

Items 10 and 13 Files 18-0449 and 18-0452	Department: Public Utilities Commission
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>File 18-0449 is an ordinance appropriating \$1,217,658,494 in Wastewater Revenue Bond proceeds, State Water Resources Control Board revolving loan or grant funds, Wastewater Enterprise revenues and capacity fees to the San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise capital improvement program.</p>	
<p>File 18-0452 is an ordinance authorizing SFPUC to issue \$987,414,494 in tax-exempt and taxable Wastewater Revenue Bonds and other forms of debt.</p>	
Key Points	
<ul style="list-style-type: none"> • The Board of Supervisors has previously authorized the SFPUC to sell up to \$3,034,603,456 in Wastewater Revenue Bonds. The proposed ordinance would authorize SFPUC to sell an additional \$987,414,494, totaling \$4,022,017,950 in Wastewater Revenue Bond authorization. • The 10-Year Capital Plan provides for \$5.6 billion in Wastewater Enterprise projects, of which \$4.0 billion are Sewer System Improvement Program (SSIP) projects and \$1.6 billion are other Wastewater Enterprise capital projects. 	
Fiscal Impact	
<ul style="list-style-type: none"> • According to the SFPUC's 10-Year Financial Plan for FY 2018-19 to FY 2027-28, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements. • Average monthly residential sewer bill will increase by \$4 in FY 2018-19, from \$58 in FY 2017-18 to \$62 in FY 2018-19; and by \$5 in FY 2019-20 to \$67. 	
Policy Consideration	
<ul style="list-style-type: none"> • As of June 30, 2017, the Board of Supervisors authorized \$3.0 billion in Wastewater Revenue Bonds under Proposition E. To date, \$879.6 million of the Wastewater Revenue Bonds have been sold with approximately \$2.1 billion in authorized and unsold bonds. The proposed ordinance (File 18-0452) authorizes an additional \$987.4 million in Power Revenue Bonds and other forms of debt. The SFPUC's policy is to request authorization for bonds and other forms of debt to fund new capital appropriations. Because capital projects occur over a long period of time, projects and project financing change, which may result in previously authorized bonds no longer being needed. 	
Recommendations	
<ul style="list-style-type: none"> • Amend the proposed ordinance (File 18-0452) to request the SFPUC General Manager to provide a written report to the Board of Supervisors as part of the two year budget review detailing the total amount of Water Revenue Bonds authorized under Proposition E, the total amount sold, the total amount authorized and unsold, and the amount of authorized bonds that are no longer needed due to changes in projects and project financing, beginning in May 2020. • Approve File 18-0452 as amended, and File 18-0449. 	

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, for Water Enterprise and Wastewater Enterprise capital projects.

Charter Section 5A.31(d) states that one-twentieth 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 Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise provides wastewater treatment, sewer, and storm water collection to residents in the City as well as residents of north San Mateo County. The service area encompasses 29,773 acres and provides a level of service that can accommodate approximately 990,449 people using approximately 40 billion gallons of water per year.

DETAILS OF PROPOSED LEGISLATION

File 18-0452 is an ordinance authorizing SFPUC to issue and sell tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness (such as commercial paper¹ or State Revolving Fund loans) in an aggregate principal amount not to exceed \$987,414,494.

File 18-0449 is an ordinance appropriating \$1,217,658,494 in Wastewater Revenue Bond proceeds, State Water Resources Control Board revolving loan fund or grant funds, wastewater revenue, and capacity fees to the SFPUC's Wastewater Enterprise's capital improvement program. \$706,606,351 is appropriated in FY 2018-19 and \$511,052,143 is appropriated in FY 2019-20; of which \$987,414,494 in Wastewater Revenue Bond proceeds is placed on Controller's Reserve.

File 18-0452: Wastewater Revenue Bonds

The Board of Supervisors has previously authorized the SFPUC to sell up to \$3,034,603,456 in Wastewater Revenue Bonds. The proposed ordinance would authorize SFPUC to sell an additional \$987,414,494, totaling \$4,022,017,950 in Wastewater Revenue Bond authorization.

Approval of the proposed ordinance (File 18-0452) would:

¹ Commercial paper is short-term interim debt financing that SFPUC may issue prior to issuing revenue bonds. The Board of Supervisors previously authorized the Wastewater Enterprise's Commercial Paper Program of \$300 million (File 12-0354)

- Authorize SFPUC to sell \$987,414,494 in Wastewater Revenue Bonds at a maximum interest rate of 12 percent per year. SFPUC could sell the bonds in series at a time and in an amount and manner (competitive or negotiated sale) determined by SFPUC.
- Authorize SFPUC to sell refunding bonds to refund outstanding Wastewater Revenue Bonds without further Board of Supervisors approval. According to the proposed ordinance, SFPUC could only sell the refunding bonds if they achieved at least 3 percent net present value debt service savings. Authorization to sell refunding bonds would expire on June 30, 2020.
- Authorize SFPUC to enter into future agreements with the State Water Resources Control Board to obtain State Revolving Fund Loans in lieu of selling Wastewater Revenue Bonds
- Provide for SFPUC to reimburse prior capital project expenditures with bond proceeds as allowed by federal income tax principles.
- Ratifies actions taken by the SFPUC and other City officials in connection with the issuance of the Wastewater Revenue Bonds.

Table 1: Allocation of \$987,414,494 in Wastewater Revenue Bonds

Use	Total
Capital Project Appropriation	\$863,987,682
Financing Costs (14%)	121,205,129
City Services Auditor (0.2%)	1,727,975
Revenue Bond Oversight Committee (0.05%)	493,708
Total	\$987,414,494

Financing costs of \$121,205,129, equal to 14 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest², bond counsel, and other costs.

File 18-0449: Appropriation to Wastewater Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2018-19 through FY 2027-28 in January 2018. The 10-Year Capital Plan provides for \$5.6 billion in Wastewater Enterprise projects, of which \$4.0 billion are Sewer System Improvement Program (SSIP) projects and \$1.6 billion are other Wastewater Enterprise capital projects.

The total appropriation to Wastewater Enterprise capital projects in FY 2018-19 and FY 2019-20 is \$1,217,658,494, as shown in Table 1 below:

² Capitalized interest is the accrual of interest prior to the receipt of revenues to repay the bonds.

Table 1: Capital Appropriation FY 2016-17 and FY 2017-18

	FY 2016-17	FY 2017-18	Total
Source of Funds			
<u>Appropriation</u>			
Wastewater Bond Proceeds	\$593,841,351	\$393,573,143	\$987,414,494
Renewal and Replacement Fund	106,765,000	112,979,000	219,744,000
Capacity Fees	6,000,000	4,500,000	10,500,000
Total Sources	\$706,606,351	\$511,052,143	\$1,217,658,494
Uses of Funds			
<u>Sewer System Improvement Program</u>			
SSIP Program Wide Management	\$16,500,000	\$16,590,000	\$33,090,000
SSIP Land Reuse	483,000		483,000
Biosolids Digester Project	181,201,650		181,201,650
Treatment Plant Headworks	90,133,139	92,204,646	182,337,785
Southeast Treatment Plant	45,168,983	20,267,522	65,436,505
Northpoint Treatment Plant	7,350,097	8,416,672	15,766,769
Oceanside Treatment Plant	17,345,380	48,219,969	65,565,349
Central Bayside Improvements		20,350,000	20,350,000
Collection System Improvements	13,545,729	27,367,509	40,913,238
Pump Station and Force Main	15,926,996	21,567,369	37,494,365
Flood Resilience	21,059,656	30,762,194	51,821,850
Green Infrastructure Projects	24,317,718	9,693,772	34,011,490
SSIP Subtotal	433,032,348	295,439,653	728,472,001
Collection System Renewal and Replacement	89,765,000	93,329,000	183,094,000
Treatment Facilities Renewal and Replacement	23,000,000	24,150,000	47,150,000
Southeast Community Center	66,000,000	3,500,000	69,500,000
Ocean Beach Protection	8,149,557	5,381,319	13,530,876
Islais Creek Outlet	5,000,000	15,000,000	20,000,000
Southeast Outfall	1,056,277	1,098,528	2,154,805
Treasure Island	6,373,000	23,957,000	30,330,000
Capital Plan Total	199,343,834	166,415,847	365,759,681
Bond Issuance and Oversight	74,230,169	49,196,643	123,426,812
Total Uses	\$706,606,351	\$511,052,143	\$1,217,658,494

\$593,841,351 of the FY 2018-19 appropriation and \$393,573,143 of the FY 2019-20 appropriation are placed on Controller's Reserve pending receipt of the Wastewater Revenue Bond proceeds.

Descriptions of the proposed projects are included in the attachment.

FISCAL IMPACT

SFPUC Debt Service Coverage Policy and Financial Plan

According to the SFPUC's CAFR, as of June 30, 2017 the SFPUC's Wastewater Enterprise had \$987 million in outstanding debt, including \$957 million in Wastewater Revenue Bonds and \$30 million in Certificates of Participation. The Wastewater Enterprise's annual debt payments in FY 2017-18 and FY 2018-19 are \$50.5 million, increasing to \$63.1 million in FY 2019-20.

According to SFPUC's bond covenants with bondholders and debt service coverage policy, the ratio of net revenues to annual debt service must meet the following minimum coverage:

- Indenture coverage³: net revenues equal to a minimum of 1.35 times annual debt service
- Current coverage⁴: net revenues equal to a minimum of 1.10 times annual debt service

According to the SFPUC's 10-Year Financial Plan for FY 2018-19 to FY 2027-28, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements.

Sewer Rate Increases in FY 2018-19 and FY 2019-20

The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2017-18 is \$106, of which \$48 is water and \$58 is sewer. According to the FY 2018-19 to FY 2027-28 Financial Plan, adopted by Commission on February 13, 2018, the SFPUC planned a 7 percent increase in sewer rates in FY 2018-19 and 7 percent increase in sewer rates in FY 2019-20 to cover the Wastewater Enterprise's operating and capital costs. The SFPUC 10 Year Financial Plan estimates that the average monthly residential sewer bill will increase by \$4 in FY 2018-19, from \$58 in FY 2017-18 to \$62 in FY 2018-19; and by \$5 in FY 2019-20, from \$62 in FY 2018-19 to \$67 in FY 2019-20.

On April 10, 2018, the SFPUC adopted wastewater rate increases that were consistent with the planned rate increases in the adopted 10 Year Financial Plan. In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. 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.

POLICY CONSIDERATION

As of June 30, 2017, the Board of Supervisors authorized \$3.0 billion in Wastewater Revenue Bonds under Proposition E. To date, \$879.6 million of the Wastewater Revenue Bonds have been sold with approximately \$2.1 billion in authorized and unsold bonds. The proposed ordinance (File 18-0452) authorizes an additional \$987.4 million in Power Revenue Bonds and

³ Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service; indenture = 1.25x; SFPUC policy is 1.35x

⁴ Current coverage is the ratio of Net Revenues to Annual Debt Service; indenture = 1.00x; SFPUC policy is 1.25x

other forms of debt. The SFPUC's policy is to request authorization for bonds and other forms of debt to fund new capital appropriations. Because capital projects occur over a long period of time, projects and project financing change, which may result in previously authorized bonds no longer being needed. In order for the Board of Supervisors to have full information on the total amount of authorized bonds that have been sold, have not been sold but are needed to complete the projects for which the bonds were authorized, or have not been sold but are no longer needed due to other financing sources or changes in the projects, the SFPUC should provide a written report to the Board of Supervisors with the two-year budget on the status of the bonds, beginning in May 2020.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 18-0452) to request the SFPUC General Manager to provide a written report to the Board of Supervisors as part of the two year budget review detailing the total amount of Water Revenue Bonds authorized under Proposition E, the total amount sold, the total amount authorized and unsold, and the amount of authorized bonds that are no longer needed due to changes in projects and project financing, beginning in May 2020.
2. Approve File 18-0452 as amended, and File 18-0449.

Attachment

Project	Description
SSIP Program Wide Management	<ul style="list-style-type: none"> Series of capital improvement projects focused on improving the wastewater system to meet present and future needs of the city.
SSIP Land Reuse	<ul style="list-style-type: none"> Addresses long-term planning and ongoing needs for physical space to support SSIP Projects.
Biosolids Digester Project	<ul style="list-style-type: none"> Provide a new digester/solids handling facility, replacing the existing facility at the Southeast Plant.
Southeast Treatment Plant and Headworks	<ul style="list-style-type: none"> Address the liquid treatment portion of the improvements at SEP with upgrades to the existing digester facilities, until the new biosolids facility is constructed. Construction of a new all-weather 250 MGD Headworks facility, with new pumping, screening, grit removal and odor control.
Northpoint Treatment Plant	<ul style="list-style-type: none"> Includes improvements and upgrades to North Shore pump Station, NPF Clarifier & Maintenance Facilities Relocation.
Oceanside Treatment Plant	<ul style="list-style-type: none"> Improvements are focused on increasing reliability by replacing equipment and improving treatment process efficiency.
Central Bayside Improvements	<ul style="list-style-type: none"> Provide system enhancement to the Channel & Islais Creek urban watersheds, infrastructure improvements to sewers/pump stations, and storm water management.
Collection System	<ul style="list-style-type: none"> Improvements/replacements of sewer interceptors and tunnels.
Reliability Program	<ul style="list-style-type: none"> Address structural and corrosion protection improvements to Combined Sewer Discharge and Transport Storage structures.
Pump Station and Force Main	<ul style="list-style-type: none"> Rehabilitation/Replacement of existing pump station and inspection and repair of force mains.
Flood Resilience	<ul style="list-style-type: none"> Address combined sewer flooding caused by heavy rain. Includes construction of green infrastructure to use permeable surfaces and engineered subsurface systems to manage storm water.
Green Infrastructure Projects	<ul style="list-style-type: none"> Construction of green infrastructure to use permeable surfaces and engineered subsurface systems to manage storm water.
Collection System Renewal/ Replacement	<ul style="list-style-type: none"> Address long-term planning and immediate/ongoing needs to support the sewer collection system.
Southeast Outfall	<ul style="list-style-type: none"> Assessment and rehabilitation of pipeline from Southeast Treatment Plant to Bay
Southeast Community Center	<ul style="list-style-type: none"> Improvements to functionality and operational reliability of the facility. Also, infrastructure improvements will be provided.
Ocean Beach Protection	<ul style="list-style-type: none"> Facilitate the development of a comprehensive shoreline management and protection plan.
Islais Creek Outlet	<ul style="list-style-type: none"> Improvements to pipelines and modifications to the Booster Pump Station at Islais Creek.
Treasure Island	<ul style="list-style-type: none"> Replacement of the wastewater treatment facility at Treasure Island/Yerba Buena Island.