5,273,874)
Services Of Other Depts		3,020,617		2,952,637	(67,980)
<b>Total Uses by Chart of Accounts</b>		<b>1,789,104,836</b>		<b>1,791,590,943</b>	<b>2,486,107</b>

**Sources Summary**

Other Revenues		7,688,119		8,046,458	358,339
IntraFund Transfers In		236,780,933		279,675,973	42,895,040
Other Financing Sources		1,544,635,784		1,503,868,512	(40,767,272)
General Fund Support					
<b>Total Sources by Chart of Accounts</b>		<b>1,789,104,836</b>		<b>1,791,590,943</b>	<b>2,486,107</b>

**Fund Summary**

CleanPowerSF		582,260		516,430	(65,830)
Hetch Hetchy Water and Power		136,860,092		215,584,524	78,724,432
San Francisco Water Enterprise		622,415,132		631,953,637	9,538,505
San Francisco Wastewater Ent		1,029,247,352		943,536,352	(85,711,000)
<b>Total Uses by Funds</b>		<b>1,789,104,836</b>		<b>1,791,590,943</b>	<b>2,486,107</b>

**Division Summary**

HHP CleanPowerSF		582,260		516,430	(65,830)
WWE Wastewater Enterprise		1,029,247,352		943,536,352	(85,711,000)
HHP Hetch Hetchy Water & Power		236,256,625		305,460,532	69,203,907
WTR Water Enterprise		523,018,599		542,077,629	19,059,030
<b>Total Uses by Division</b>		<b>1,789,104,836</b>		<b>1,791,590,943</b>	<b>2,486,107</b>

**Reserved Appropriations**

**Controller Reserves**

10002780	Drainage Basin/Early Implement	7,677,412		17,951,320	
10014065	Hetchy Water - Water Only	56,049,054		57,052,901	
10014073	Hetchy Water - Power Infrastru	25,730,244		61,113,838	

**Department: PUC Public Utilities Commission**

		2024-25 Proposed Budget	2025-26 Proposed Budget	2025-26 Change From 2024-25
10014093	Hetchy Water - Joint Projects	67,543,631	53,826,587	
10014121	Hetchy Water/Power Bonds	32,254,086	40,060,674	
10014228	Redevelopment Projects	10,000,000	14,805,159	
10015546	Treasure Island Capital Improv	36,624,859	4,272,611	
10015554	Ocean Beach Project	51,841,616	52,000,000	
10015556	Southeast Community Center		500,000	
10015791	Collection System Improvements	15,587,483	44,773,049	
10015795	Biosolids/Digester Project Bud	378,512,525	188,532,739	
10015801	Flood Resilience/Hydraulic Imp	82,267,176	158,669,505	
10015813	Treatment Plant Improvements	54,491,438	57,913,311	
10026501	Water Bond/Commercial Paper Ex	61,964,962	64,895,259	
10026508	Bond/Commercial Paper Expense	136,726,319	120,624,344	
10026823	Treatment Plant Improvements-S	83,860,148	113,581,087	
10029731	Planning/Budget	16,000,000	12,996,970	
10031235	WW Wwe Rnr Collection System	42,242,969	35,837,812	
10033820	Southeast Outfall Condition	1,000,000	1,992,388	
10033821	Intervening Facilities	1,762,227		
10033822	SFO Substation	13,000,000	21,500,000	
10039313	GC Grid Connections	3,250,000	3,950,000	
10039723	Dwntwn Ferry & So. Beach Elec.	4,300,000	2,100,000	
10040511	INTERIM SIDESTREAM NUTRNT RMVL	10,000,000		
10040989	Reg Water Facilities and Infra	192,454,979	95,277,740	
10040991	Reg Alternative Water Supplies	6,240,441		
10040992	Loc Water Facilities and Infra	158,797,433	273,874,454	
10041338	BCTD Backup Loop	500,000	2,300,000	
10041339	TI Switchyard Upgrade	138,000	362,000	
10041340	Port of Oakland Substation	500,000	10,000,000	
<b>Controller Reserves: Total</b>		<b>1,551,317,002</b>	<b>1,510,763,748</b>	

**Uses of Funds Detail Appropriation**

**Department: PUC Public Utilities Commission**

Fund Code	Fund Title	Code	Title	2024-25 Proposed Budget	2025-26 Proposed Budget	2025-26 Change From 2024-25
<b>Continuing Projects - Authority Control</b>						
20530	WWE CPF Capacity Fee Prog	19141	Condition Assessment-Large Dia	5,323,150	5,482,845	159,695
<b>20530 Total</b>				<b>5,323,150</b>	<b>5,482,845</b>	<b>159,695</b>
20550	WWE CPF Repair & Replace	19139	WW Ocean Beach Project	2,119,550	2,605,025	485,475
		19141	Condition Assessment-Large Dia	110,071,026	131,018,409	20,947,383
		19471	WW Bond-commercial Paper Expen	224,831	267,782	42,951
<b>20550 Total</b>				<b>112,415,407</b>	<b>133,891,216</b>	<b>21,475,809</b>
20725	WWE SSIP 2025 Bond Fund	19142	WW Sewer System Improvement Pr	638,396,182	594,417,981	(43,978,201)
		19471	WW Bond-commercial Paper Expen	112,658,150	104,897,291	(7,760,859)
<b>20725 Total</b>				<b>751,054,332</b>	<b>699,315,272</b>	<b>(51,739,060)</b>
20726	WWE NON-SSIP 2025 Bond Fund	19134	WW Treasure Island Capital Imp	36,624,859	4,272,611	(32,352,248)
		19139	WW Ocean Beach Project	62,841,616	54,492,388	(8,349,228)
		19141	Condition Assessment-Large Dia	36,919,819	30,354,967	(6,564,852)
		19471	WW Bond-commercial Paper Expen	24,068,169	15,727,053	(8,341,116)
<b>20726 Total</b>				<b>160,454,463</b>	<b>104,847,019</b>	<b>(55,607,444)</b>
24761	CleanPowerSF Cap Revenue Fund	80233	CleanPowerSF Capital	582,260	516,430	(65,830)
<b>24761 Total</b>				<b>582,260</b>	<b>516,430</b>	<b>(65,830)</b>
24990	HHWP ContinuingAuthorityCtrl	15365	UH Hetchy Water - Joint Projec	3,451,858	8,772,339	5,320,481
		15377	UH Streetlight Replacement	3,615,000	3,615,000	
		15383	UH Alternative Transmission Pr	7,558,000	6,345,000	(1,213,000)
		15400	UH Renewable-generation - Smal	192,062		(192,062)
		15404	UH Hetchy Cap And Trade Allowa	1,006,901	1,151,222	144,321
		80427	Distribution Services Retail	5,405,562	18,505,812	13,100,250
<b>24990 Total</b>				<b>21,229,383</b>	<b>38,389,373</b>	<b>17,159,990</b>
25338	HHP 2025 Bond Fund	15364	UH Hetchy Water - Power Infrac	25,730,244	61,113,838	35,383,594
		15365	UH Hetchy Water - Joint Projec	39,105,632	34,484,881	(4,620,751)
		15366	UH Hetchy Water-power Bonds	17,344,606	26,579,273	9,234,667
		80427	Distribution Services Retail	33,450,227	55,017,159	21,566,932
<b>25338 Total</b>				<b>115,630,709</b>	<b>177,195,151</b>	<b>61,564,442</b>
25960	WTR ContinuingAuthorityCtrl	17731	UB Non Wsip Water Bond-cp Expe	167,096	127,000	(40,096)
		80529	Loc Water Facilities and Infra	73,434,150	45,858,076	(27,576,074)

**Department: PUC Public Utilities Commission**

Fund Code	Fund Title	Code	Title	2024-25 Proposed Budget	2025-26 Proposed Budget	2025-26 Change From 2024-25
<b>Continuing Projects - Authority Control</b>						
		80530	Local Water Resources (WRD)	9,946,634	17,515,087	7,568,453
<b>25960 Total</b>				<b>83,547,880</b>	<b>63,500,163</b>	<b>(20,047,717)</b>
26423	WTR Regional 2025 Bond Fund	17731	UB Non Wsip Water Bond-cp Expe	35,063,898	16,813,719	(18,250,179)
		80526	Reg Water Fac & Infra-Budget	192,454,979	95,277,740	(97,177,239)
		80528	Reg Alternative Water Supplies	6,240,441		(6,240,441)
<b>26423 Total</b>				<b>233,759,318</b>	<b>112,091,459</b>	<b>(121,667,859)</b>
26424	WTR Local 2025 Bond Fund	17731	UB Non Wsip Water Bond-cp Expe	26,901,064	48,081,540	21,180,476
		80529	Loc Water Facilities and Infra	157,439,365	272,462,063	115,022,698
<b>26424 Total</b>				<b>184,340,429</b>	<b>320,543,603</b>	<b>136,203,174</b>
26510	WTR CPF Capacity Fee Prog	80529	Loc Water Facilities and Infra	1,358,068	1,412,391	54,323
<b>26510 Total</b>				<b>1,358,068</b>	<b>1,412,391</b>	<b>54,323</b>
26603	Water Regional Revenue Fund	80526	Reg Water Fac & Infra-Budget	11,142,860	29,485,426	18,342,566
		80527	Watersheds & Right of Way	8,870,044	7,594,978	(1,275,066)
		80528	Reg Alternative Water Supplies		7,449,609	7,449,609
<b>26603 Total</b>				<b>20,012,904</b>	<b>44,530,013</b>	<b>24,517,109</b>
26680	HHW 2025 Bond Fund	15363	UH Hetchy Water - Water Only	56,049,054	57,052,901	1,003,847
		15365	UH Hetchy Water - Joint Projec	28,437,999	19,341,706	(9,096,293)
		15366	UH Hetchy Water-power Bonds	14,909,480	13,481,401	(1,428,079)
<b>26680 Total</b>				<b>99,396,533</b>	<b>89,876,008</b>	<b>(9,520,525)</b>
<b>Continuing Projects - Authority Control Total</b>				<b>1,789,104,836</b>	<b>1,791,590,943</b>	<b>2,486,107</b>
<b>Total Uses of Funds</b>				<b>1,789,104,836</b>	<b>1,791,590,943</b>	<b>2,486,107</b>



**CAPITAL SUPPLEMENTAL APPROPRIATION RESERVES**

Department Reserve Description	FY 2024-25	FY 2025-26	Releasing Authority	Reserve Reason/ Follow up Action Required
PUBLIC UTILITIES COMMISSION DISTRIBUTION SERVICES RETAIL	\$ 24,762,227	\$ 36,305,159	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION GRID CONNECTIONS	\$ 8,050,000	\$ 8,350,000	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION INTERIM SIDESTREAM NUTRNT RMVL	\$ 10,000,000	\$ -	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION LOC WATER FAC AND INFRA-BUDGET	\$ 158,797,433	\$ 273,874,454	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION REG ALT WTR SUPPLIES-BUDGET	\$ 6,240,441	\$ -	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION REG WATER FAC & INFRA-BUDGET	\$ 192,454,979	\$ 95,277,740	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION SE OUTFALL ASSESSMENT & REHAB	\$ 1,000,000	\$ 1,992,388	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION TREASURE ISLAND	\$ 638,000	\$ 10,362,000	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UB NON WSIP WATER BOND-CP EXPE	\$ 61,755,912	\$ 64,678,941	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UB NON WSIP WATER BOND-CP EXPE/ RBOC	\$ 209,050	\$ 216,318	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UH HETCHY WATER - JOINT PROJEC	\$ 67,543,631	\$ 53,826,587	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UH HETCHY WATER-POWER BONDS	\$ 32,146,573	\$ 39,927,138	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UH HETCHY WATER-POWER BONDS/ RBOC	\$ 107,513	\$ 133,536	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UH HETCHY WATER - POWER INFRAS	\$ 25,730,244	\$ 61,113,838	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION UH HETCHY WATER - WATER ONLY	\$ 56,049,054	\$ 57,052,901	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW BOND-COMMERCIAL PAPER EXPEN	\$ 136,270,565	\$ 120,222,262	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW BOND-COMMERCIAL PAPER EXPEN/ RBOC	\$ 455,754	\$ 402,082	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW COLLECTION SYSTEM IMPROVEME	\$ 15,587,483	\$ 44,773,049	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW FLOOD RESILIENCE-HYDRAULIC	\$ 82,267,176	\$ 158,669,505	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW OCEAN BEACH PROJECT	\$ 51,841,616	\$ 52,000,000	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW SOUTHEAST COMMUNITY CENTER	\$ -	\$ 500,000	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW SSIP BIOSOLIDS-DIGESTER PRO	\$ 378,512,525	\$ 188,532,739	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW SSIP PROGRAM-WIDE MANAGEMEN	\$ 16,000,000	\$ 12,996,970	CONTROLLER	Pending Receipt of Revenue

Mayor Breed  
BOARD OF SUPERVISORS

**CAPITAL SUPPLEMENTAL APPROPRIATION RESERVES**

PUBLIC UTILITIES COMMISSION WW STORMWATER MANAGEMENT	\$ 7,677,412	\$ 17,951,320	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW TREASURE ISLAND CAPITAL IMP	\$ 36,624,859	\$ 4,272,611	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW TREATMENT PLANT IMPROVEMENT	\$ 138,351,586	\$ 171,494,398	CONTROLLER	Pending Receipt of Revenue
PUBLIC UTILITIES COMMISSION WW WVE RNR COLLECTION SYSTEM	\$ 42,242,969	\$ 35,837,812	CONTROLLER	Pending Receipt of Revenue
<b>Grand Total</b>	<b>\$ 1,551,317,002</b>	<b>\$ 1,510,763,748</b>		

APPROVED AS TO FORM:  
DAVID CHIU, City Attorney

FUNDS AVAILABLE:  
GREG WAGNER, Controller

By: \_\_\_\_\_ /s/  
ANNE PEARSON  
Deputy City Attorney

By: \_\_\_\_\_ /s/  
GREG WAGNER  
Controller

<b>Items 10-13</b> <b>Files 24-0452 - 24-0455</b>	<b>Department:</b> Public Utilities Commission (PUC)
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

**File 24-0453:** is an ordinance authorizing \$1,715,671,086 in Wastewater Revenue Bonds.  
**File 24-0455:** is an ordinance authorizing \$1,035,007,350 in Water Revenue Bonds.  
**File 24-0454:** is an ordinance authorizing \$292,825,860 in Power Revenue Bonds.  
**File 24-0452:** is an ordinance appropriating \$1,789,104,836 in FY 2024-25 and \$1,791,590,943 in FY 2025-26 for capital project spending. Bond revenues and capacity fee revenues are placed on Controller’s Reserve pending receipt of revenue.

**Key Points**

- The proposed ordinances pertain to the PUC’s two-year capital budget for the Water, Wastewater, Power, and CleanPowerSF divisions.

**Fiscal Impact**

- The average annual debt service for the proposed \$3.05 billion in Water, Wastewater, and Power bonds over 30 years is approximately \$221.5 million, or \$6.6 billion in total debt service, excluding any capitalized interest for interim financing. Actual debt service costs may be lower due to bond refunding and access to state and federal lending.
- The PUC projects that each division will have sufficient net revenues and unrestricted fund balance to maintain debt service coverage ratios in compliance with its financial policies.

**Policy Consideration**

- The proposed capital budget funds water main replacement at 12 miles per year, which is below the program goal of 15 miles per year. Water main failures require emergency work and may damage residences and businesses. This report provides options to improve water main replacements.
- Addressing new and ongoing regulatory actions may require changes to the scale and pace of the Wastewater Enterprise’s capital budget. The cost of the largest capital project, the Biosolids Digester, increased by \$300 million (or 13 percent) since last year, from \$2.37 billion to \$2.67 billion, due to the low number of bids received in recent solicitations.

**Recommendations**

(1) Approve PUC’s requested \$5 million increase to File 24-0455, the Water Revenue Bond Authorization relating to the Pine Lake main break emergency. (2) Approve Files 24-0453, 24-0454, and 24-0455, the Water, Wastewater, and Power Revenue Bond authorizations, as amended. (3) Approve File 24-0452, the appropriation ordinance pertaining to the PUC’s two-year capital budget. (4) Hold a hearing or request a report from PUC and Chapter 6 Departments by June 2026 regarding strategies to manage capital project cost escalations. The report should include recommendations on any legislative action the Board of Supervisors should take to reform the City’s procurement regulations.

**MANDATE STATEMENT**

Charter Section 8B.124 states that the Public Utilities Commission is authorized to issue revenue bonds and other forms of indebtedness, when authorized by two-thirds vote of the Board of Supervisors.

Charter Section F1.113 states that 0.2 percent of the City’s budget, excluding bond debt, must be set-aside for the Controller’s audit fund.

Administrative Code Section 5A.31(d) states that one-twentieth of one percent (0.05%) from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

**BACKGROUND**

The Public Utilities Commission (PUC) plans its capital spending over two, ten, and twenty year time frames. The two-year capital budget accompanies the PUC’s two-year operating budget and both two-year spending plans are subject to Board of Supervisors approval.

**Wastewater Enterprise Capital Improvement Plan**

The Wastewater Enterprise has four major capital improvement programs totaling \$6.0 billion over the ten-year period FY 2024-25 to FY 2033-34.

1. **Sewer System Improvement Program (SSIP):** This program consists of multiple projects that include addressing aging infrastructure, the existing wastewater collection and treatment facilities, and seismic deficiencies, managing stormwater in the City’s eight urban watersheds, and upgrading the existing wastewater system **(\$4.0 billion)**.
2. **Treasure Island Program:** consists of new sewer and stormwater infrastructure on Treasure Island, consistent with the ongoing redevelopment of the area. **(40.9 million)**
3. **Renewal and Replacement Program (R&R):** This program addresses (1) deficiencies in the sewer collection system to ensure they continue to function at proper capacity and meet regulatory standards, and (2) the extension of the useful life of treatment facilities throughout the City by helping to maintain their treatment capacity and performance and maintain regulatory compliance **(\$1.7 billion)**.
4. **Facilities and Infrastructure Program (F&I):** consists of capital projects intended to provide for necessary upgrades to aging facilities not included in the SSIP and the R&R Program. These projects include the Southeast Outfall Condition Assessment & Rehabilitation, Ocean Beach Climate Change Adaptation Project, Collection Division Consolidation (WWE Facilities Plan), Southeast Community Center at 1550 Evans, Southeast Bay Outfall Islais Creek Crossing Replacement, and Southwest Ocean Outfall (SWOO) **(\$258.9 million)**.

The Wastewater Enterprise’s \$6.0 billion ten-year capital improvement plan is an increase from last year’s \$4.9 billion ten-year capital plan for Wastewater. The PUC increased the ten-year

capital budget by \$1.2 billion, primarily due to the inclusion of the Southeast Plant Nutrients Reduction Project, a new project to reduce nitrogen discharges into the Bay that contribute to algae blooms.

### **Water Enterprise Capital Improvement Program**

The Water Enterprise provides both regional water conveyance and local (in-city) water distribution. The regional water system includes the New Irvington Tunnel conveying water from the Hetch Hetchy Reservoir, the San Antonio and Calaveras Reservoirs in Alameda County, and the San Andreas and Crystal Springs Reservoirs on the Peninsula. The in-city distribution system is a series of pipelines that distributes water from the regional water system to residences and businesses in San Francisco. The Water Enterprise's FY 2024-25 to FY 2033-34 Ten Year Capital Plan includes \$1.6 billion for regional systems and \$1.3 billion for the local system, totaling \$2.9 billion.

### **Hetch Hetchy Water and Power Capital Improvement Program**

The Hetch Hetchy Enterprise is composed of Hetch Hetchy Water and Hetch Hetchy Power. Hetch Hetchy Water manages the water system in and around the Hetch Hetchy Reservoir and throughout the Sierras and is responsible for power generation. Because power is generated hydroelectrically, some capital projects benefit both Hetch Hetchy Water and Hetch Hetchy Power operations. Hetch Hetchy Power primarily provides electricity to local City agencies, government-affiliated entities, as well as redevelopment areas and low-income housing. Hetch Hetchy Water's FY 2024-25 to FY 2033-34 Ten Year Capital Plan includes \$237.3 million for Water Infrastructure, 290.8 million for Power, and \$1.0 billion for joint Water and Power projects. Hetch Hetchy Power's Plan includes \$1.2 billion for local power projects. The total ten-year capital plan is \$2.8 billion.

### **CleanPowerSF Capital Improvement Program**

CleanPowerSF, which provides renewable electricity to residential and commercial customers in San Francisco, is also part of the Hetch Hetchy Enterprise. The FY 2024-25 to FY 2033-34 Ten Year Capital Plan for CleanPowerSF totals \$48.5 million, all of which is revenue-funded and for the Local Energy Renewable Program, which funds new solar and battery storage projects.

## **DETAILS OF PROPOSED LEGISLATION**

**File 24-0453:** is an ordinance (a) authorizing the issuance and sale of tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness by the San Francisco Public Utilities Commission (SFPUC) in an aggregate principal amount not to exceed \$1,715,671,086 to finance the costs of Wastewater Enterprise capital projects; (b) authorizing the issuance of Wastewater Revenue Refunding Bonds and the retirement of outstanding Wastewater Enterprise Commercial Paper; (c) declaring the intent of SFPUC to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and (d) ratifying previous actions taken in connection with the issuance of the bonds.

**File 24-0455:** is an ordinance (a) authorizing the issuance and sale of tax-exempt or taxable Water Revenue Bonds by the San Francisco Public Utilities Commission (SFPUC) in an aggregate principal amount not to exceed \$1,035,007,350 to finance the costs of Water Enterprise capital projects; (b) authorizing the issuance of Water Revenue Refunding Bonds and the retirement of outstanding Water Enterprise Commercial Paper; (c) declaring the intent of SFPUC to reimburse itself with one or more issues of tax-exempt bonds or other forms of indebtedness; and (d) ratifying previous actions taken in connection with the issuance of the bonds.

SFPUC intends to request an amendment to the Water Bond authorization to increase the amount by \$5 million to account for an increase in water main project spending, following emergency repair work on a water main break in Pine Lake Park (File 24-0343). The funding is included in the proposed appropriation ordinance.

**File 24-0454:** is an ordinance authorizing (a) the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission (SFPUC) in an aggregate principal amount not to exceed \$292,825,860 to finance the costs of various Hetch Hetchy Power Enterprise capital projects; (b) the issuance of Power Revenue Refunding Bonds and the retirement of outstanding Power Enterprise Commercial Paper; (c) declaring the intent of SFPUC to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and (d) ratifying previous actions taken for purpose of issuing the bonds.

**File 24-0452:** is an ordinance appropriating:

- (a) \$1,972,783,704 of proceeds from Wastewater Revenue Bonds, Wastewater revenues, and Wastewater capacity fees for the San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise's Capital Improvement Program for FY 2024-25 and FY 2025-26.
- (b) \$1,065,096,228 of proceeds from Water Revenue Bonds, Water revenues, and Water capacity fees for the San Francisco Public Utilities Commission (SFPUC) Water Enterprise's Capital Improvement Program for FY 2024-25 and FY 2025-26.
- (c) \$541,717,157, consisting of Power Revenue Bonds, Water Revenue Bonds, Hetch Hetchy revenues, and Cap and Trade revenues for the San Francisco Public Utilities Commission (SFPUC) Hetch Hetchy Water & Power Enterprise's Capital Improvement Program for FY 2024-25 and FY 2025-26.
- (d) \$1,098,690 in CleanPowerSF customer revenues for the Local Renewable Energy Program in FY 2024-25 and FY 2025-26.

In addition to Revenue Bond proceeds, the sources of funds may also include loans and grants from State or Federal entities, when available.

**File 24-0452 also places** \$1,551,317,002 in FY 2024-25 and \$1,510,767,748 in FY 2025-26 of funding on Controller's Reserve pending Controller certification of the availability of funds.

Projects funded by the appropriated funds are subject to final approval of the California Environmental Quality Act (CEQA) findings by the SFPUC and the Board of Supervisors.

**Revenue Bond Issuance**

At the February 13, 2024, Commission meeting, the SFPUC approved the issuance of new Wastewater, Water, and Power Revenue Bonds to finance capital projects. The proposed ordinances allow the issuance of commercial paper or other interim debt to finance the projects prior to the issuance of the revenue bonds and provide for SFPUC to access California Water Resources Control Board revolving loan funds or grant funds.

The SFPUC may issue taxable or tax-exempt bonds in one or more series through either a negotiated or competitive sale. Each bond authorization ordinance requires the SFPUC to report to the Board of Supervisors within 30 days of the bond issuance: (i) the principal amount sold and method of sale, (ii) true interest cost, (iii) final maturity, (iv) the facilities constructed and/or improved, and (v) a statement about the remaining bonding authorization.

In addition, the SFPUC may issue refunding bonds to repay outstanding Revenue Bond debt if the issuance of the refunding bonds results in net present value debt service savings of 3 percent and does not extend the maturity date. If the SFPUC issues refunding bonds, then the SFPUC needs to submit to the Board of Supervisors the final official statement for the refunding bonds and a statement from the financial advisor on the 3 percent net present value debt service savings. The Commission may also authorize refunding bonds if other benefits accrue. The authorization to issue refunding bonds extends through June 2029.

**Wastewater Capital Budget**

The proposed appropriation ordinance appropriates \$1.97 billion of Wastewater bond proceeds, Wastewater revenues, and Wastewater capacity fees to various SSIP and Wastewater projects, as shown in Exhibit 1 below.



**Exhibit 1: Wastewater Appropriation**

<b>Sources</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Wastewater Bond Proceeds (File 24-0453)	911,508,795	804,162,291	1,715,671,086
Wastewater Revenue	112,415,407	133,891,216	246,306,623
Wastewater Capacity Fees	5,323,150	5,482,845	10,805,995
<b>Total Sources</b>	<b>1,029,247,352</b>	<b>943,536,352</b>	<b>1,972,783,704</b>
<b>Uses</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
<b>Sewer System Improvement Project (SSIP)</b>			
Program Management	16,000,000	12,996,970	28,996,970
Biosolids/Digester Project	378,512,525	188,532,739	567,045,264
Treatment Plant Improvements - Southeast	83,860,148	113,581,087	197,441,235
Treatment Plant Improvements - Other	54,491,438	57,913,311	112,404,749
Collection System Improvements	15,587,483	44,773,049	60,360,532
Stormwater Management/Green	7,677,412	17,951,320	25,628,732
Flood Resilience/Hydraulic Improvements	82,267,176	158,669,505	240,936,681
<b>Total, SSIP</b>	<b>638,396,182</b>	<b>594,417,981</b>	<b>1,232,814,163</b>
<b>Other Wastewater Programs</b>			
	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Renewal & Replacement-Collection System	128,538,826	142,124,003	270,662,829
Renewal & Replacement-Treatment Facilities	24,000,000	25,000,000	49,000,000
Treasure Island	36,624,859	4,272,611	40,897,470
Wastewater Facilities and Infrastructure	64,961,166	57,097,413	122,058,579
<b>Total, Other Wastewater Programs</b>	<b>254,124,851</b>	<b>228,494,027</b>	<b>482,618,878</b>
<b>Financing Costs</b>	<b>136,726,319</b>	<b>120,624,344</b>	<b>257,350,663</b>
<b>Total Uses of Funds (File 24-0452)</b>	<b>1,029,247,352</b>	<b>943,536,352</b>	<b>1,972,783,704</b>

Source: Appropriation Ordinance

Financing costs include the costs of interim, short-term funding for projects by the Commercial Paper Program, such as accrued interest and credit bank and dealer fees associated with outstanding commercial notes as well as capitalized interest and other issuance costs. It also includes the funding for the Controller's Audit Fund and PUC Revenue Bond Oversight Committee, as required by the City Charter.

**Water Capital Budget**

The proposed appropriation ordinance appropriates \$1.06 billion of Water Revenue bond proceeds, water revenues, and water capacity fees to various water projects, as shown in Exhibit 2 below.

**Exhibit 2: Water Appropriation**

<b>Sources of Funds</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Water Bond Proceeds (File 24-0455)	418,099,747	432,635,062	850,734,809
Water Enterprise Revenues	99,977,942	104,353,430	204,331,372
Water Capacity Fees	4,940,910	5,089,137	10,030,047
<b>Total Funding Sources</b>	<b>523,018,599</b>	<b>542,077,629</b>	<b>1,065,096,228</b>
<b>Uses of Funds</b>			
<b>Regional Water</b>			
Reg Water Facilities and Infrastructure	203,597,839	122,663,166	326,261,005
Watersheds & Right of Way	8,870,044	9,694,978	18,565,022
Regional Alternative Water Supplies	6,240,441	7,449,609	13,690,050
<b>Total Regional Water Uses</b>	<b>218,708,324</b>	<b>139,807,753</b>	<b>358,516,077</b>
<b>Local Water</b>			
Local Water Facilities and Infrastructure	232,398,679	319,859,530	552,258,209
Local Water Resources	9,946,634	17,515,087	27,461,721
<b>Total Local Water Uses</b>	<b>242,345,313</b>	<b>337,374,617</b>	<b>579,719,930</b>
<b>Financing Costs</b>	<b>61,964,962</b>	<b>64,895,259</b>	<b>126,860,221</b>
<b>Total Use of Funds (File 24-0452)</b>	<b>523,018,599</b>	<b>542,077,629</b>	<b>1,065,096,228</b>

Source: Appropriation Ordinance

Financing costs include the costs of interim, short-term funding for projects by the Commercial Paper Program, such as accrued interest and credit bank and dealer fees associated with outstanding commercial notes as well as capitalized interest and other issuance costs. It also includes the funding for the Controller's Audit Fund and PUC Revenue Bond Oversight Committee, as required by the City Charter.

**Hetch Hetchy Water & Power Capital Budget**

The proposed appropriation ordinance appropriates \$543.4 million of Power Revenue Bonds, Water Revenue Bonds, Hetch Hetchy revenues, and Cap and Trade revenues for Water, Power, and joint Water/Power projects, as shown in Exhibit 3 below.

**Exhibit 3: Hetch Hetchy Water & Power Appropriation**

<b>Sources of Funds</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Power Bond Proceeds (File 24-0454)	115,630,709	177,195,151	292,825,860
Water Bond Proceeds (File 24-0455)	99,396,533	89,876,008	189,272,541
Hetch Hetchy Revenue Funds (Power/Water)	20,222,482	37,238,254	57,460,736
Cap and Trade Revenue	1,006,901	1,151,119	2,158,020
<b>Total Sources of Funds</b>	<b>236,256,625</b>	<b>305,460,532</b>	<b>541,717,157</b>
<b>Uses of Funds</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Water Infrastructure Projects	56,049,054	57,052,901	113,101,955
Power Infrastructure Projects	25,730,244	61,113,838	86,844,082
Joint Water/Power Projects	70,995,489	62,598,926	133,594,415
<b>Total Water Uses</b>	<b>152,774,787</b>	<b>180,765,665</b>	<b>333,540,452</b>
Distribution Services Retail	30,167,789	54,810,971	84,978,760
Distribution Services Retail - Treasure Island	638,000	10,362,000	11,000,000
Distribution Services Retail - Grid Connections	8,050,000	8,350,000	16,400,000
Streetlights	3,615,000	3,615,000	7,230,000
Small Renewables	192,062	0	192,062
Cap and Trade Projects	1,006,901	1,151,222	2,158,123
Public Power Expansion	7,558,000	6,345,000	13,903,000
<b>Total Power Uses</b>	<b>51,227,752</b>	<b>84,634,193</b>	<b>135,861,945</b>
Financing Cost, Power	17,344,606	26,579,273	43,923,879
Financing Cost, Water	14,909,480	13,481,401	28,390,881
Total Financing Costs	32,254,086	40,060,674	72,314,760
<b>Uses of Funds (File 24-0452)</b>	<b>236,256,625</b>	<b>305,460,532</b>	<b>541,717,157</b>

Source: Appropriation Ordinance

Financing costs include the costs of interim, short-term funding for projects by the Commercial Paper Program, such as accrued interest and credit bank and dealer fees associated with outstanding commercial notes as well as capitalized interest and other issuance costs. It also includes the funding for the Controller's Audit Fund and PUC Revenue Bond Oversight Committee, as required by the City Charter.

**CleanPowerSF Capital Budget**

Finally, the proposed appropriation ordinance appropriates \$1.1 million of CleanPowerSF customer revenue for the Local Renewable Energy Program.

**Proposition E Bond Funds**

San Francisco voters approved Proposition E in 2002 and Proposition A in 2018, providing for the Board of Supervisors to authorize issuance of Water, Power, Wastewater Revenue Bonds and other forms of debt with two-thirds approval of the Board members. As shown below in Exhibit 4, the Board has authorized \$12,191,403,124, of which \$9,087,293,110 has been issued and \$3,104,110,014 is authorized but not issued.

**Exhibit 4: Proposition E & A Bond Authorizations**

<b>PUC Division</b>	<b>Authorized</b>	<b>Issued</b>	<b>Unissued</b>	<b>Proposed</b>	<b>New Total Authorized</b>
Wastewater	6,336,935,567	4,482,180,128	1,854,755,439	1,715,671,086	8,052,606,653
Water	5,117,502,961	4,317,652,982	799,849,979	1,040,007,350	6,157,510,311
Power	736,964,596	287,460,000	449,504,596	292,825,860	1,029,790,456
<b>Total</b>	<b>12,191,403,124</b>	<b>9,087,293,110</b>	<b>3,104,110,014</b>	<b>3,048,504,296</b>	<b>15,239,907,420</b>

Source: SFPUC

Approval of the proposed bond authorization ordinances would increase the amount of bonds authorized in accordance with Propositions E and A to \$15,239,907,420. The SFPUC plans to issue approximately \$11.11 billion in revenue bonds between FY 2024-25 to FY 2033-24, as per their 10-year Financial Plan (amounts are preliminary are subject to change due to market conditions and actual project spending).

**FISCAL IMPACT**

**Debt Service**

SFPUC’s Ten-Year Financial Plan assumes Revenue Bonds will have a 6 percent interest rate and a thirty-year term. This is an increase from the 5 percent interest assumed in last year’s Financial Plan and consistent with the Controller’s Office of Public Finance’s assumptions for other City debt. The average annual debt service for the proposed \$3.05 billion in Water, Wastewater, and Power bonds over 30 years is approximately \$221.5 million, or \$6.6 billion in total debt service, excluding any capitalized interest for interim financing. Actual debt service costs may be lower due to bond refunding and access to state and federal lending and other capital revenues.

**Financial Policies**

The SFPUC FY 2024-25 – FY 2033-34 10-Year Financial Plan projects that the Water, Wastewater, and Hetch Hetchy Water and Power Enterprises will have sufficient net revenues and unrestricted fund balance to maintain debt service coverage ratios in compliance with the Department’s financial policies.

Water, Wastewater, and Power are in compliance with the Department’s Capital Financing policy, which requires operating revenues to fund between 15 and 30 percent of capital spending. The purpose of this policy is to manage the impact of debt service on utility charges.

In November 2023, the Public Utilities Commission adopted a new Affordability Policy, which establishes a non-binding affordability target that the average residential combined water and sewer bill should be no more than three percent of typical household income.<sup>1</sup> According to the

<sup>1</sup> Typical household income is defined as the 40<sup>th</sup> percentile of household income in San Francisco, as measured in the U.S. Census Bureau’s more recent Five-Year American Community Survey, or \$92,915 in 2021. The Affordability

FY 2024-25 – FY 2033-34 Ten Year Financial Plan, the combined water and sewer bill will be 1.8 percent of typical household income in FY 2024-25, rising to 2.7 percent in FY 2033-34 and therefore in compliance with the new Affordability Policy.<sup>2</sup> A target for Hetch Hetchy and CleanPowerSF bills has not been established, however the Financial Plan projects that the rates for each will be between 1.1 and 1.3 percent of average income.

**Customer Rates**

Exhibit 5 below shows the projected rate increases for each utility service for the next five fiscal years, based on the 10-Year Financial Plan. These are subject to change prior to adoption. Rates for service pay for operating and capital expenditures.

**Exhibit 5: Utility Rate Increases (Red = higher than last year, Blue = lower than last year)**

Utility	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Retail Water	5.0%	5.0%	5.00%	5.00%	4.00%
Wholesale Water	7.70%	4.50%	2.60%	8.20%	3.10%
Wastewater	9.0%	9.0%	12.00%	12.00%	11.00%
Hetch Hetchy Power	12.00%	10.00%	9.00%	9.00%	5.00%
CleanPowerSF Generation	8.50%	1.00%	0.00%	0.00%	0.00%
Municipal Hetchy Power Customers subject to General Use Rate (being phased out)	18.90%	15.90%	13.70%	12.10%	10.80%

Source: FY 2024-25 – FY 2033-34 Ten Year Financial Plan

Notes: Red highlighting indicates higher increases than projected in last year’s financial plan, typically an increase of one percentage point. Blue highlighting indicates lower increases than projected in the financial plan, typically a decrease of one percentage point. CleanPowerSF FY 2024-25 generation rates are increasing by 8.5% rather than 0% projected last year.

Retail Water and Wastewater rates were adopted by the SFPUC in May 2023 through FY 2025-26 and deemed approved by the Board of Supervisors.

Wholesale Water rates are based on contracts with wholesale customers.

Wastewater rates are increasing starting in FY 2026-27 due to higher interest rates, cost increases for existing capital projects, and new capital projects, as discussed in the Policy Consideration section below.

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Policy also sets planning targets such that the combined water and sewer bill be no more than seven percent of the 20<sup>th</sup> percentile of San Francisco income, which was \$38,376 in 2021.

<sup>2</sup> According to the FY 2024-25 to FY 2033-34 Ten Year Financial Plan, the combined water and sewer bill rises to 2.9 percent of typical customer income but does not breach the three percent policy maximum.

Hetch Hetchy Power and CleanPowerSF rates will be adopted annually, given recent volatility in energy markets. The driver of these rate increases is the increasing costs of power purchase and distribution. The Public Utilities Commission approved new FY2024-25 Hetch Hetchy retail and CleanPowerSF rates at its May 14, 2024 meeting. A Power rate study is planned for Spring 2026.

San Francisco government customer rates are being increased by \$0.03/kWh per year, pursuant to a 2022 agreement between the SFPUC and Mayor’s Office, to align San Francisco government customer rates with the cost of service.

**POLICY CONSIDERATION**

**Debt Service Coverage Policy**

One of the PUC’s financial policies is the Debt Service Coverage Policy. The Policy includes two formulas: (1) for maintaining sufficient net revenues and fund balance to exceed debt service coverage requirements in bond indentures and (2) for maintaining sufficient net revenues to exceed debt service. The Indenture Coverage formula explicitly includes enterprise fund balance. The Current Coverage ratio does not explicitly include fund balance, which is consistent with how credit rating agencies and some PUC creditors evaluate debt service coverage.<sup>3</sup> However, according to the FY 2024-25 – FY 20233-34 Ten Year Capital Plan, on advice of bond counsel, the PUC may include appropriated fund balance in the calculation a PUC Enterprise’s Current Coverage, as it is a funding source for operating costs.<sup>4</sup>

All utility enterprises comply with the PUC’s debt service coverage policies. The Debt Service Coverage Policy has not been updated since 2017. BLA has discussed this with SFPUC and the Department is in the process of updating its financial policies. All PUC Policy updates remain subject to Commission consideration and approval.

**Water Main Replacement**

The Water Enterprise’s Local Water Conveyance/Distribution System Program has a goal of replacing 15 miles of water mains per year. The purpose of this goal is to ensure ongoing renewal of the City’s 1,230 miles of water mains, many of which are near the end or beyond their useful life. Since FY 2019-20, the PUC has replaced an average of 7.7 miles of water main pipeline per

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<sup>3</sup> As calculated in SFPUC’s Debt Service Coverage Policy: The Indenture Coverage formula is: ((Annual Revenues – Operating Expenses) + Unappropriated Fund Balance))/ Annual Debt Service. The Current Coverage formula is: (Annual Revenues – Operating Expenses)/Annual Debt Service. The Indenture Coverage must be at least 1.35x debt service and the Current Coverage must 1.10x debt service.

<sup>4</sup> In FY 2024-25 and FY 2025-26, the Power Enterprise’s Current Coverage will be met by a combination of operating revenues and fund balance. According to PUC financial staff, the approach was communicated to ratings agencies in late 2023 ahead of the most recent Power bond sale, who affirmed the enterprise’s ratings with Stable outlooks despite the use of fund balances. The enterprise’s revenue bonds are rated AA and AA-by S&P Global Ratings and Fitch Ratings, respectively. According to SFPUC’s 10-year Financial Plan, the Power Enterprise next plans to issue revenue bond debt in Fiscal Year 2025-26.

year. According to PUC staff, this pace is largely due to internal capacity constraints, the slow pace of joint agency trenching projects, and unforeseeable site conditions underground rather than funding constraints.

In September 2023, a water main failed at Fillmore and Green Streets in San Francisco, requiring at least \$5 million in emergency repair work (File 23-1001) and damaging residents and businesses. Another water main failed near Pine Lake Park in April 2024, though the cause is still under investigation.

The proposed capital budget funds water main replacement at 12 miles per year, which is below the program goal of 15 miles per year. The proposed 12 miles per year is an increase from last year's capital budget, which provided for 7.5 to 9 miles of main replacement per year, accomplished by reallocating water main replacement funding along the Better Market Street project area, for which work has been suspended.

According to PUC capital project data, replacing one mile of water main pipeline cost \$6.1 million, on average. This would require a 3.5 percent funding increase in the proposed two-year \$1.06 billion Water Enterprise capital budget or reallocation of existing funding among projects. Increasing the proposed two-year capital budget would increase utility rates starting in FY 2028-29 and would likely push the combined water and sewer bill above the Commission's Affordability Policy in the mid-2030s.

The Board of Supervisors has several options to help the PUC increase its water main replacement delivery. It could: (1) approve existing or new positions related to water main replacement in the Water Enterprise operating budget, (2) request the PUC reevaluate the prioritization of water main replacement, which was last assessed in 2017, to include soil conditions and other factors that are not currently included in the PUC's water main replacement strategy, and (3) work with the PUC to reallocate capital project funding from less essential projects.

### **Wastewater**

On May 1, 2024, the U.S. Department of Justice, on behalf of the U.S. Environmental Protection Agency filed a complaint in the Northern District of California District Court alleging the SFPUC violated the Clean Water Act and similar State regulations (Case 3.24-cv-02594). In particular, the complaint alleges that the Wastewater Enterprise's level of untreated sewage discharges into the ocean exceeds federal and state regulations. Resolving this complaint may require changes to the scale and pace of the Wastewater Enterprise's capital budget.

Separately, the California Regional Water Quality Control Board will adopt new regulations to reduce nutrient discharges into San Francisco Bay in 2024. In anticipation of this regulatory action, the SFPUC has modified the capital plan for the Wastewater Enterprise by adding a Southeast Plant Nutrients Reduction project. This project aims to reduce the amount of nutrients discharged by the Southeast Treatment Plant on the bayside of the City's sewer system. The

Nutrient Reduction project is expected to cost \$1.5 billion, including \$16.8 million in planning costs over FY 2024-25 and FY 2025-26 and \$1.1 billion through FY 2033-24. The project is expected to be completed in 2039.

Other projects may be required to be added to the Wastewater capital plan to meet federal and state regulations. Funding for new projects would require an increase in Wastewater rates, defunding planned projects, and/or reducing the costs of planned capital projects. Wastewater rate increases over the next ten years average 9.7 percent per year and assume Wastewater operates with net negative revenues and uses fund balance to pay for operating costs and debt service costs through FY 2029-30, without which annual rate increases would be higher. There is little room to increase Wastewater rates within the confines of the Affordability Policy; the Ten-Year Financial Plan forecasts combined water and sewer rates will be reach 2.9 percent of typical household income (just below the 3.0 percent policy goal) within the next twenty years. Therefore, successfully delivering all planned capital projects requires ongoing cost management.

The PUC's largest capital project is the Wastewater Biosolids Digester, a component of the Southeast Treatment Plant. The cost of that project has increased by \$300 million (or 13 percent) since last year, from \$2.37 billion to \$2.67 billion, due to the low number of bids received in recent solicitations. This is a perennial problem for the PUC and other City Departments. If these cost escalation trends continue, the PUC may not be able to deliver all planned capital projects within currently estimated timeframes, risking further regulatory action. Aside from the ongoing Government Operations Initiative to improve Citywide contracting processes, there is no specific plan to reign in capital project costs at the Public Utilities Commission.

The Board of Supervisors should consider holding a hearing on the PUC's strategy to manage capital project cost escalations or request a report from the PUC and other Chapter 6 Departments on this topic by June 2026. The report should include recommendations on any legislative action the Board should take to reform the City's procurement regulations.

### **Revenue Bond Oversight Committee**

In 2002, voters approved Proposition P, which created the PUC Revenue Bond Oversight Committee to oversee PUC revenue bond spending.<sup>5</sup> The Committee is allocated 0.05 percent of revenue bond gross proceeds for its oversight work, which includes overseeing the appropriate use of bond proceeds. The current sunset date for this committee is January 1, 2025, though the Board of Supervisors may extend it through an ordinance amending Administrative Code Chapter

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<sup>5</sup> The committee consists of seven members, two appointed by the Mayor, two appointed by the Board of Supervisors, one appointed by the Controller, one appointed by the Bay Area Water Users Association, and one seat for the Budget & Legislative Analyst.



5A. The original sunset date for the Committee was January 1, 2013, which the Board has since extended.

In addition, Charter Section F1.113 states that 0.2 percent of the City's budget, excluding bond debt, must be set-aside for the Controller's audit fund.

The proposed appropriation ordinance includes \$3 million in FY 2024-25 and in FY 2025-26 for the Controller's audit fund and \$772,318 in FY 2024-25 and \$751,934 in FY 2025-26 to the Revenue Bond Oversight Committee.

## RECOMMENDATIONS

1. Approve PUC's requested \$5 million increase to File 24-0455, the Water Revenue Bond Authorization related to the Pine Lake main break emergency.
2. Approve Files 24-0453, 24-0454, and 24-0455, the Water, Wastewater, and Power Revenue Bond authorizations, as amended.
3. Approve File 24-0452, the appropriation ordinance pertaining to the PUC's two-year capital budget.
4. Hold a hearing or request a report from PUC and the other Chapter 6 departments by June 2026 regarding strategies to manage capital project cost escalations. The report should include recommendations on any legislative action the Board of Supervisors should take to reform the City's procurement regulations.

President, District 3  
BOARD of SUPERVISORS



City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102-4689

Tel. No. 554-7450  
Fax No. 554-7454  
TDD/TTY No. 544-6546

**Aaron Peskin**

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**PRESIDENTIAL ACTION**

Date: 5/21/24

To: Angela Calvillo, Clerk of the Board of Supervisors

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Madam Clerk,  
Pursuant to Board Rules, I am hereby:

Waiving 30-Day Rule (Board Rule No. 3.23)

File No. \_\_\_\_\_

\_\_\_\_\_  
(Primary Sponsor)

Title. \_\_\_\_\_

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Transferring (Board Rule No 3.3)

File No. \_\_\_\_\_

\_\_\_\_\_  
(Primary Sponsor)

Title. \_\_\_\_\_

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From: \_\_\_\_\_

\_\_\_\_\_  
Committee

To: \_\_\_\_\_

\_\_\_\_\_  
Committee

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Assigning Temporary Committee Appointment (Board Rule No. 3.1)

Supervisor: Dorsey

Replacing Supervisor: Peskin

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For: 5/22/24

(Date)

Budget & Appropriations

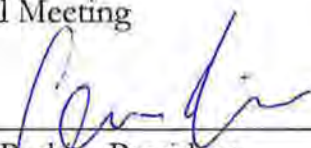
(Committee)

Meeting

Start Time: \_\_\_\_\_

End Time: \_\_\_\_\_

Temporary Assignment:  Partial  Full Meeting

  
\_\_\_\_\_  
Aaron Peskin, President  
Board of Supervisors



To: Aaron Peskin, President of the Board of Supervisors  
From: Anna Duning, Mayor's Budget Director  
Date: May 1, 2024  
Re: 30-Day Waiver Requests

RECEIVED  
OFFICE OF SUPERVISORS  
SAN FRANCISCO  
2024 MAY -1 AM 11:07  
BY [Signature]

President Peskin,

The Mayor's Office respectfully requests 30-day hold waivers for the following ordinances and trailing legislation introduced with the budget on Wednesday, May 1, 2024:

- Proposed Annual Appropriation Ordinance (AAO) for Selected Departments
- Proposed Annual Salary Ordinance (ASO) for Selected Departments
- Public Utilities Commission (PUC) Capital Budgets and Borrowing Ordinances
- Accept and Expend Grants – Recurring Grant Funds – San Francisco Public Library Friends of the Library Fund – FY 2024-2025
- Accept and Expend Grants – Recurring Grant Funds – San Francisco Port – FY 2024-2025
- Building Code – Building Inspection Permitting and Inspection Fees
- Administrative Code – Board of Appeals Surcharges on Fees

Should you have any questions, please contact Tom Paulino at 415-554-6153.

Sincerely,

A handwritten signature in blue ink, appearing to read "Anna Duning".

Anna Duning  
Mayor's Budget Director



To: Angela Calvillo, Clerk of the Board of Supervisors  
From: Anna Duning, Mayor's Budget Director  
Date: May 1, 2024  
Re: Mayor's May 1 FY 2024-25 and FY 2025-26 Budget Submission

2024 MAY - 1 AM 11:00  
MAYOR'S BUDGET DIRECTOR  
OFFICE OF THE MAYOR  
SAN FRANCISCO

Madam Clerk,

In accordance with City and County of San Francisco Administrative Code, Section 3.3, the Mayor's Office hereby submits the Mayor's proposed May 1 budget, corresponding legislation, and related materials for Fiscal Year (FY) 2024-25 and FY 2025-26.

In addition to the Mayor's Proposed FY 2024-25 and FY 2025-26 May 1 Budget Book, the following items are included in the Mayor's submission:

- The May 1 Proposed Annual Appropriation Ordinance (AAO) and Proposed Annual Salary Ordinance (ASO) for Selected Departments
- The Municipal Transportation Agency (MTA) Budget Memo
- The Public Utilities Commission (PUC) Capital Budgets and Borrowing Ordinances
- 8 separate pieces of trailing legislation (see list attached)
- A Transfer of Function letter detailing the transfer of positions from one City department to another
- An Interim Exception letter
- Memo to the Board President requesting for 30-day rule waivers on ordinances

Please note the following:

- Technical adjustments to the budget are being prepared, but are not submitted with this set of materials.

Sincerely,

A handwritten signature in blue ink, appearing to read "Anna Duning".

Anna Duning  
Mayor's Budget Director

cc: Members of the Board of Supervisors  
Budget & Legislative Analyst's Office  
Controller



DEPT	Item	Description	Type of Legislation	File #
AIR	Continuing Prop J	General aviation security services, information booth and guest assistance, employee and public parking operations, and shuttle bus service	Ordinance	240460
BOA	Fee Change	Adjust BOA surcharges on fees imposed under the San Francisco Planning Code and Building Code	Ordinance	240456
DBI	Fee Change	Adjusts the fees for permits and services provided by the Department of Building Inspection pursuant to the 2023 Fee Study	Ordinance	240457
LIB	Recurring A&E	The Friends and Foundation of the San Francisco Public Library – Annual Grant Award	Resolution	240458
MTA	Continuing Prop J	Citations, paratransit, parking meter collections, security, towing, and transit shelter cleaning services	Ordinance	240460
PRT	Continuing Prop J	Security services at Port facilities	Ordinance	240460
PRT	Recurring Grants	Department of Homeland Security Port Security Grant Program (PSGP)	Resolution	240459
PUC	Continuing Prop J	Security services at PUC Wastewater Enterprise facilities	Ordinance	240460

RECEIVED  
 CLERK OF SUPERVISORS  
 SAN FRANCISCO  
 2024 MAY -1 AM 11:00  
 JAY  
 dw