

File No. 240453

Committee Item No. 11

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget and Appropriations Committee Date May 22, 2024

Board of Supervisors Meeting Date \_\_\_\_\_

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Completed by: Brent Jalipa Date May 17, 2024

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

1 [San Francisco Public Utilities Commission Wastewater Revenue Bond Issuance and Other  
2 Forms of Indebtedness Issuance - Not to Exceed \$1,715,671,086]

3 **Ordinance authorizing the issuance and sale of tax-exempt or taxable Wastewater**  
4 **Revenue Bonds and other forms of indebtedness by the San Francisco Public Utilities**  
5 **Commission (“Commission”) in an aggregate principal amount not to exceed**  
6 **\$1,715,671,086 to finance the costs of various capital wastewater projects benefitting**  
7 **the Wastewater Enterprise pursuant to amendments to the Charter of the City and**  
8 **County of San Francisco enacted by the voters on November 5, 2002, as Proposition E;**  
9 **authorizing the issuance of Wastewater Revenue Refunding Bonds and the retirement**  
10 **of outstanding Wastewater Enterprise Commercial Paper; declaring the Official Intent**  
11 **of the Commission to reimburse itself with one or more issues of tax-exempt or taxable**  
12 **bonds or other forms of indebtedness; and ratifying previous actions taken in**  
13 **connection therewith, as defined herein.**

14 NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.  
15 **Additions to Codes** are in *single-underline italics Times New Roman font*.  
16 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.  
17 **Board amendment additions** are in double-underlined Arial font.  
18 **Board amendment deletions** are in ~~strikethrough Arial font~~.  
19 **Asterisks (\* \* \* \*)** indicate the omission of unchanged Code  
20 subsections or parts of tables.

21 Be it ordained by the People of the City and County of San Francisco:

22 Section 1. Findings. The San Francisco Board of Supervisors (“Board”) hereby finds  
23 and declares as follows:

24 a. On November 5, 2002, the voters of the City and County of San Francisco  
25 (“City”) approved Proposition E (“Proposition E”, City Charter Section 8B.121(a)), which,  
among other things, provides that the Commission shall have exclusive charge of the

1 construction, management, supervision, maintenance, extension, expansion, operation, use  
2 and control of all water, clean water and energy supplies and utilities of the City as well as the  
3 real, personal, and financial assets that are under the Commission's jurisdiction or assigned to  
4 the Commission under Charter Section 4.132.

5           b.       Proposition E authorized the San Francisco Public Utilities Commission  
6 (“Commission”) to issue revenue bonds, including notes, commercial paper or other forms of  
7 indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of  
8 Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving  
9 water facilities or clean water facilities or combinations of water and clean water facilities  
10 under the jurisdiction of the Commission; and

11           c.       The Commission adopted the Indenture dated as of January 1, 2003, as further  
12 amended and supplemented from time to time (“Indenture”), between the Commission and  
13 U.S. Bank National Association and in connection with the Indenture has from time to time  
14 issued revenue bonds to finance projects benefitting the Wastewater Enterprise; and

15           d.       Under San Francisco Administrative Code Chapter 43, Article V, Section 43.5.1,  
16 *et seq.*, the Commission may by prescribed procedure issue short-term indebtedness,  
17 including the issuance of commercial paper in anticipation of the issuance of revenue bonds;  
18 and

19           e.       As prescribed by Administrative Code Chapter 43, Article V, the Commission  
20 may issue short-term indebtedness for the Wastewater Enterprise under the Wastewater  
21 commercial paper program (“Wastewater CP Program”) up to an aggregate principal amount  
22 not to exceed \$750,000,000 of commercial paper notes outstanding at any one time (see  
23 Commission Resolution No. 17-0086 (April 25, 2017) and Board Resolution No. 193-17  
24 (May 23, 2017)), and the Commission has caused Wastewater Enterprise commercial paper  
25 to be issued from time to time; and

1 e. On February 13, 2024, by Resolution No. 24-0031 (“Commission Resolution”),  
2 the Commission determined to issue Wastewater Revenue Bonds (“Wastewater Revenue  
3 Bonds”) and other forms of indebtedness (including without limitation State Revolving Fund  
4 Loans borrowed from the State Water Resources Control Board (“SRF Loans”), other State  
5 and Federal Loans, all as described below), and interim funding vehicles such as commercial  
6 paper to be issued, revolving credit agreements, bond anticipation notes or other forms of  
7 notes, which interim funding vehicles will be issued in advance of being paid off by either  
8 Wastewater Revenue Bonds and other forms of indebtedness (including without limitation  
9 SRF Loans, and other State Loans and Federal Loans, all as described below), to finance the  
10 costs of various capital projects benefitting the Wastewater Enterprise (“Capital Improvement  
11 Projects”), such projects being more fully described in the Commission Resolution), pursuant  
12 to Proposition E, and the Commission has formally requested this Board to authorize the  
13 issuance and sale of Wastewater Revenue Bonds and other indebtedness for such purposes,  
14 such Commission Resolution being on file with the Clerk of the Board of Supervisors in File  
15 No. 240453; and

16  
17 g. In order to finance the costs of the Capital Improvement Projects, the Board now  
18 desires to authorize the issuance and sale of Wastewater Revenue Bonds and other forms of  
19 indebtedness as described above, for such purposes, including obtaining SRF Loans (“State  
20 Loans”), grants from the State Water Resources Control Board, loans from the Water  
21 Infrastructure Finance and Innovation Act (“WIFIA”) program, and/or other Federal loans  
22 (WIFIA and other Federal loans being, “Federal Loans”); and

23 h. The Commission has paid, beginning no earlier than 60 days prior to the  
24 adoption of this Ordinance and will pay, on and after the date of this Ordinance, certain

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1 expenditures (“Expenditures”) in connection with the acquisition, construction and/or  
2 equipping of the Capital Improvement Projects; and

3 i. This Board is concurrently considering with this Ordinance, related supplemental  
4 appropriation ordinances for Fiscal Years (“FY”) 2024-25 and 2025-26, including expenditures  
5 of the proceeds of the Wastewater Revenue Bonds and other forms of indebtedness  
6 (including, without limitation and for illustrative purposes only, State Loans, Federal Loans  
7 (including WIFIA Loans), commercial paper, revolving credit agreements, and bond  
8 anticipation notes); and

9 j. This Board, on behalf of the Commission, adopts this Ordinance as official  
10 action of the Commission in order to comply with Treasury Regulation §1.150-2 and any other  
11 regulations of the Internal Revenue Service relating to the qualification for reimbursement of  
12 Commission expenditures incurred prior to the date of issue of the Wastewater Revenue  
13 Bonds and other forms of indebtedness (including, without limitation and for illustrative  
14 purposes only, State and Federal Loans, commercial paper, revolving credit agreements, and  
15 bond anticipation notes).

16 Section 2. Authorization to Issue Wastewater Revenue Bonds and other forms of  
17 indebtedness. The Board hereby authorizes the issuance and sale of taxable or tax-exempt  
18 Wastewater Revenue Bonds (including for illustrative purposes only, commercial paper, bank  
19 liquidity or credit agreements, State and Federal Loans, or bond anticipation notes) in one or  
20 more series from time to time by the Commission pursuant to Proposition E and in  
21 accordance with the Commission Resolution, , in an aggregate principal amount not to exceed  
22 \$1,715,671,086 (inclusive of financing costs) bearing a maximum rate or rates of interest of  
23 not to exceed twelve percent (12%) per annum to finance a portion of the costs of the design,  
24 acquisition and construction of the Capital Improvement Projects. Without limiting the  
25 foregoing, the Commission shall also be authorized to incur State and Federal Loans at such

1 time, in such amounts, and upon such other terms and conditions as the Commission may  
2 deem advantageous, and to approve any financing documentation related thereto consistent  
3 with this Ordinance. The Commission is hereby further authorized to determine the timing,  
4 amount and manner of sale (i.e., competitive or negotiated) of, or borrowing under each,  
5 series of Wastewater Revenue Bonds, bond anticipation notes, revolving credit agreements,  
6 commercial paper, or State or Federal Loan pursuant to this authorization; provided however,  
7 the Commission's authorization to issue Wastewater Revenue Bonds, bond anticipation  
8 notes, revolving credit agreements, or commercial paper, or to borrow under a State Loan or  
9 Federal Loan, is subject to approval by the Commission of the form of substantially final  
10 offering document related to such obligations (if any) and the approval of any related  
11 agreements, financing documents and the filing with its Board and the Clerk of the Board any  
12 certifications required by Proposition E prior to the issuance of any bonds or incurrence of any  
13 indebtedness herein authorized. The Commission shall also file, within 30 days of closing any  
14 Wastewater Revenue Bond or other form of indebtedness (including State and Federal Loans  
15 and bond anticipation notes) transactions authorized hereby, with the Clerk of the Board of  
16 Supervisors a report showing the results of the transaction, including (i) principal amount sold  
17 and method of sale, (ii) true interest cost, (iii) final maturity, (iv) the facilities constructed  
18 and/or improved, and (v) a statement about the remaining bonding authorization under this  
19 Ordinance ("Bond Report"), provided that the failure to file such Bond Report shall not affect  
20 the validity of any debt authorized hereunder.

21 Section 3. Authorization to Issue Wastewater Revenue Refunding Bonds;  
22 Commercial Paper Retirement. Notwithstanding Section 2 immediately above, the Board  
23 further authorizes and approves the issuance by the Commission of Wastewater Revenue  
24 Refunding Bonds ("Refunding Bonds") without limitation as to principal amount, in one or  
25 more series on one or more dates, at a maximum interest rate or rates of interest not to

1 exceed twelve percent (12%) per annum, provided that each such Refunding Bond issue is  
2 permitted under the applicable policies and procedures of the City and authorized by Section  
3 9.109 of the Charter (including related ordinances and resolutions of the Board). The  
4 Refunding Bonds may be issued as taxable or tax-exempt obligations, or any combination of  
5 such obligations. Refunding Bonds authorized hereunder shall be subject to the further  
6 following conditions, that: (i) three percent (3%) net present value debt service savings or  
7 greater is achieved to ensure ratepayer savings (exclusive of any issuance to refund  
8 commercial paper, revolving credit notes, or bond anticipation notes); (ii) that the maturity of  
9 the refunded bonds is not extended (exclusive of any issuance to refund commercial paper,  
10 revolving credit notes, or bond anticipation notes); (iii) this authorization is subject to a 5-year  
11 term through June 30, 2029, at which time this Board may consider an extension; (iv) principal  
12 payments and term may be adjusted, where permitted under federal and state tax law, only if  
13 and when the underlying capital asset funded through said refunded bonds has a useful life  
14 not in excess of any limit permitted under federal and state tax law than the refunded term;  
15 and (v) the Commission shall within 30 days of any executed refunding transaction provide a  
16 refunding savings report ("Bond Refunding Savings Report") prepared by its municipal  
17 advisors (that reflects at least a three percent (3%) net present value debt service savings) to  
18 the Board, together with a copy of the final Official Statement (if any) with respect to such  
19 series of Refunding Bonds, provided that the failure to deliver such Bond Refunding Savings  
20 Report shall in no way affect the validity of any Refunding Bonds. Notwithstanding the  
21 foregoing, the Commission is authorized to issue Refunding Bonds that do not meet all of the  
22 foregoing conditions provided that the Commission makes a finding, by resolution, that  
23 significant non-economic factors exist that justify the waiver of the three percent (3%) net  
24 present value debt service savings test and other conditions set forth above. Such non-  
25 economic factors may include, by way of illustration and not limitation, eliminating onerous

1 covenants and obsolete provisions contained in the Commission's indenture or other security  
2 documents, or restructuring a series of bonds in response to then-current market conditions.  
3 In furtherance of the purpose of managing the Commission outstanding indebtedness, the  
4 General Manager is hereby authorized to use Available Wastewater Enterprise Revenues and  
5 other funds as appropriate to retire outstanding Wastewater Enterprise Commercial Paper  
6 and other forms of indebtedness at such times and in such amounts advantageous to the  
7 Commission.

8           Section 4.    Declaration of Official Intent. The Board, on behalf of the Commission,  
9 hereby declares the official intent of the Commission to reimburse the Commission with  
10 proceeds of the Wastewater Revenue Bonds or other forms of indebtedness (including State  
11 or Federal Loans, commercial paper, revolving credit notes, or bond anticipation notes) for the  
12 Expenditures with respect to the Capital Improvement Projects made on and after a date that  
13 is no more than 60 days prior to the adoption of this Ordinance. The Commission reasonably  
14 expects that it will reimburse the Expenditures with proceeds of the Wastewater Revenue  
15 Bonds or other forms of indebtedness (including, without limitation and for illustrative  
16 purposes only, State or Federal Loans, commercial paper, revolving credit notes or bond  
17 anticipation notes). Each Expenditure was and will be either (A) of a type properly chargeable  
18 to a capital account under general federal income tax principles (determined in each case as  
19 of the date of the Expenditure), (B) a cost of issuance with respect to such obligations, (C) a  
20 nonrecurring item that is not customarily payable from current revenues, or (D) a grant to pay  
21 a party that is not related to or an agent of the issuer so long as such grant does not impose  
22 any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of  
23 the Commission. The Commission will make a reimbursement allocation, which is a written  
24 allocation by the Issuer that evidences the Commission's use of proceeds of the Wastewater  
25 Revenue Bonds or other forms of indebtedness to reimburse an Expenditure, no later than 18



1 months after the later of the date on which the Expenditure is paid or the component of the  
2 Capital Improvement Projects is placed in service or abandoned, but in no event more than  
3 three years after the date on which the Expenditure is paid. The Commission recognizes that  
4 exceptions are available for certain “preliminary expenditures,” costs of issuance, certain de  
5 minimis amounts, expenditures by “small issuers” (based on the year of issuance and not the  
6 year of expenditure) and expenditures for construction projects of at least five years.

7 Section 5. General Authority. The Controller of the City (“Controller”), Treasurer of  
8 the City (“Treasurer”), the City Attorney and other officers of the City, including the Director of  
9 the Office of Public Finance, and their duly authorized deputies and agents are hereby  
10 authorized and directed, jointly and severally, to take such actions and to execute and deliver  
11 such certificates, agreements, requests or other documents, as they may deem necessary or  
12 desirable to facilitate the issuance, sale and delivery of the Wastewater Revenue Bonds,  
13 State or Federal Loans, bond anticipation notes, commercial paper or Refunding Bonds, to  
14 obtain bond insurance or other credit or liquidity enhancements with respect to any such  
15 obligations, and otherwise to carry out the provisions of this Ordinance. The Commission is  
16 hereby directed to provide the final form to the Clerk of the Board of any disclosure document  
17 (if any) prepared in connection with the execution of any Wastewater Revenue Bonds, State  
18 or Federal Loans, bond anticipation notes, commercial paper or Refunding Bonds, and the  
19 final executed Installment Sale Agreement or other document reflecting the incurrence of a  
20 State or Federal Loans, within 30 days of the closing of such transactions; provided however  
21 that failure to provide such document shall not affect the validity of the obligations authorized  
22 hereunder. The Commission is further directed as a part of the two-year budget review to  
23 provide to this Board of Supervisors a written report about Wastewater Revenue Bonds  
24 authorized under this Ordinance, detailing the total amount authorized, the total amount sold,  
25

1 the remaining authorized but unissued amount, and the bond authorization no longer  
2 necessary due to changes in projects and project financing.

3 Section 6. Ratification of Prior Actions. All actions authorized and directed by this  
4 Ordinance in connection with the issuance of the Wastewater Revenue Bonds or other forms  
5 of indebtedness (including, without limitation and for illustrative purposes only, State or  
6 Federal Loans , bond anticipation notes or commercial paper), Refunding Bonds, and  
7 heretofore taken are hereby ratified, approved and confirmed by this Board.

8 Section 7. Additional Definitions and Terms Pertaining to Proceeds. The following  
9 additional definitions and declarations of the Board shall be as follows:

10 a. Financings. For all purposes of this Ordinance and any related Commission  
11 Resolution, a Financing (“Financing”) is: (i) any issuance of tax-exempt or taxable revenue  
12 bonds, notes, bond anticipation notes, commercial paper, bank liquidity or credit agreements,  
13 certificates of participation or other obligations for borrowed money, including, without limitation,  
14 any financing lease, installment purchase or sale agreement, or other similar financing  
15 agreements or arrangement; and (ii) any indebtedness to a State or Federal lender, program, or  
16 funding source, including, without limitation, any State or Federal Loan, and any borrowing from  
17 a similar programs or replacement programs that may come into existence after the adoption  
18 date of this Ordinance; and (iii) any funding to the Commission arising from a joint powers  
19 agreement between the Commission and one or more other public agencies for the joint  
20 acquisition, construction, operation and/or management of infrastructure or facilities; and (iv)  
21 any financial award from a Federal, State, or local government authority or a private grant-  
22 making foundation or a private nonoperating foundation or a Section 501(c)3 charitable  
23 organization; and (v) any funding from a securitization that involves the issuance of debt  
24 instruments.

1           b.     For all purposes of this Ordinance and any related Commission Resolution, a  
2 Financing Agreement (“Financing Agreement”) is: any contract, agreement, financing lease,  
3 installment purchase or sale agreement, application, draw notice, joint powers agreement,  
4 securitization agreement, or other similar financing agreements or arrangement, or  
5 amendment to any of these, entered into by the Commission in connection with any  
6 Financing.

7           c.     The Chief Financial Officer or the Deputy Chief Financial Officer of the  
8 Commission, or their designee(s), is authorized to ask the Controller to record the substitution  
9 of funds arising from any Financing Agreement (whether already in existence as of the date of  
10 this Ordinance or entered into in connection with a Financing that is approved hereunder) with  
11 separate and other Financing Agreement transactional funds, all as necessary to conform to  
12 (i) Generally Accepted Accounting Principles and other laws and (ii) the terms of any  
13 Financing Agreement. Commission funds held by the Controller generally remain subject to  
14 Article VIII B of the Charter and Article XIIC and Article XIID of the California Constitution.

15           d.     In accordance with Section 3.105 and Section 9.113 of the Charter, at the  
16 closing of each Commission transaction involving a Financing Agreement, the Chief Financial  
17 Officer or the Deputy Chief Financial Officer of the Commission, or their designee(s), shall ask  
18 the Controller to independently confirm whether sufficient unencumbered balances are  
19 expected to be available in the proper fund(s) to meet all payments under such obligations as  
20 they become due, if any, and the Controller shall issue related certifications.

21           Section 8.   File Documents. All documents referred to as on file with the Clerk of the  
22 Board of Supervisors are located in File No. 240453.

23           ///

24           ///

25           ///

1 Section 9. Effective Date. Pursuant to Charter Section 8B.124, the remainder of this  
2 Ordinance shall take effect thirty (30) days after its adoption.

3 APPROVED AS TO FORM:  
4 DAVID CHIU, City Attorney

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6  
7 By: /s/  
8 KATHERINE T. ORTEGA  
9 Deputy City Attorney

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**LEGISLATIVE DIGEST**

[San Francisco Public Utilities Commission Wastewater Revenue Bond Issuance and Other Forms of Indebtedness Issuance - Not to Exceed \$1,715,671,086]

**Ordinance authorizing the issuance and sale of tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission (“Commission”) in an aggregate principal amount not to exceed \$1,715,671,086 to finance the costs of various capital wastewater projects benefitting the Wastewater Enterprise pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002, as Proposition E; authorizing the issuance of Wastewater Revenue Refunding Bonds and the retirement of outstanding Wastewater Enterprise Commercial Paper; and declaring the Official Intent of the Commission to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith.**

Existing Law

This is new law.

Background Information

On November 5, 2002, the voters of the City and County of San Francisco approved Proposition E (“Proposition E”) which authorized the San Francisco Public Utilities Commission (“Commission”) to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the Commission.

The proposed Ordinance authorizes the issuance of tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness, including State and Federal Loans, in an amount not to exceed \$1,715,671,086. Proceeds of the Wastewater Revenue Bonds and other forms of indebtedness, including State and Federal Loans, will be used to finance the costs of various capital projects benefitting the Wastewater Enterprise (“Capital Improvement Projects”). The Ordinance also reflects the Wastewater commercial paper program, available in an aggregate principal amount not to exceed \$750 million of commercial paper notes outstanding at any one time.

The Wastewater Revenue Bonds will be issued under an Indenture dated as of January 1, 2003 (as further amended and supplemented from time to time (“Indenture”), between the Commission and U.S. Bank National Association, as the trustee.

The proposed Ordinance also authorizes the issuance of Refunding Wastewater Revenue Bonds to refund outstanding indebtedness of the Wastewater Enterprise subject to the following conditions, among others (i) three percent (3%) net present value debt service savings or greater is achieved; (ii) the maturity of the refunded bonds is not extended; and (iii) the refunding authorization sunsets on June 30, 2029, unless extended by the Commission. Staff is required to provide a savings report within 30 days following the bond sale.

The proposed Ordinance also authorizes the Commission to issue Refunding Bonds for non-economic factors which may include, by way of illustration, eliminating onerous covenants and obsolete provisions contained in the Commission’s Indenture or other security documents, or restructuring a series of bonds in response to then-current market conditions.

Certain changes to the proposed Ordinance are included (i) to create conformity amongst the Commission’s three distinct borrowing ordinances, one for each Enterprise, (ii) to align with terms and practices used in Commission budgeting ordinances, and (iii) to develop concepts required for the needed substitution of Commission capital project funding sources (including the transfers between funds and adjustments of the accounting treatment of sources and uses for the proposed and prior capital project appropriations).

<p><b>Items 10-13</b> <b>Files 24-0452 - 24-0455</b></p>	<p><b>Department:</b> Public Utilities Commission (PUC)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p><b>File 24-0453:</b> is an ordinance authorizing \$1,715,671,086 in Wastewater Revenue Bonds.  <b>File 24-0455:</b> is an ordinance authorizing \$1,035,007,350 in Water Revenue Bonds.  <b>File 24-0454:</b> is an ordinance authorizing \$292,825,860 in Power Revenue Bonds.  <b>File 24-0452:</b> 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.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinances pertain to the PUC’s two-year capital budget for the Water, Wastewater, Power, and CleanPowerSF divisions.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <p>(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.</p>	

**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 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.

# **PUBLIC UTILITIES COMMISSION**

City and County of San Francisco

RESOLUTION NO. 24-0031

WHEREAS, On September 26, 2023 and January 22, 26, 29 and February 2, 2024, this Commission heard and considered budget priorities for the department, and the San Francisco Public Utilities Commission (SFPUC) General Manager and Staff presented the preliminary proposed FY 2024-25 and FY 2025-26 Capital Budget for the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water & Power, including the Power Enterprise and CleanPowerSF (Capital Budget) including the list of projects, cost estimates, and schedules to the Commission; and

WHEREAS, An overview of the proposed FY 2024-25 and FY 2025-26 Capital Budget for each SFPUC Enterprise is set forth as Attachment A and is on file with the Commission Secretary; and

WHEREAS, The proposed FY 2024-25 and FY 2025-26 Capital Budget must be submitted to, and approved by the Mayor and the Board of Supervisors; and

WHEREAS, This action does not constitute a project under the California Environmental Quality Act (CEQA) Guidelines section 15378(b)(4) because adoption of the Capital Budget involves creation of a government funding mechanism or other fiscal activities and does not involve any commitment to a specific project which may result in a potentially significant impact on the environment; and

WHEREAS, The SFPUC will consider approval of projects to be funded through this Capital Budget only after completion of any environmental review required by CEQA and Administrative Code Chapter 31 and any certification required by Proposition E (approved by the voters in 2002 for water and wastewater projects) and Proposition A (approved by the voters in 2018 for power projects); and

WHEREAS, This Commission has considered the proposed FY 2024-25 and FY 2025-26 Capital Budget for the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise and CleanPowerSF, which totals \$1,784,912,774 for FY 2024-25 and \$1,792,439,721 for FY 2025-26, as set forth in Attachment A to the February 13, 2024, staff report; now, therefore, be it

RESOLVED, That this Commission hereby adopts the FY 2024-25 and FY 2025-26 SFPUC Capital Budget in the amount of \$1,784,912,774 for FY 2024-25 and \$1,792,439,721 for FY 2025-26 and for the Water Enterprise, the Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise and CleanPowerSF as presented at the public hearings on January 29, 2024 and as set forth in the attached Attachment A, as follows:

<b>FY 2024-25 Capital Budget</b>	<b>Amount</b>	<b>Financing Costs</b>	<b>Total</b>
Wastewater	\$892,521,033	\$136,726,319	\$1,029,247,352
Water	456,053,637	61,964,962	518,018,599
Hetchy Water	152,774,787	26,351,105	179,125,892
Hetchy Power	52,035,690	5,902,981	57,938,671
CleanPowerSF	582,260	0	582,260
<b>Total</b>	<b>\$1,553,967,407</b>	<b>\$230,945,367</b>	<b>\$1,784,912,774</b>

<b>FY 2025-26 Capital Budget</b>	<b>Amount</b>	<b>Financing Costs</b>	<b>Total</b>
Wastewater	\$822,912,008	\$120,624,344	\$943,536,352
Water	477,182,370	64,895,259	542,077,629
Hetchy Water	180,765,665	30,351,763	211,117,428
Hetchy Power	85,482,971	9,708,911	95,191,882
CleanPowerSF	516,430	0	516,430
<b>Total</b>	<b>\$1,554,459,622</b>	<b>\$225,580,277</b>	<b>\$1,792,439,721</b>

and be it;

FURTHER RESOLVED, That the General Manager is authorized to reallocate funds within an Authority Code as provided in the staff report and Attachment A appended to this Resolution and to make further technical adjustments to these approved amounts as may be necessary, or upon further direction from the Commission, the Mayor, or the Board of Supervisors; and, be it

FURTHER RESOLVED, The General Manager is hereby authorized and directed to submit to the Board of Supervisors proposed ordinances authorizing the issuance of (1) not to exceed \$1,035,007,350 aggregate principal amount of Water Revenue Bonds and other forms of indebtedness, including commercial paper and State Revolving Fund (SRF) loans, (2) \$1,715,671,086 aggregate principal amount of Wastewater Revenue Bonds and other forms of indebtedness, including commercial paper and SRF loans, under the terms of Proposition E (approved by the voters November 2002), and (3) \$292,825,860 aggregate principal amount of Power Revenue Bonds and other forms of indebtedness, including commercial paper and loans, subject to the terms of Charter Sections 9.107(6) and 9.107(8). The General Manager shall return to this Commission for a subsequent discretionary approval of any disclosure and transaction related documents prepared in connection with the issuance of such Bonds and other forms of indebtedness.

*I hereby certify that the foregoing resolution was adopted by the Public Utilities Commission at its meeting of February 13, 2024.*

  
 Klonna Hood  
 Secretary, Public Utilities Commission

# **Attachment A**

## **Two Year SFPUC Capital Budget FY 2024-25 and FY 2025-26**

## Attachment A Wastewater Enterprise

### Funding Source

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2025-26
19471	Proceeds Sale of Bonds	911,508,795	804,162,291
19141	Wastewater Revenue	112,415,407	133,891,216
19141	Wastewater Capacity Fee	5,323,150	5,482,845
	TOTAL - Funding Source	1,029,247,352	943,536,352

### Use of Funds

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2025-26
SSIP			
19142	Program Management	16,000,000	12,996,970
19142	Biosolids/Digester Project	378,512,525	188,532,739
19142	Treatment Plant Improvements - Southeast	83,860,148	113,581,087
19142	Treatment Plant Improvements - Other	54,491,438	57,913,311
19142	Collection System Improvements Stormwater Management/Green	15,587,483	44,773,049
19142	Infrastructure	7,677,412	17,951,320
19142	Flood Resilience/Hydraulic Improvements	82,267,176	158,669,505
	TOTAL - SSIP	638,396,182	594,417,981

### Non-SSIP

19141	Renewal & Replacement-Collection System	128,538,826	142,124,003
19141	Renewal & Replacement-Treatment Facilities	24,000,000	25,000,000
19134	Treasure Island	36,624,859	4,272,611
19139	Wastewater Facilities and Infrastructure	64,961,166	57,097,413
	TOTAL - Non SSIP	254,124,851	228,494,027

19471	Financing Cost	136,726,319	120,624,344
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	TOTAL - Use of Funds	1,029,247,352	943,536,352
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## Attachment A Water Enterprise

### Funding Source

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2025-26
17731	Proceeds Sale of Bonds	413,099,747	432,635,062
19133	Water Enterprise Revenue	99,977,942	104,353,430
19063	Water Capacity Fee	4,940,910	5,089,137
	TOTAL - Funding Source	518,018,599	542,077,629

### Use Of Funds

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2025-26
80526	Reg Water Facilities and Infra	203,597,839	122,663,166
80527	Watersheds & Right of Way	8,870,044	9,694,978
80528	Reg Alternative Water Supplies	6,240,441	7,449,609
	Total Regional Water	218,708,324	139,807,753
	Local Water		
80529	Local Water Facilities and Infra	227,398,679	319,859,530
80530	Local Water Recourses (WRD)	9,946,634	17,515,087
	TOTAL - Local Water	237,345,313	337,374,617
17731	Financing Costs	61,964,962	64,895,259
	TOTAL - Use of Funds	518,018,599	542,077,629

## Attachment A Hetch Hetchy

<b>Funding Source</b>		<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b>Authority</b>	<b>Description of Appropriation or Fund</b>		
15366	Proceeds Sale Power Bonds	115,630,709	177,195,151
15366	Proceeds Sale Water Bonds	99,396,533	89,876,008
15405	Hetch Hetchy Revenue Funds (Power/Water)	20,222,482	37,238,254
15404	Cap and Trade Revenue	1,006,901	1,151,119
21284	Low Carbon Fuel Standard	807,938	848,778
	<b>TOTAL - Funding Source</b>	<b>237,064,563</b>	<b>306,309,310</b>
<b>Use of Funds</b>		<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b>Authority</b>	<b>Description of Appropriation or Fund</b>		
15363	Water Infrastructure Projects	56,049,054	57,052,901
15364	Power Infrastructure Projects	25,730,244	61,113,838
15365	Joint Water/Power Projects	70,995,489	62,598,926
	<b>TOTAL - Water</b>	<b>152,774,787</b>	<b>180,765,665</b>
80427	Distribution Services Retail	30,100,000	54,739,676
80427	ITS Capital Projects	74,690	71,295
80427	Distribution Services Retail - Treasure Island	638,000	10,362,000
80427	Distribution Services Retail - Grid Connections	8,050,000	8,350,000
15377	Streetlights	3,615,000	3,615,000
15400	Small Renewables	1,000,000	1,000,000
15404	Energy Efficiency - General Fund	1,000,000	1,000,000
15383	Power Asset Acquisition	7,558,000	6,345,000
	<b>TOTAL - Power</b>	<b>52,035,690</b>	<b>85,482,971</b>
15366	Financing Cost Power	17,344,606	26,579,273
15366	Financing Cost Water	14,909,480	13,481,401
	<b>Total Financing Costs</b>	<b>32,254,086</b>	<b>40,060,674</b>
	<b>TOTAL - Use of Funds</b>	<b>237,064,563</b>	<b>306,309,310</b>

## Attachment A CleanPowerSF

### Funding Source

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2024-25
80233	ITI from Cleanpower Funds	582,260	516,430
	TOTAL-Source of Fund	582,260	516,430

### Use of Funds

Authority	Description of Appropriation or Fund	FY 2024-25	FY 2024-25
80233	Local Renewable Energy Program	582,260	516,430
	Total-Uses of Fund	582,260	516,430

OFFICE OF THE MAYOR  
SAN FRANCISCO



LONDON N. BREED  
MAYOR

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  
BOARD 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

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2024 MAY -1 AM 11:00  
BY [signature]

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  
 BOARD OF SUPERVISORS  
 SAN FRANCISCO  
 2024 MAY -1 AM 11:00  
 BY          dw

OFFICE OF THE MAYOR  
SAN FRANCISCO



LONDON N. BREED  
MAYOR

To: Angela Calvillo, Clerk of the Board of Supervisors  
From: Anna Duning, Mayor's Budget Director  
Date: May 1, 2024  
Re: San Francisco Public Utilities Commission Wastewater Revenue Bond Issuance  
and Other Forms of Indebtedness Issuance----Not to Exceed \$1,715,671,086

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2024 MAY -1 AM 11:04  
BY [Signature]

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**Ordinance authorizing the issuance and sale of tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission ("Commission") in an aggregate principal amount not to exceed \$1,715,671,086 to finance the costs of various capital wastewater projects benefitting the Wastewater Enterprise pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002 as Proposition E; authorizing the issuance of Wastewater Revenue Refunding Bonds and the retirement of outstanding Wastewater Enterprise Commercial Paper; and declaring the Official Intent of the Commission to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith.**

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