

1 [Administrative Code - Power Revenue Bonds]

2

3 Ordinance amending the Administrative Code to provide procedures for the issuance
4 of Power Revenue Bonds by the Public Utilities Commission of the City and County of
5 San Francisco.

6

7 NOTE: Unchanged Code text and uncodified text are in plain Arial font.
8 Additions to Codes are in *single-underline italics Times New Roman font*.
9 Deletions to Codes are in ~~*striketrough italics Times New Roman font*~~.
10 Board amendment additions are in double-underlined Arial font.
11 Board amendment deletions are in ~~striketrough Arial font~~.
12 Asterisks (* * * *) indicate the omission of unchanged Code
13 subsections or parts of tables.

11

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

13

14 Section 1. Findings.

15 The Board of Supervisors (the "Board") of the City and County of San Francisco (the
16 "City") hereby finds and declares as follows:

17 (a) The City is a municipal corporation and chartered city and county duly organized
18 and existing under a charter pursuant to which the City has the right and power to make and
19 enforce all laws and regulations in respect to municipal affairs and certain other matters in
20 accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the
21 Constitution of the State of California and Section 1.101 of the Charter of the City (the
22 "Charter").

23 (b) Pursuant to the Charter, the Public Utilities Commission of the City and County
24 of San Francisco (the "PUC") is authorized, upon approval by the Board, to issue revenue
25 bonds for any purposes related to the PUC's Power Enterprise (as defined in Section 43.14.2

1 of the Administrative Code), including, without limitation, financing or refinancing capital
2 additions, improvements, repairs and replacements to the Power Enterprise.

3 (c) Article XIV of Chapter 43 of the Administrative Code sets forth procedures by
4 which the PUC may issue and sell such revenue bonds payable from and secured by Power
5 Enterprise Revenues (defined below).

6 (d) Article XIV also is consistent with the Charter and other applicable law and in
7 furtherance of the purpose of the PUC as an enterprise department of the City.

8
9 Section 2. The Administrative Code is hereby amended by adding Article XIV,
10 Sections 43.14.1 through 43.14.9, to Chapter 43, to read as follows:

11 **SEC. 43.14.1. TITLE.**

12 *This Article XIV shall be known as the Public Utilities Commission Power Enterprise Revenue*
13 *Bond Law.*

14 **SEC. 43.14.2. DEFINITIONS.**

15 *For purposes of this Article XIV, the following terms shall have the meanings below:*

16 *"Board" shall mean the duly elected and acting Board of Supervisors of the City.*

17 *"Bonds" shall mean the PUC's power revenue bonds issued pursuant to and under authority*
18 *granted by this Article.*

19 *"Charter" shall mean the Charter of the City, as the same shall be amended from time to time.*

20 *"City" shall mean the City and County of San Francisco.*

21 *"Commission" shall mean the governing body of the PUC as established by the Charter.*

22 *"General Manager" shall mean the General Manager of the PUC, or any successor to that*
23 *office, or the General Manager's designee.*

24 *"Power Enterprise" shall mean the PUC's electric utility system which provides electric power*
5 *and related services to the City and its departments, agencies, and commissions as well as others.*

1 including that portion of the Hetch Hetchy Water and Power Project allocable to power generation, all
2 other power generation, transmission and distribution facilities and related facilities, property and
3 rights constituting a part of such electric utility system, and any and all additions, improvements,
4 betterments, renewals, replacements, and repairs thereto and extensions thereof, but shall not include:
5 (a) the PUC's Water Enterprise; (b) the PUC's Wastewater Enterprise; or (c) any other separate utility
6 system of the PUC.

7 "Power Enterprise Revenues" shall mean all revenues, rates, and charges received and
8 accrued by the PUC for electric power and energy and other services, facilities and commodities sold,
9 furnished or supplied by the Power Enterprise. Power Enterprise Revenues shall not include revenues
10 of the PUC's Water Enterprise, Wastewater Enterprise, or any other separate utility system of the
11 PUC.

12 "PUC" shall mean the Public Utilities Commission of the City and County of San Francisco.

13 "State" shall mean the State of California.

14 "Trust Indenture" shall mean each bond resolution or trust indenture under and pursuant to
15 which the Commission issues Bonds, as supplemented and amended from time to time.

16 **SEC. 43.14.3. SEPARATE AND COMPLETE AUTHORITY.**

17 The authority provided by this Article XIV is in addition to, and not limited by, the authority
18 provided by any other ordinance or law, and is separate and complete authority for the actions
19 authorized in this Article.

20 **SEC. 43.14.4. AUTHORIZATION AND TERMS OF BONDS.**

21 (a) Subject to the approval of the Board, the PUC is authorized to issue Bonds for any
22 purposes of the Power Enterprise, including, without limitation, financing or refinancing capital
23 additions, improvements, repairs, and replacements to the Power Enterprise. Such Bonds shall be
24 payable from and secured by Power Enterprise Revenues and shall be subject to such terms,
25 conditions, covenants, and agreements as the Commission may authorize by resolution.

1 **(b) Bonds may bear a rate or rates of interest, which may be fixed or variable, but not to**
2 **exceed the maximum legal rate of interest, as the Commission may authorize by resolution.**

3 **(c) Bonds may be sold at either competitive or negotiated sale in such manner as the**
4 **Commission may determine.**

5 **(d) In connection with the issuance of any Bonds, the Commission may enter into credit**
6 **enhancement or liquidity agreements with such terms, conditions, covenants, and agreements as the**
7 **Commission may authorize by resolution.**

8 **(e) In connection with the issuance of any Bonds, the Commission may designate and enter**
9 **into agreements with such trustees, remarketing agents, placement agents, and other service providers**
10 **as the Commission may determine.**

11 **SEC. 43.14.5. BONDS AS SPECIAL LIMITED OBLIGATIONS; ISSUANCE OF OTHER**
12 **OBLIGATIONS.**

13 **(a) Bonds shall be special limited obligations of the PUC, payable from and secured by**
14 **Power Enterprise Revenues or any portion thereof and such other funds and accounts of the Power**
15 **Enterprise as specified in the Trust Indenture. Bonds shall not in any manner, or to any extent,**
16 **constitute general obligations of the PUC or the City, or of the State or any political subdivision of the**
17 **State. Bonds shall not be a charge upon the general fund or upon any moneys or other property of the**
18 **PUC or the City, or of the State or any political subdivision of the State, other than the Power**
19 **Enterprise Revenues. Neither the full faith and credit nor the taxing power of the City, or of the State or**
20 **any political subdivision of the State, shall be pledged to the payment of Bonds. Bonds shall not**
21 **constitute indebtedness of the City within the meaning of any State constitutional or statutory**
22 **provisions or limitations or under the Charter. No holder of a Bond shall have the right to compel the**
23 **exercise of the taxing power of the City, the State, or any political subdivision of the State to pay the**
24 **Bonds or the interest thereon.**

1 **(b) Nothing in this Article XIV shall prevent the City at the request of the Commission from**
2 **issuing or incurring general obligation bonds, notes, lease or installment sale obligations or**
3 **certificates of participation therein, or other evidences of indebtedness for any purposes related to the**
4 **Power Enterprise, including, without limitation, financing or refinancing capital additions,**
5 **improvements, repairs, and replacements to the Power Enterprise.**

6 **SEC. 43.14.6. REFUNDING BONDS.**

7 **The Commission may by resolution authorize the issuance of Bonds to refund any outstanding**
8 **Bonds, without the need for additional Board approval, provided that (a) such refunding is expected to**
9 **result in net debt service savings to the City on a present value basis of at least 3% calculated as**
10 **provided in Article VI of this Chapter 43, and (b) such refunding Bonds are issued pursuant to an**
11 **existing Trust Indenture. The General Manager shall provide a certification to the Commission**
12 **regarding such expected net debt service savings on or prior to the issuance of such Bonds.**

13 **SEC. 43.14.7. ESTABLISHMENT OF RATES AND CHARGES.**

14 **In accordance with Charter Section 8B.125, the City, including, without limitation, the**
15 **Commission, shall fix, establish, maintain, approve, and collect rates and charges for electric power**
16 **and energy and other services, facilities, and commodities sold, furnished or supplied through the**
17 **facilities of the Power Enterprise, including on, for, and from the City and its departments, agencies**
18 **and commissions, to provide the Power Enterprise Revenues sufficient (a) to pay all costs and expenses**
19 **of the Power Enterprise, including, without limitation, debt service on Bonds, (b) to provide**
20 **appropriate reserves therefor, and (c) to satisfy the debt service coverage and other requirements**
21 **under the applicable Trust Indenture.**

22 **SEC. 43.14.8. ACTIONS CONCERNING VALIDITY OF BONDS.**

23 **(a) Any action by the Commission or the City to determine, or any action by an interested**
24 **person challenging, the validity of any Bonds shall be brought pursuant to Chapter 9 (commencing**
25

1 with Section 860) of Title 10 of Part 2 of the California Code of Civil Procedure, as supplemented and
2 amended.

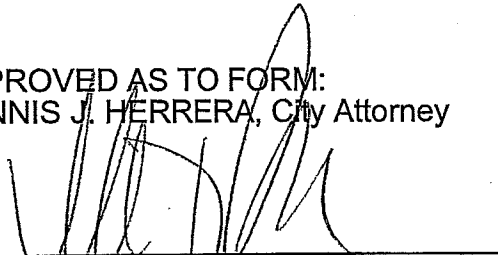
3 (b) For the purposes of Section 860 of the Code of Civil Procedure, any action initiated
4 pursuant to this Section 43.14.8 shall be brought in the Superior Court of the City and County of San
5 Francisco.

6 **SEC. 43.14.9. GENERAL AUTHORIZATION.**

7 The Mayor, the City Attorney, the Controller of the City, the Treasurer of the City, the City
8 Administrator, the Clerk of the Board, and other officers of the City and their duly authorized deputies,
9 agents, and designees are hereby authorized and directed, jointly and severally, to take such actions
10 and to execute and deliver such certificates, agreements, requests or other documents, as they may
11 deem necessary or desirable to facilitate the purposes of this Article.

12
13 Section 3. Effective Date. This ordinance shall become effective 30 days after
14 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
15 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
16 of Supervisors overrides the Mayor's veto of the ordinance.

17
18 APPROVED AS TO FORM:
19 DENNIS J. HERRERA, City Attorney

20
21 By: 
22 MARK D. BLAKE
23 Deputy City Attorney

24
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AMENDED IN COMMITTEE

3/11/15

FILE NO. 150078

LEGISLATIVE DIGEST

[Ordinance Amending San Francisco Administrative Code to Add Power Enterprise Revenue Bond Law.]

Ordinance Amending the San Francisco Administrative Code by adding to Chapter 43, Article XIV, Sections 43.14.1 through 43.14.9, to provide procedures for the issuance of Power Revenue Bonds by the Public Utilities Commission of the City and County of San Francisco.

Existing Law

This is new legislation.

Background Information

Pursuant to the Charter, the Public Utilities Commission of the City and County of San Francisco (the "PUC") is authorized, upon approval by the Board, to issue revenue bonds for any purposes related to the PUC's Power Enterprise (defined below), including, without limitation, financing or refinancing capital additions, improvements, repairs and replacements to the Power Enterprise. The proposed legislation sets forth procedures by which the PUC may issue and sell such revenue bonds payable from and secured by Power Enterprise Revenues.

The proposed Ordinance sets forth certain definitions and provides procedures for the issuance of Bonds for any purposes of the Power Enterprise, including, without limitation, the financing or refinancing of capital additions, improvements, repairs and replacements to the Power Enterprise. The proposed Ordinance sets forth the certain terms for the Bonds, the method of sale and permits the Commission to enter into credit agreements to support the issuance of the Bonds. In addition, the proposed Ordinance provides for the pledge of revenues/security for the Bonds, and provides for the issuance of refunding bonds without returning to the Board for approval provided that the Commission achieves at least 3% present value debt service savings.

Finally, the proposed Ordinance provides that the City may pursue actions under Civil Code Section 860 to determine the validity of Bonds, if necessary.

Items 4 and 5
Files 15-0078 and 150079

Department:
 Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- **File 15-0078:** Ordinance amending the Administrative Code to add Chapter 43, Article XIV, Sections 43.14.1 through 43.14.9, to provide procedures for the issuance of Power Revenue Bonds by the San Francisco Public Utilities Commission (SFPUC).
- **File 15-0079:** Ordinance approving the issuance and sale of revenue bonds by the SFPUC in an amount not to exceed \$48,000,000 to finance various capital projects pursuant to Charter Section 9.107(6) and Section 9.107(8); approving certain documents/agreements; making California Environmental Quality Act determinations and other actions.

Key Points

- On February 10, 2015, the SFPUC approved a 10-year Capital Plan which includes \$760 million for power projects, including \$550,000,000 of funding from power revenue bonds. On June 24, 2014, the Board of Supervisors approved the SFPUC's capital budget for FY 2014-15 and FY 2015-16 and authorized the SFPUC to issue up to \$112,346,843 of power revenue bonds. To date the SFPUC has not issued any SFPUC Power revenue bonds.

Fiscal Impact

- Total estimated debt service over the 30-year term of the bonds at 4.2% annual interest is \$87,072,605, consisting of \$48,000,000 in principal and \$39,072,605 in interest. The estimated average annual debt service payment is approximately \$2,900,000.
- Debt service payments will be covered by Power Enterprise revenues from the sale of electricity. The City's General Fund departments currently pay a subsidized rate of \$.0575/kWH, which will increase by \$.01/kWH in FY 2015-16. All SFPUC's power rates are projected to increase to cover the actual costs of service, including debt service for power revenue bonds. In FY 2014-15, SFPUC estimated the City's General Fund departments received \$20 million of subsidized electric power rates.

Policy Consideration

- File 15-0078 authorizes the SFPUC to refund bonds by resolution of the SFPUC, without Board of Supervisors approval, provided the refunding bonds achieve debt service savings.

Recommendations

- Except for the provisions to authorize the SFPUC refunding bonds without further approval by the Board of Supervisors, which the Budget and Legislative Analyst considers to be a policy decision, approve the proposed ordinances.
- Approval of Section 43.14.6 in File 15-0078 to allow the SFPUC to authorize bonds to be refunded without approval of the Board of Supervisors is a policy decision for the Board of Supervisors. If the Board of Supervisors wants to delegate such authority to the SFPUC, the proposed ordinance should be amended to specify a net present value debt service savings threshold of at least 3% of the refunded bonds, consistent with City debt policy.

MANDATE STATEMENT / BACKGROUND

According to Charter Section 9.107(6) and 9.107(8), the Board of Supervisors is authorized to provide for the issuance of revenue bonds without voter approval if:

Issued for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the Public Utilities Commission, when authorized by resolution adopted by a three-fourths affirmative vote of the Board of Supervisors; and/or

Issued for the purpose of acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

Charter Section 5A.31(d) states that 1/20th of one percent 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.

Charter Appendix F1.113 states that 0.2 percent of the bond expenditures net of bond financing and auditing costs be allocated to support the Controller's Audit Fund.

Background

Since the construction of the Hetch Hetchy Project in 1918, the San Francisco Public Utilities Commission (SFPUC) has been responsible for providing water and electricity to Bay Area and San Francisco customers and the Modesto and Turlock Irrigation Districts¹. Currently, the Hetch Hetchy Project delivers water to approximately 2.6 million Bay Area residents and generates an average of 1.6 million megawatts (MWh) of clean renewable electricity annually.

In 2005, the SFPUC reorganized and created a Power Enterprise, functionally and financially separate from the SFPUC's existing Water Enterprise and Wastewater Enterprise. The Power Enterprise is responsible for generating, scheduling, purchasing, selling, transmitting and distributing electricity to meet the needs of approximately 2,416 retail and wholesale customers. SFPUC Power Enterprise customers include: (a) all City municipal departments, including City Hall, police and fire stations, City hospitals, Moscone Convention Center, MUNI, the Airport, public housing, and all City streetlights and traffic signals; (b) tenants in City-owned properties, including the Port and Airport; and (c) tenants in the Hunters Point Shipyard Phase I redevelopment project, Treasure Island and Transbay Transit Center.

¹ The PUC has provided electricity to these two State irrigation districts since the 1920s in accordance with the terms of the Federal Raker Act, which granted the City rights of way over federal lands in Yosemite National Park, Stanislaus National Forest and other public lands to construct and operate the Hetch Hetchy Project, to provide water to the Bay Area and generate hydroelectricity as part of the City's water delivery operations.

Electricity is generated through three large hydroelectric powerhouses located in Tuolumne County: (1) Holm Powerhouse, (2) Kirkwood Powerhouse and (3) Moccasin Powerhouse and then delivered through distribution and transmission lines and switchyards and substations. Most of the SFPUC's existing powerhouses, and electrical distribution and transmission systems have been in operation since the 1960s or earlier and are nearing the end of their useful lives, requiring significant capital investment, rebuild and improvements to maintain ongoing operations. The SFPUC's electric power sales must generate sufficient revenues to fund the Power Enterprise's operating expenses while funding capital investments.

To fund these long term capital improvements, on May 13, 2014, the SFPUC approved a 10-year Capital Plan which included \$748 million for power capital projects. On February 10, 2015, the SFPUC approved an updated 10-year Capital Plan (FY 2015-16 through FY 2024-25) which calls for \$760 million for power capital projects. Of the currently identified \$760 million for power capital projects, the current 10-year Capital Plan identifies \$198 million of annual ongoing power revenues, \$12 million from Cap and Trade Auction revenues and \$550 million from debt funding through the issuance of power revenue bonds.

On June 24, 2014, the Board of Supervisors approved the SFPUC's capital budget for FY 2014-15 and FY 2015-16 with the following two ordinances:

- File 14-0482: ordinance authorizing the issuance and sale of SFPUC power revenue bonds for up to \$112,346,843 to finance various SFPUC Power Enterprise capital projects; and
- File 14-0480: supplemental ordinance appropriating \$217,478,836 of Hetch Hetchy revenues, Cap and Trade allowances and Power and Water Revenue Bonds for the SFPUC's Hetch Hetchy Capital Improvement Program, including \$105,878,198 in FY 2014-15 and \$111,600,638 in FY 2015-16, and placing \$173,755,378 of bond funded proceeds on Controller's reserve by project, subject to SFPUC and Board of Supervisors' approval of the California Environmental Quality Act (CEQA) requirements and receipt of proceeds of indebtedness and loan funds.

Although the ordinance under File 14-0482 authorized the SFPUC to issue and sell up to \$112,346,843 of power revenue bonds and the supplemental appropriation ordinance (File 14-0480) specified \$43,004,314 of Power Enterprise revenue bonds and \$15,099,665 of reappropriated Hetchy Power revenue bonds as sources of funding, to date the SFPUC has not issued any SFPUC Power revenue bonds.

DETAILS OF PROPOSED LEGISLATION

File 15-0078: The proposed ordinance amends the Administrative Code to add Chapter 43, Article XIV, Sections 43.14.1 through 43.14.9 to provide procedures for the issuance of Power Revenue Bonds by the SFPUC.

File 15-0079: The proposed ordinance approves the issuance and sale of power revenue bonds by the SFPUC in an aggregate principal amount not to exceed \$48,000,000 to finance various capital projects consisting of reconstruction or replacement of existing water and/or electric power facilities pursuant to Charter Section 9.107(6) and the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation pursuant to Charter Section 9.107(8); approving the execution of certain documents and agreements; confirming and making certain California Environmental Quality Act (CEQA) determinations and approving other actions and matters in connection therewith, as defined herein.

Amendments to the Administrative Code (File 15-0078)

Under the proposed ordinance, the City's Administrative Code would be amended to specify the procedures for the SFPUC to separately issue and sell power revenue bonds payable from and secured by the SFPUC's Power Enterprise revenues. Specifically, the proposed ordinance identifies the definitions, procedures for issuance, financing and refinancing of capital improvements, repairs, improvements and replacements for the SFPUC's Power Enterprise. The interest rates on SFPUC Power Enterprise bonds could be fixed or variable, sold through competitive or negotiated sale, with other terms, methods of sale, reserves, debt service coverage and credit agreements and validity of bond actions, to be authorized by future SFPUC Commission determination. The SFPUC could also authorize refunding bonds, without further Board of Supervisors approval, provided such refunding bonds achieve debt service savings as provided in City Administrative Code Article VI, Chapter 43 (see Policy Consideration below).

The proposed ordinance specifies that such power revenue bonds would be limited obligations of the SFPUC and would not constitute general indebtedness to the City subject to repayment by the City's taxing power or through the City's General Fund. Under the proposed ordinance, the SFPUC's Power Enterprise would be defined as the City's electric utility system which provides electric power and related services to the City and its departments, including that portion of the Hetch Hetchy Project that is allocated to power generation, transmission and distribution facilities and related facilities. The SFPUC's Power Enterprise Revenues, which would be obligated for the repayments of the power revenue bonds, would specifically mean the revenues, rates and charges received and accrued by the SFPUC for electric power and energy services. Therefore, this ordinance commits the SFPUC to set sufficient rates and charges for electricity to repay the debt service on the power revenue bonds, including appropriate reserves and debt service coverage and requirements.

Issuance and Sale of up to \$48,000,000 of Power Revenue Bonds (File 15-0079)

Under the proposed ordinance, the SFPUC would be authorized to issue the first Power Enterprise Revenue Bonds for up to \$48,000,000 to finance various capital projects that specifically benefit the SFPUC's Power Enterprise in accordance with Charter Section 9.107(6) and 9.107(8). This ordinance limits these power revenue bonds to a maximum 12% annual interest rate, specifies the funding of a debt service reserve account, payment of capitalized interest and the costs of issuance and related costs. This ordinance also approves the security and disclosure documents, including the Master Trust Indenture, First Supplemental Trust Indenture, Bond Purchase Contract, preliminary Official Statement and the Continuing

Disclosure Certificate. In addition, this ordinance confirms the CEQA determinations for the specified projects to be funded with the bond proceeds.

Descriptions of Nine Capital Projects

The SFPUC is proposing to fund the following nine capital projects with the proceeds from the up to \$48,000,000 of Power Revenue bonds, including the first three projects through construction and the following six projects through detailed feasibility and planning studies:

1. Moccasin Hydropower Generator Project – Units 1 and 2 of Moccasin Powerhouse, the hydroelectric generating units, are almost 40 years old and have exceeded their useful life. This project will fund a comprehensive evaluation of the existing conditions, preparation of design specifications, technical assistance, manufacture and installation of components, construction and construction management oversight.
2. Transmission Lines/Distribution System: Moccasin to Warnerville (Don Pedro Reservoir Crossing) – Rehabilitation of transmission and distribution lines and facilities used for hydroelectric power to improve reliability and address the North American Electric Reliability Corporation (NERC) requirements. Transmission projects will include replacement of insulators, switches, towers, groundings, and protective and regulatory requirements. Distribution projects will include over 50 miles of lines, related equipment, substations, disconnect switches, breakers and metering.
3. Hydropower Powerhouse Control Upgrade – Replace existing power control and monitoring system with an upgraded multifunctional digital solution which meets current regulatory requirements and provides diagnostic functions and reduced maintenance requirements.
4. Other Hydropower Powerhouse Projects – Conduct feasibility and planning study for powerhouse upgrades, renewal and replacement, specifically at Holm Powerhouse Generator Unit 2.
5. Switchyard/Substation Rehabilitation (Warnerville Switchyard Phase 1) – Conduct feasibility and planning study at Warnerville Switchyard for renewal and replacement of switchyard and substation components for hydropower transmission, including regulatory grading, fencing and grounding protection.
6. Oil Containment Upgrade at Holm and Kirkwood Powerhouses – Conduct feasibility and planning study to upgrade oil separation systems in the Holm and Kirkwood Powerhouses to prevent oil discharges.
7. Moccasin Generator Step Up Transformers and Oil Containment – Conduct feasibility and planning study for replacement of transformers in Moccasin Powerhouse to improve efficiency and increase power generation.
8. Refurbish Kirkwood Powerhouse and Replace two Turbine Shutoff Valves – Conduct feasibility and planning study to rehabilitate Kirkwood Powerhouse hydroelectric facilities to increase their life expectancy.
9. Moccasin Hydropower Switchyard Upgrade – Conduct feasibility and planning study for renewal and replacement of switchyard and substation components at Moccasin Switchyard for hydropower transmission.

In November 2014, the Planning Department determined that the three construction projects noted above are categorically exempt and the six feasibility and planning studies noted above are statutorily exempt under the California Environmental Quality Act (CEQA), as specified in the subject ordinance (File 15-0079).

Details on the Requested up to \$48 Million Issuance

According to Mr. Michael Brown of the SFPUC’s Financial Services Division, the entire requested up to \$48,000,000 bond issuance is anticipated in the spring of 2015 and would be a negotiated, rather than a competitive bid sale. Mr. Brown advises that the SFPUC is recommending a negotiated sale because the proposed power revenue bonds would be the first bond sale for the Power Enterprise, which requires additional outreach and marketing to bond investors unfamiliar with this new issuer. Mr. Brown advises that if these power bonds were sold on a competitive basis, the SFPUC would not expect to obtain the lowest cost.

A portion of the proposed 2015 SFPUC power revenue bonds may be designated and sold as “Green Bonds” a new bond market designation that identifies these bonds as funding projects that result in 100% greenhouse gas-free electricity, and that are environmentally beneficial projects to interested investors. Mr. Brown advises that of the total not-to-exceed \$48,000,000 power revenue bonds, approximately \$30 million would be tax-exempt Green Bonds and the remaining \$18 million would be tax-exempt conventional bonds.

Mr. Brown reports that to select a bond underwriter, the SFPUC sent a Request for Proposal (RFP) to the Controller’s Office of Public Finance pre-qualified pool of 25 underwriter firms, to which nine firms responded. The SFPUC and its financial advisors evaluated the nine proposals. Based on the proposals, the SFPUC has selected Wells Fargo Securities as the underwriter for this transaction, as noted in the proposed \$48,000,000 issuance ordinance (File 15-0079).

FISCAL IMPACT

Table 1 below shows estimated total project costs of \$37,300,000 for the nine capital power projects summarized above.

Table 1: Estimated Nine SFPUC Power Project Costs

| <u>Projects</u> | <u>Cost</u> |
|---|---------------------|
| Moccasin Hydropower Generator Rewind Project | \$24,000,000 |
| Transmission Lines/Distribution System: Moccasin to Warnerville | 5,000,000 |
| Hydropower Powerhouse Control Upgrade | 1,700,000 |
| Other Hydropower Powerhouse Projects | 1,000,000 |
| Switchyard/Substation Rehabilitation | 1,500,000 |
| Oil Containment Upgrade at Holm and Kirkwood | 1,000,000 |
| Moccasin Generator Step Up Transformers and Oil Containment | 1,000,000 |
| Refurbish Kirkwood Powerhouse & Replace Turbine Shutoff Valves | 1,500,000 |
| Moccasin Hydropower Switchyard Upgrade | 600,000 |
| Total Estimated Project Costs | \$37,300,000 |

Pursuant to Charter Appendix F1.113, 0.2% of the expenditure budget net of bond financing and audit costs is to be allocated and available to support the Controller’s Audit Fund. In accordance with Proposition P approved by San Francisco voters in November 2002, 1/20th of 1% (.05%) of the bonds’ gross proceeds will be expended for the Revenue Bond Oversight Committee activities. Table 2 below shows the total estimated SFPUC Power Project Costs of \$37,300,000 and the related bond financing, City Services Auditor and the Revenue Bond Oversight Committee costs including a contingency that result in the total estimated \$48,000,000 revenue bond cost.

Table 2: Total Up to \$48,000,000 Estimated Bond Costs

| | |
|--|---------------------|
| Total Project Costs | \$37,300,000 |
| Capitalized Interest | 6,000,000 |
| Debt Service Reserve | 3,200,000 |
| Bond disclosure counsel & financial advisors | 800,000 |
| Contingency | 628,000 |
| City Services Auditor Fee | 48,000 |
| Revenue Bond Oversight Fee | 24,000 |
| Total Estimated Costs | \$48,000,000 |

Estimated Debt Service

According to Mr. Brown, the estimated annual interest rate for the bond payments will be 4.2%. Total estimated debt service over the 30-year term of the bonds at 4.2% annual interest is \$87,072,605, consisting of \$48,000,000 in principal and \$39,072,605 in interest to fund the above-noted \$37,300,000 in project costs. The estimated average annual debt service payment is approximately \$2,900,000.

Electricity Rate Increases Needed to Cover Debt Service

Debt service payments will be covered by SFPUC’s Power Enterprise revenues from the sale of electricity. The electricity rate charged to the City’s enterprise departments and other non-General Fund agencies is currently \$.1449/kWH, which is equivalent to the Pacific Gas and Electric (PG&E) power rates. This rate is scheduled to increase by 3% annually starting in FY 2015-16 based on the projected changes to PG&E’s rates.

Most of the City’s General Fund departments currently pay a subsidized rate of \$.0575/kWH, which will increase by \$.01/kWH in FY 2015-16, and is currently projected to increase by \$.005/kWH annually thereafter. Other City agencies, including the hospitals, libraries, Moscone Convention Center, public buildings and street-lights pay various higher and lower electric rates to the SFPUC, based on prior negotiations with the Mayor’s Office. Table 3 below shows the different rates paid by various City departments.

Table 3: FY 2014-15 and FY 2015-16 City Electric Rates Charged by the SFPUC

| | FY 2014-15 Adopted Rates⁽¹⁾ | FY 2015-16 Adopted Rates⁽¹⁾ |
|--|---|---|
| General Fund Departments and Related Customers | 5.75 ¢/kWh | 6.75 ¢/kWh |
| Public Libraries | 9.13 ¢/kWh | 10.13 ¢/kWh |
| Moscone Convention Center Facilities | 7.78 ¢/kWh | 8.80 ¢/kWh |
| San Francisco General Hospital | 2.70 ¢/kWh | 3.70 ¢/kWh |
| Laguna Honda Hospital | 3.49 ¢/kWh | 4.49 ¢/kWh |
| Public Buildings & City Street Lights | 2.00 ¢/kWh | 3.00 ¢/kWh |
| Enterprise Departments (tied to PG&E rates) | 14.49 ¢/kWh | 15.50 ¢/kWh |

⁽¹⁾ Adopted by the SFPUC.

As noted above, the proposed ordinance (File 15-0078) commits the SFPUC to set sufficient rates and charges for electricity to repay the debt service, including those rates and charges paid by City departments through the City's annual budget process. According to Mr. Brown, all of the City's power rates are projected to gradually rise to cover the actual costs of service, including debt service for the SFPUC's power revenue bonds and required reserve accounts, in accordance with the SFPUC's 10-year financial plan. For FY 2014-15, the SFPUC estimated that the City's General Fund would incur approximately \$20 million of additional costs to fully fund the City's subsidized electric power rates.

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for the sale of electricity. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

Prior Board of Supervisors Authorization for SFPUC Power Revenue Bonds

As discussed above, in 2014, the Board of Supervisors authorized the issuance and sale of SFPUC power revenue bonds for up to \$112,346,843 to finance various SFPUC Power Enterprise capital projects (File 14-0482). If the Board of Supervisors approves the proposed ordinance (File 15-0079) to issue and sell up to \$48,000,000 of SFPUC power revenue bonds, the SFPUC would have a remaining authorization to issue and sell up to \$64,346,843 of SFPUC power revenue bonds.

POLICY CONSIDERATION

As noted above, under the proposed ordinance (File 15-0078), the SFPUC could authorize SFPUC refunding bonds, by resolution approved by the SFPUC, without further Board of Supervisors approval, provided such refunding bonds achieve debt service savings as provided in City Administrative Code Article VI, Chapter 43. These provisions would be codified as a new Section 43.14.6 in the City's Administrative Code. Currently, the SFPUC cannot authorize the refunding of Water or Wastewater revenue bonds, without approval of the Board of Supervisors.

Section 43.8.4 of the City's Administrative Code currently specifies that the Board of Supervisors is only authorized to provide for the issuance of refunding general obligation, revenue or lease revenue bonds which provide net debt service savings to the City on a present value basis calculated in provisions of general State law or by other ordinance of the Board of Supervisors. Net debt service savings are calculated by comparing the present value of the aggregate debt service on the refunding bonds to that of the refunded bonds as of the date of the refunding bonds using an assumed rate of interest equal to the yield on the refunding bonds. According to Ms. Nadia Sesay, the Director of the Controller's Office of Public Finance, the City's standard debt policy currently defines such net debt service savings as a minimum of 3%. However, the subject ordinance does not specify a net debt service savings that must be achieved by the SFPUC for such refunding.

Therefore, approval of this provision to allow the SFPUC to authorize revenue bonds to be refunded, without subsequent approval of the Board of Supervisors is a policy decision for the Board of Supervisors. If the Board of Supervisors wants to delegate such authority to the SFPUC, without subsequent approval by the Board of Supervisors, the proposed ordinance should be amended to specify a net present value savings threshold of at least 3% of debt service on the refunded bonds, consistent with existing City debt policy.

RECOMMENDATIONS

1. Except for the provisions to authorize the SFPUC refunding bonds without further approval by the Board of Supervisors, which the Budget and Legislative Analyst considers to be a policy decision, approve the proposed ordinances.
2. Approval of Section 43.14.6 in File 15-0078 to allow the SFPUC to authorize bonds to be refunded without approval of the Board of Supervisors is a policy decision for the Board of Supervisors. If the Board of Supervisors wants to delegate such authority to the SFPUC, the proposed ordinance should be amended to specify a net present value debt service savings threshold of at least 3% of the refunded bonds, consistent with City debt policy.

BOARD of SUPERVISORS



City Hall
Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Harlan Kelly, Jr., General Manager, Public Utilities Commission

FROM: Alisa Somera, Clerk, Rules Committee
Board of Supervisors

DATE: February 3, 2015

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Rules Committee has received the following proposed legislation, introduced by Mayor Lee on January 27, 2015. This matter is being referred to you for informational purposes since it affects your department.

File No. 150078

Ordinance amending the Administrative Code by adding to Chapter 43, Article XIV, Sections 43.14.1 through 43.14.10, to provide procedures for the issuance of Power Revenue Bonds by the Public Utilities Commission of the City and County of San Francisco.

If you wish to submit any reports or documentation to be considered with the legislation, please send those to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Juliet Ellis, Public Utilities Commission

President, District 5
BOARD of SUPERVISORS



London Breed

BOS 11, COB, Rules,
Leg Dep Bndgt + Finance
City Hall

1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
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Fax No. 554-7454
TDD/TTY No. 544-5227

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
FEB -5 PM 4:09
AK

PRESIDENTIAL ACTION

Date: 2/5/15
To: Angela Calvillo, Clerk of the Board of Supervisors

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

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

File No. _____
(Primary Sponsor)

Title. _____

Transferring (Board Rule No. 3.3)

File No. 150078 Mayor
(Primary Sponsor)

Title. PUC Power Enterprise Revenue Bond

From: Rules Committee

To: Budget Committee

Assigning Temporary Committee Appointment (Board Rule No. 3.1)

Supervisor _____

Replacing Supervisor _____

For: _____ Meeting
(Date) (Committee)

London Breed, President
479 Board of Supervisors

OFFICE OF THE MAYOR
SAN FRANCISCO



RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

EDWIN M. LEE
MAYOR

2015 MAR -3 PM 4:56

TO: Angela Calvillo, Clerk of the Board of Supervisors ^{BT}

FROM: Mayor Edwin M. Lee

RE: Substitute Ordinance - # - 150078 - Administrative Code - Power Revenue Bonds

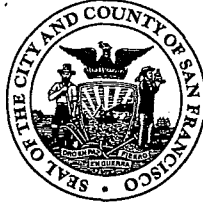
DATE: March 3rd, 2015

Attached for substitution to the Board of Supervisors is an ordinance amending the Administrative Code to provide procedures for the issuance of Power Revenue Bonds by the Public Utilities Commission of the City and County of San Francisco.

I respectfully request that this item be calendared in Budget and Finance Committee on March 11th, 2015.

Should you have any questions, please contact Nicole Wheaton (415) 554-7940.

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *Ed* Mayor Edwin M. Lee *NE*
RE: Public Utilities Commission Power Enterprise Revenue Bond Law
DATE: January 27, 2015

Attached for introduction to the Board of Supervisors is an ordinance Amending the San Francisco Administrative Code by adding to Chapter 43, Article XIV, Sections 43.14.1 through 43.14.10, to provide procedures for the issuance of Power Revenue Bonds by the Public Utilities Commission of the City and County of San Francisco.

I respectfully request a waiver of the 30-Day hold on this legislation.

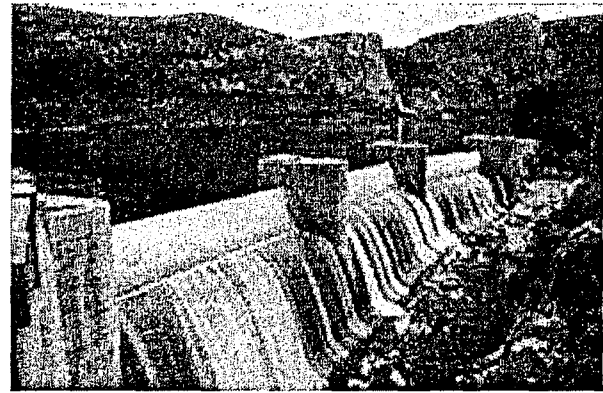
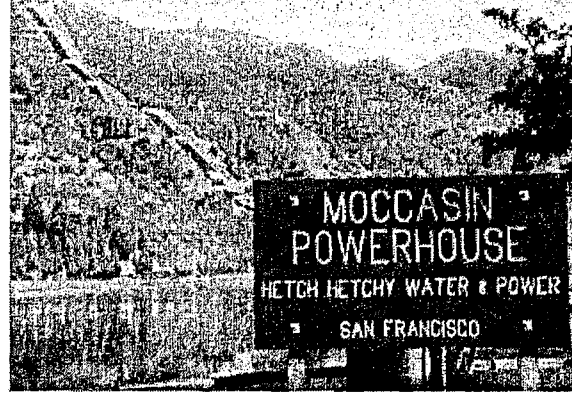
Should you have any questions, please contact Nicole Wheaton (415) 554-7940.

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
AK
3:03 JAN 27 PM 2015



File # 150078 2079
Received in Committee
3/11/15
J.W.

Services of the San Francisco Public Utilities Commission



Establishing SFPUC Power Revenue Bond Program & Inaugural 2015A Series Power Bond Authorization

Budget and Finance Committee

March 11, 2015
Charles Perl, Deputy CFO

483



Long-Term Planning Assumes Bond Financing

Services of the San Francisco Public Utilities Commission

- Two-Year Budget, 10-Year Financial/Capital Plans Balanced
- FY 2016 - 2025 10-Year CIP approved by Commission February 10, 2015
 - ◆ \$760M Capital Plan
 - \$550M power bonds
 - \$210M revenues and other source
- Future debt service incorporated into long-term planning and rate setting assumptions; electric rates approved through FY 2015-16



Power Bond Ordinance

Services of the San Francisco Public Utilities Commission

- Ordinance establishes procedures for issuance of Power revenues bonds payable from and secured by Power Enterprise Revenues
- Commits to rate setting sufficient to repay bonds
- Allows for issuance of refunding bonds without further BOS approval
 - ◆ PUC agrees to establishing minimum 3% savings threshold per Budget Analyst recommendation
 - ◆ PUC agrees to providing savings report to BOS



2015A Series Power Bonds

Services of the San Francisco Public Utilities Commission

- Not to Exceed \$48M sale late spring 2015 to fund critical upcountry hydropower facility projects
 - \$29.2M – powerhouse/ generator projects
 - \$5.0M – transmission line/distribution systems
 - \$3.1M – switchyard/substation/transformer projects
- Estimated average annual debt service \$2.9M, with estimated 4.2% interest rate
- Debt service included in budget/rates/long term plans

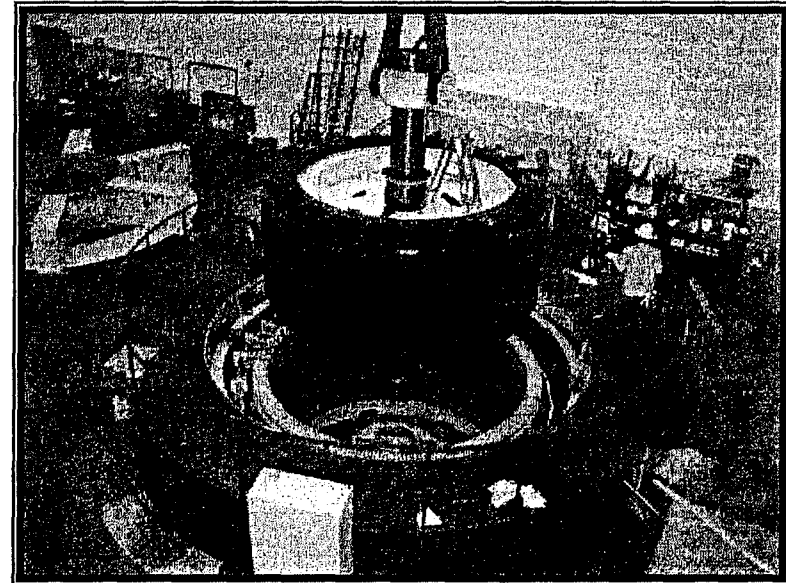
486

Critical Upcountry Repairs: Generators

Services of the San Francisco Public Utilities Commission

\$24M Project: Moccasin Generator Project

- Replace stator core, windings and rotor repair
- Two units, 25% system capacity
- In service 46 years, 25-40 year useful life
- If units go offline, \$18M revenue impact



Rotor being removed during a generator rewind

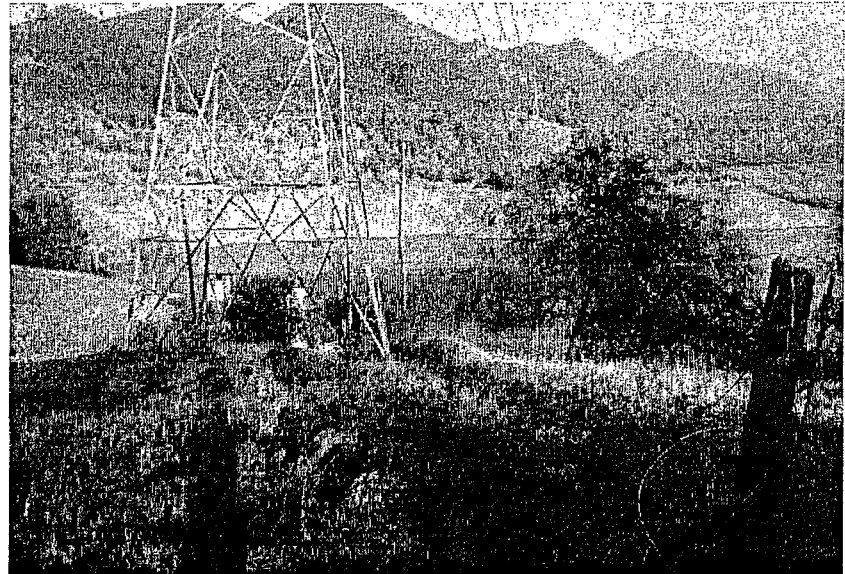


Critical Upcountry Repairs: Transmission

Services of the San Francisco Public Utilities Commission

\$5M Project: Transmission Lines/Distribution System
Moccasin to Warnerville 115kV, 230kV transmission lines

- Replace electric transmission towers and conductor
- Clearance of conductor over reservoir does not meet current state / federal safety regulations
- No project: Loss of all HHWP generation to the grid



HHWP crossing over Don Pedro Reservoir



First SFPUC “Green Bonds” Issuance

Services of the San Francisco Public Utilities Commission

- Hydro power generation projects designated as “Green Bonds”
- New credit market designation identifying investment opportunity in environmentally beneficial projects
- SFPUC will self-certify that Bonds fund power-related projects that generate 100% GHG-free electricity
- Broadens investor community for SFPUC bonds



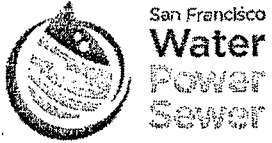
Power Bond Indenture Similar to Water and Wastewater

Services of the San Francisco Public Utilities Commission

490

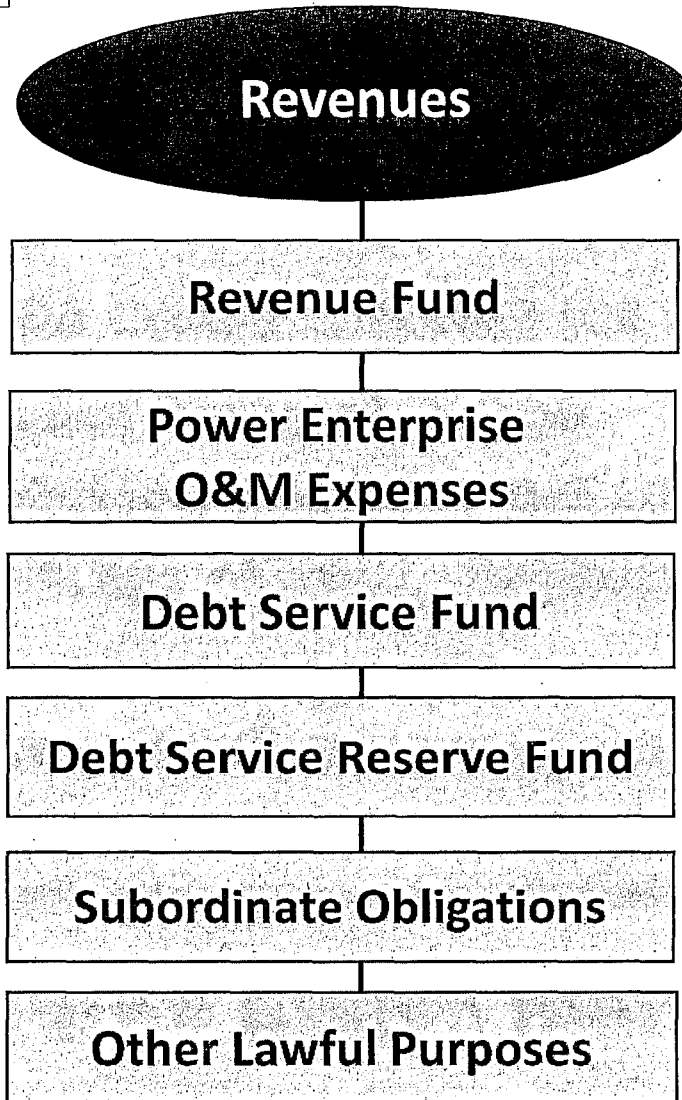
| | Water Indenture | Wastewater Indenture | <u>Proposed Power Indenture</u> |
|----------------------------------|---|-----------------------------|---|
| Net Revenues | Revenues less O&M and any Priority R&R Fund Deposit | Same | Same |
| O&M | Costs of the proper operation, maintenance and repair of the Enterprise | Same | Same |
| Rate Covenant | Maintain rates such that Net Revenues plus Available Funds are at least: 1.25x; Net Revenues only: 1.00x DSC | Same | Same |
| Additional Bonds Test | Net Revenues plus Available Funds are at least: 1.25x; Net Revenues only: 1.00x DSC | Same | Same |
| Debt Service Reserve Fund | At SFPUC's option, currently no Reserve Fund required | Same | 100% Max Annual Debt Service (MADS)* |

*Series 2015A Power Bonds will include a reserve fund, but future bond series might not



Flow of Funds - Same as Water and Wastewater

Services of the San Francisco Public Utilities Commission





Future Policy Impacts

Services of the San Francisco Public Utilities Commission

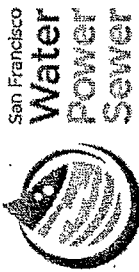
- All existing power programs and services included as a part of Power Revenue Pledge
- Standard “Separate System” Indenture definition included to describe any possible future expansion outside of current service/ scope
 - Required by credit markets for revenue pledge
 - Separate System would need to have dedicated revenues to cover costs



Forms of Agreement

Services of the San Francisco Public Utilities Commission

1. Master Trust Indenture & First Supplemental
2. Preliminary Official Statement
3. Continuing Disclosure Certificate
4. Bond Purchase Contract with Wells Fargo



Services of the San Francisco Public Utilities Commission

Questions?