

Items 9 and 12
Files 18-0448 and 18-0451

Department:
 Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

File 18-0448 is an ordinance appropriating \$483,137,393 in Water Revenue Bond proceeds and other financing sources to water capital projects.

File 18-0451 is an ordinance authorizing \$478,440,136 in taxable and tax-exempt Water Revenue Bonds and other forms of debt to finance water capital projects.

Key Points

- The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. As of June 30, 2017, the Board of Supervisors authorized \$3,756,000,000 in Water Revenue Bonds. To date, \$2,938,466,847 of the Proposition E bonds have been sold with \$817,533,154 in authorized and unsold bonds.
- The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for 2019 to 2028 in January 2018. The 10-Year Capital Plan provides for \$1.7 billion in Water Enterprise projects, of which \$893 million are regional water projects, \$743.6 million are local water projects, and \$90 million is for the Auxiliary Water Supply System supporting fire suppression.
- The proposed ordinance (File 18-0448) appropriates \$483,137,393 to regional water projects (\$277,518,969), city projects (\$146,587,000), auxiliary water supply system (\$12,000,000), and financing costs (\$47,031,424).

Fiscal Impact

- 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.
- The SFPUC 10 Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2018-19, from \$48 in FY 2017-18 to \$52 in FY 2018-19; and by \$5 in FY 2019-20, from \$52 in FY 2018-19 to \$57 in FY 2019-20.

Policy Consideration

- The SFPUC currently has more than \$1.0 billion in previously authorized and unsold Water Revenue Bonds. The SFPUC's policy is to request authorization for bonds and other form of debt to fund new capital appropriations. Because water 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

- Amend the proposed ordinance (File 18-0451) 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 18-0451 as amended, and File 18-0448.

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) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers that are located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County.

The SFPUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The regional water conveyance system includes: (a) the Hetch Hetchy System, comprised of the Hetch Hetchy Reservoir and associated pipelines; (b) the Alameda System, comprised of the San Antonio and Calaveras Reservoirs and associated pipelines including the Irvington Tunnel; and (c) the Peninsula System, comprised of the San Andreas and Crystal Springs Reservoirs and associated pipelines that connect the regional water conveyance system to the in-city distribution system. The in-city distribution system is a series of pipelines that distributes water from the regional water conveyance system to residences and retail businesses in the City.

DETAILS OF PROPOSED LEGISLATION

File 18-0448 is an ordinance (1) appropriating \$483,137,393 of Water Revenue Bond proceeds, State Water Resources Control Board revolving loan funds or grant funds, water revenues, and water capacity fees to the SFPUC Water Enterprise's capital improvement program, of which \$276,222,393 is appropriated in FY 2018-19 and \$206,915,000 is appropriated in FY 2019-20; (2) re-appropriating water capital project appropriations of \$15,958,031; and (3) placing \$376,251,393 on Controller's Reserve pending receipt of revenues and/or adoption of California Environmental Quality Act (CEQA) findings for specified projects.

File 18-0451 is an ordinance (1) authorizing the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness in an amount not to exceed \$478,440,136 to finance water capital projects; (2) authorizing the issuance of Water Revenue Refunding Bonds; (3) declaring the Official Intent of the Commission to reimburse itself; and (4) ratifying prior actions.

File 18-0451: Water Revenue Bonds

The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. According to SFPUC's Comprehensive Annual Financial Report, SFPUC had \$4.6 billion in outstanding Water Revenue Bonds as of June 30, 2017.

Approval of the proposed ordinance (File 18-0468) would:

- Authorize SFPUC to sell \$478,440,136 in Water 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 Water 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 Water 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 Water Revenue Bonds.

The allocation of bond proceeds is shown in Table 1 below.

Table 1: Allocation of \$478,440,135 in Water Revenue Bonds

Use	Water Enterprise (File 18-0451)	Hetchy Hetchy Water (File 18-0450)	Total
Capital Project Appropriation	\$329,219,969	89,415,150	418,635,119
Financing Costs (14%)	46,184,858	12,543,668	58,728,526
City Services Auditor (0.2%)	658,440	178,830	837,270
Revenue Bond Oversight Committee (0.05%)	188,126	51,094	239,220
Total	\$376,251,393	\$102,188,742	\$478,440,135

Financing costs of \$58,728,526, equal to 14 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest¹, bond counsel, and other costs.

File 18-0448: Appropriation to Water Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for 2019 to 2028 in January 2018. The 10-Year Capital Plan provides for \$1.7 billion in Water Enterprise projects, of which \$893 million are regional water projects, \$743.6 million are local water projects, and \$90 million is for the Auxiliary Water Supply System supporting fire suppression.

¹ Capitalized interest is the accrual of interest prior to the receipt of revenues to repay the bonds.

The total appropriation to Water Enterprise capital projects in FY 2018-19 and FY 2019-20 is \$483,137,393, as shown in Table 2 below.

Table 2: Capital Appropriation FY 2018-19 and FY 2019-20

	FY 2018-19	FY 2019-20	Two Year Total
Source of Funds			
<u>Appropriation</u>			
Water Revenue Bonds (Table 1)	\$222,651,393	\$153,600,000	\$376,251,393
Water Enterprise Revenue	51,804,000	51,804,000	103,608,000
Capacity Fees ^a	1,767,000	1,511,000	3,278,000
Total Sources	\$276,222,393	\$206,915,000	\$483,137,393
Uses of Funds			
<u>Regional Water</u>			
Regional Water Treatment	\$15,314,000	\$14,533,000	29,847,000
Water Transmission Program	39,965,000	45,055,000	85,020,000
Water Supply and Storage	15,382,000	7,050,000	22,432,000
Watershed and Land Management	1,000,000	1,000,000	2,000,000
Long Term Monitoring & Permit Program	10,076,000	11,521,000	21,597,000
Communication & Monitoring Program	950,000	500,000	1,450,000
Buildings and Grounds Regional	35,586,000	33,545,000	69,131,000
Regional Groundwater	7,000,000		7,000,000
Alameda Creek Projects	8,000,000		8,000,000
Calaveras Dam	18,041,969		18,041,969
Close Out of Water System Improvement Program			
Bay Division	2,000,000		2,000,000
Peninsula	7,000,000		7,000,000
San Joaquin	2,000,000		2,000,000
Sunol Valley	2,000,000		2,000,000
Subtotal Regional Projects	164,314,969	113,204,000	277,518,969
<u>City Water Projects</u>			
Local Water Distribution	56,100,000	56,100,000	112,200,000
Automated Water Meter Program	1,800,000		1,800,000
John Muir Drive Site Rehabilitation	2,441,000		2,441,000
System Monitoring and Control	200,000	209,000	409,000
Local Tanks and Reservoirs	10,100,000	3,000,000	13,100,000
Pump Station Upgrades	932,000	2,250,000	3,182,000
Westside Recycled Water	6,500,000	500,000	7,000,000
City Buildings and Grounds	260,000	200,000	460,000
New Services Connection Program	968,000	1,377,000	2,345,000
Sunol Pipeline	2,700,000	700,000	3,400,000
Lombard Geotechnical	75,000	175,000	250,000
Subtotal City Projects	82,076,000	64,511,000	146,587,000
Sunset Potable Auxiliary Water Supply System	2,000,000	10,000,000	12,000,000
Subtotal Capital Projects	248,390,969	187,715,000	436,105,969
Financing Cost	27,831,424	19,200,000	47,031,424
Total Uses	\$276,222,393	\$206,915,000	\$483,137,393

\$222,651,393 of the FY 2018-19 appropriation and \$153,600,000 of the FY 2018-19 appropriation are placed on Controller's Reserve pending receipt of the Water 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 Water Enterprise had \$4.7 billion in outstanding debt, including \$4.6 billion in Water Revenue Bonds and \$109.7 million in Certificates of Participation. The Water Enterprise's annual debt payments in FY 2017-18 through FY 2019-20 are \$256 million, increasing to \$284 million in FY 2018-19 and \$306 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 coverage²: net revenues equal to a minimum of 1.35 times annual debt service
- Current coverage³: 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.

Water 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 9 percent increase in water rates in FY 2018-19 and 8 percent increase in water rates in FY 2019-20 to cover the Water Enterprise's operating and capital costs. The SFPUC 10 Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2018-19, from \$48 in FY 2017-18 to \$52 in FY 2018-19; and by \$5 in FY 2019-20, from \$52 in FY 2018-19 to \$57 in FY 2019-20.

On April 10, 2018, the SFPUC adopted water rate increases that were consistent with the planned rate increases included 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.

² Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service; indenture = 1.25x; SFPUC policy is 1.35x

³ Current coverage is the ratio of Net Revenues to Annual Debt Service; indenture = 1.00x; SFPUC policy is 1.25x

POLICY CONSIDERATION

San Francisco voters approved Proposition A in 2002, authorizing \$21,628,000,000 in Water Revenue Bonds. To date, \$1,348,335,000 of the Proposition A bonds have been sold with \$279,665,000 in authorized and unsold bonds.

San Francisco voters also approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approve by ordinance of two-thirds of the Board of Supervisors. Proposition E did not set a maximum amount of the Water Revenue Bonds that could be authorized. As of June 30, 2017, the Board of Supervisors authorized \$3,756,000,000 in Water Revenue Bonds. To date, \$2,938,466,847 of the Proposition E bonds have been sold with \$817,533,154 in authorized and unsold bonds.⁴ According to the SFPUC, the \$817,533,153 in authorized and unsold bonds will be used to finance the remainder of the Calaveras Dam project and other remaining projects in the Water System Improvement Program.

The SFPUC currently has more than \$1.0 billion in previously authorized and unsold Water Revenue Bonds. The proposed ordinance (File 18-0451) authorizes an additional \$478.4 million in Water Revenue Bonds, as well as entering into future agreements with the State Water Resources Control Board for funds to be used in lieu of the bonds. The SFPUC's policy is to request authorization for bonds and other form of debt to fund new capital appropriations. Because water 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 18-0451) 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 18-0451 as amended, and File 18-0448.

⁴ According to the SFPUC's Comprehensive Annual Financial Report, the Water Enterprise had \$145,000 in outstanding commercial paper (short term interim debt) as of June 30, 2017 that will be repaid by future Water Revenue Bond proceeds.

Project	Description
Local Water Conveyance	<ul style="list-style-type: none"> The long term program funds management of all linear assets in the local water distribution system between transmission or storage and customer connection. Funding is approved for 15 miles per year pipe line replaced or upgraded.
Water Transmission	<ul style="list-style-type: none"> Upgrades to the Transmission System including pipeline improvements and replacements, valve replacements, metering upgrades, cathodic protection, pump station upgrades and vault upgrades.
Calaveras Dam	<ul style="list-style-type: none"> Replacement of original dam; project budget increased by more than 200% from the baseline budget of \$265.2 million in 2004 to the total projected budget of \$810 million due to unanticipated subsurface conditions. Construction is now 76% complete.
Westside and Local Recycled Water	<ul style="list-style-type: none"> Funding request due to additional pipeline costs, engineering and environmental review for recommendation of a new alternative site.
Alameda Creek Projects	<ul style="list-style-type: none"> Diversion of water from Alameda Creek to Calaveras Reservoir and restoration of watershed
Regional Building and Grounds	<ul style="list-style-type: none"> Project replaces existing facilities with LEED facilities, adds storage and reconfigures the yard. Upgrades and functional restoration at Millbrae Headquarters including administrative offices, shops and laboratory facilities.
Supply and Storage	<ul style="list-style-type: none"> Upgrades to structures to meet State Division of Safety of Dams requirements. Includes Potable Reuse project to identify opportunities for direct and indirect potable water reuse and the Daly City Recycled Water Expansion Project providing 3.4 mgd recycled water to customers of the Regional Water System.
Long Term Monitoring	<ul style="list-style-type: none"> Meeting monitoring and permitting requirements of the water supply system and watershed
Regional Water Treatment	<ul style="list-style-type: none"> Major upgrades to Sunol Valley and Harry Tracy Water Treatment Plants to achieve higher level of performance and reliability.
Sunol Pipeline	<ul style="list-style-type: none"> Repairs and improvements to pipelines along fault crossings in Sunol Valley
John Muir Drive	<ul style="list-style-type: none"> EIR and other costs for recreational site development
New Service Connections	<ul style="list-style-type: none"> Added capacity for City growth and streamlined processes for new customers.
Pump Station Upgrades	<ul style="list-style-type: none"> Provides long term funding for renewal and rehabilitation of major water pump stations and hydroneumatic tanks that boost pressure within the San Francisco distribution system.
Watershed and Land Management	<ul style="list-style-type: none"> Program supports projects that improve and/or protect the water quality and/or ecological resources affected by the operation of the SFPUC. Project includes the repair, replacement, maintenance, and construction of road, fences, trails, and other ecosystem restoration.

Project	Description
Automated Water Meter Program	<ul style="list-style-type: none"> Funding complete final phase of installation of automated water meter.
Lombard Geotechnical	<ul style="list-style-type: none"> Design and construction of geotechnical improvements to the north slope of Lombard Street
Communications and Monitoring	<ul style="list-style-type: none"> Program includes a microwave project to provided critical redundant communication and funding for security improvements.
Building and Grounds	<ul style="list-style-type: none"> Funding for capital improvements at CDD facilities and structures. Projects include yard improvements to increase efficiency and reliability, a fueling station and CDD Control Center to house all systems in a single seismically reliable building.
Regional Groundwater Storage	<ul style="list-style-type: none"> Project replaces existing facilities with LEED facilities, adds storage and reconfigures the yard. Upgrades and functional restoration at Millbrae Headquarters including administrative offices, shops and laboratory facilities.
Systems Monitoring and Control	<ul style="list-style-type: none"> Improvements to facilities for controlling and monitoring San Francisco's water distribution system. Enhancements to SCADA system for remote monitoring of pressure, flow, and valve position, fiber optic and security system upgrades to improve safety and reliability.
