

Item 2
File 10-1386

Department:
Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objective

- Resolution to approve the issuance of up to \$600,000,000 in Water Revenue Bonds by the Public Utilities Commission (PUC) to fund two projects in the PUC's Water System Improvement Program (WSIP). The proposed resolution would also approve various financing documents related to the proposed bond issuance.

Key Points

- The PUC's Water System Improvement Project (WSIP) is a series of 86 separate capital improvement projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The 86 individual projects are categorized into five geographic regions and standalone projects, and have a current total estimated cost of \$4,585,556,261, including financing costs.
- On November 4, 2002, San Francisco voters approved Proposition E, which authorized the PUC to issue an unlimited amount of either Wastewater or Water Revenue Bonds for needed capital improvements for the PUC's water, wastewater, and power facilities. In order for the PUC to issue Water Revenue Bonds under Proposition E, the PUC must first (a) receive bond authority by a two-thirds vote of the Board of Supervisors by ordinance, and then (b) receive approval to issue such bonds by a majority vote of the Board of Supervisors by resolution.
- Pursuant to Proposition E, the Board of Supervisors has previously authorized the PUC to issue \$2,969,173,380 in Water Revenue Bonds for WSIP, including (a) \$1,321,924,182 under File 09-0886, and (b) \$1,647,249,198 under File 10-0341. As of the writing of this report, the PUC has issued \$890,225,000 in Water Revenue Bonds out of the total bond authority of \$2,969,173,380, such that \$2,078,948,380 in bond authority remains. The PUC is now requesting approval to issue \$600,000,000 in Water Revenue Bonds for WSIP projects from the remaining \$2,078,948,380 in bond authority previously approved by the Board of Supervisors pursuant to Proposition E.

Fiscal Impact

- The estimated debt service on the proposed \$600,000,000 Water Revenue Bond issuance, totals \$1,320,010,050 over 40 years, including \$600,000,000 in principal and \$720,010,050 in interest. Such debt service would be paid from PUC water revenues paid by water customers.
- The proposed \$600,000,000 issuance of Water Revenue Bonds includes (a) \$498,659,800 for two of the PUC's largest WSIP projects, and (b) \$101,340,200 in financing costs.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

On November 4, 2002, San Francisco voters approved Proposition E, which authorized the PUC to issue an unlimited amount of either Wastewater or Water Revenue Bonds for needed capital improvements for the PUC's water, wastewater, and power facilities. In order for the PUC to issue such Water Revenue Bonds under Proposition E, the PUC must first (a) receive bond authority by a two-thirds vote of the Board of Supervisors by ordinance, and then (b) receive approval to issue such bonds by a majority vote of the Board of Supervisors by resolution.

Background

The PUC's Water System Improvement Project (WSIP) is a series of 86 separate capital improvement projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The 86 individual projects are categorized into five geographic regions and standalone projects, and have a current total estimated cost of \$4,585,556,261, including financing costs.

Pursuant to Proposition E, the Board of Supervisors has previously authorized the PUC to issue \$2,969,173,380 in Water Revenue Bonds for WSIP, including (a) \$1,321,924,182 under File 09-0886, and (b) \$1,647,249,198 under File 10-0341. As of the writing of this report, the PUC has issued \$890,225,000 in Water Revenue Bonds out of the total bond authority of \$2,969,173,380, such that \$2,078,948,380 in bond authority remains.

The PUC is now requesting approval to issue \$600,000,000 in Water Revenue Bonds for two WSIP projects from the remaining \$2,078,948,380 in bond authority previously approved by the Board of Supervisors pursuant to Proposition E.

DETAILS OF PROPOSED LEGISLATION

The proposed issuance of \$600,000,000 in Water Revenue Bonds would fund a portion of (a) the Harry Tracy Water Treatment Plant Improvement Project, (b) the San Joaquin Pipeline Project, and (c) related financing costs, under the PUC's Water System Improvement Program as summarized in Table 1 below.

Table 1: Uses of Bond Proceeds

Project Costs	
Harry Tracy Water Treatment Plant Improvement Project	
Project Management	\$11,818,097
Planning	6,334,242
Environmental	7,085,412
Design	15,169,254
Bid and Award	475,115
Construction Management	25,230,239
Construction	213,210,872
Close-Out	478,246
Subtotal: Harry Tracy Water Treatment Plant Improvement Project	\$279,801,477
San Joaquin Pipeline	
Project Management	8,715,142
Planning	4,860,822
Environmental	6,810,600
Design	15,387,978
Bid and Award	455,959
Construction Management	21,654,203
Construction	160,098,197
Close-Out	875,422
Subtotal: San Joaquin Pipeline Project	218,858,323
Total Project Costs	\$498,659,800
Financing	
Costs of Issuance	1,000,000
Underwriters' Discount	6,000,000
Capitalized Interest	77,775,000
Debt Service Reserve Fund	16,565,200
Financing Costs Total	\$101,340,200
Grand Total	\$600,000,000

The Harry Tracy Water Treatment Plant Project

The Harry Tracy Water Treatment Plant (HTWTP) treats water pumped from the Peninsula for delivery to customers in Northern San Mateo County and San Francisco. The HTWTP Project, which, according to the PUC is currently estimated to cost \$352,500,000, would increase the capacity of the HTWTP from 120 million gallons per day to 140 million gallons per day and improve seismic reliability following a major earthquake. The HTWTP Project includes: (a) extensive seismic, hydraulic, and electric upgrades throughout the Plant, (b) five new filters, (c) improvements to the wastewater and sludge handling systems, (d) a new 11 million gallon treated water reservoir, and (e) associated piping and equipment replacement.

The PUC anticipates construction of the Harry Tracy Water Treatment Plant (HTWTP) Project to commence on April 4, 2011 and end on November 20, 2015. According to Mr. Carlos Jacobo, Budget Director at the PUC, the original completion date has been delayed by approximately five months, from June 12, 2015 to November 20, 2015, due to identified seismic risks associated with the discovery of the Serra Fault underneath the two existing water reservoirs. According to Mr. Jacobo, discovery of this fault resulted in the PUC deciding to abandon the two existing water reservoirs located directly above the fault and instead construct a new water reservoir and associated facility improvements. Environmental review for the HTWTP Project was completed in October of 2010.

As shown in Table 1 above, the proposed issuance of \$600,000,000 in Water Revenue Bonds includes \$279,801,477 for the Harry Tracy Water Treatment Plant Project, which is estimated to have a total cost of \$352,500,000. According to Mr. Jacobo, the PUC anticipates funding the estimated cost of \$352,500,000 using (a) \$56,978,404 in previously issued Water Revenue Bonds for the HTWTP Project, (b) the proposed Water Revenue Bond issuance of \$279,801,477, and (c) a separate Water Revenue Bond issuance of \$15,720,119, subject to future Board of Supervisors approval. The Budget and Legislative Analyst notes that, as discussed above, the PUC has a remaining authorization to issue Water Revenue Bonds of \$2,078,948,380, which is more than sufficient for the proposed issuance of an additional \$600,000,000 of Water Revenue Bonds, including the HTWTP Project and the San Joaquin Pipeline System Project.

The Budget and Legislative Analyst notes that the total current estimated cost of \$352,500,000 for the HTWTP Project is \$13,100,100 less than the PUC's previous estimate of \$365,600,000 as of July 1, 2010. According to Mr. Jacobo, this reduction of \$13,100,000, or 3.6 percent, is due to a reduction in previously estimated construction costs.

The San Joaquin Pipeline System Project

The San Joaquin Pipeline System consists of three large pipelines (and one crossover facility which allows water to be diverted from one pipeline to another) that convey Hetch Hetchy water 47.5 miles across the San Joaquin Valley. The delivery capacity of these three pipelines has been reduced from their original capacity of 300 million gallons per day to 290 million gallons per day due to deteriorating pipeline linings. The San Joaquin Pipeline System Project is currently estimated to have a total cost \$309,907,722. The project would provide 17 miles of new pipeline running parallel to the existing pipelines through the San Joaquin Valley and new pipeline crossover facilities, in order to increase the capacity of the San Joaquin Pipeline System to 313 million gallons per day.

According to Mr. Jacobo, environmental review for the San Joaquin Pipeline System Project was completed on July 9, 2009, and construction began in June of 2010. Construction is anticipated to be completed in March of 2014.

As shown in Table 1 above the proposed issuance of \$600,000,000 in Water Revenue Bonds includes \$218,858,323 for the San Joaquin Pipeline System Project, which is estimated to have a total cost of \$309,907,722. According to Mr. Jacobo, the PUC anticipates funding the estimated cost of \$309,907,722 using (a) \$87,318,323 in previously issued Water Revenue Bonds, (b) the proposed Water Revenue Bond issuance of \$218,858,323, and (c) a separate Water Revenue

Bond issuance of \$3,731,076, subject to future Board of Supervisors approval. The Budget and Legislative Analyst notes that, as discussed above, the PUC has a remaining authorization to issue Water Revenue Bonds of \$2,078,948,380, which is more than sufficient for the proposed issuance of an additional \$600,000,000 in Water Revenue Bonds, including the HTWTP Project and the San Joaquin Pipeline System Project.

The Budget and Legislative Analyst notes that the current estimated cost of \$309,907,722 of the San Joaquin Pipeline System Project is the same as the PUC's previous estimate of \$309,907,722 as of July 1, 2010.

FISCAL IMPACT

According to Mr. Jacobo, the proposed issuance of \$600,000,000 in Water Revenue Bonds will be sold in December of 2010.

Mr. Jacobo estimates that the bonds will have an interest rate of 4.5 percent and term of 40 years. Total estimated debt service for the \$600,000,000 in Water Revenue Bonds over the 40 years that the bonds would be outstanding is \$1,320,010,050, including \$600,000,000 of principal and \$720,010,050 of interest, with an average annual debt service of \$32,195,367.

Mr. Jacobo advised that the debt service on all Water Revenue Bonds will be paid by the PUC's customers who are charged for the use of water. Table 2 below shows the impact on average monthly water costs for a single family residence.

Table 3: Impact on Average Monthly Water Costs for a Single Family Residence

Cost Category	Average Cost *			
	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Previously Issued Water Bonds	\$13.81	\$17.24	\$18.45	\$21.17
\$600,000,000 Proposed Water Bonds	-	-	0.14	1.57
Subtotal Debt Service	\$13.81	\$17.24	\$18.58	\$22.73
Other Water Non-Debt Related Costs	18.14	18.66	21.82	20.27
Total	\$31.95	\$35.90	\$40.40	\$43.00

* Water rates have been approved through FY 2013-2014.

The proposed resolution would also provide the PUC with the discretionary authority to (a) sell any portion of the proposed Water Revenue Bonds through either a negotiated or competitive sale, and (b) sell any portion of the proposed Water Revenue Bonds as Federally Taxable Build America Bonds. Typically, the PUC sells Water Revenue Bonds, as being exempt from Federal Income Taxes being paid to the Internal Revenue Service of the Federal Government. However, under provisions of the Federal American Recovery and Reinvestment Act of 2009, a new category of taxable bonds were created called Build America Bonds. In accordance with the sale of Build America Bonds, the Federal government pays the PUC an amount equal to 35.0 percent

of the interest expense paid by the PUC to bondholders (approximating the Federal Income Taxes payable by the investor for received interest income).

According to Mr. Jacobo, the Federal legislation which created Build America Bonds is scheduled to expire on December 31, 2010. Mr. Jacobo anticipates that new Federal legislation will be enacted which will extend the Build America Bonds program, however, it is anticipated that the amount paid to the City by the Federal government would be reduced from the current rate of 35.0 percent of the interest paid by the PUC to bondholders to a rate of 32.0 percent. In order to receive the higher 35.0 percent rate to the City from the Federal government, the PUC must issue the proposed Water Revenue Bonds prior to December 31, 2010. Mr. Jacobo estimates that if the PUC issued the proposed Water Revenue Bonds subsequent to December 31, 2010, the debt service payable by the PUC, through rates charged to water customers, would increase by approximately \$14,800,000 over the 40 year life of the proposed bonds.

RECOMMENDATION

Approve the proposed resolution.



Harvey M. Rose

cc: Supervisor Avalos
Supervisor Mirkarimi
Supervisor Elsbernd
President Chiu
Supervisor Alioto-Pier
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner