

LEGISLATIVE DIGEST

[Increase of Wastewater Enterprise Interim Funding Program - Not-to-exceed \$1,250,000,000
Increase of Water Enterprise Interim Funding Program – Not-to-exceed \$750,000,000
Increase of Power Enterprise Interim Funding Program – Not-to-exceed \$450,000,000]

Ordinance authorizing (i) an increase of the not-to-exceed aggregate principal amount of the Wastewater Enterprise’s Interim Funding Program by \$500,000,000 from an aggregate principal amount not-to-exceed \$750,000,000 to an aggregate principal amount not-to-exceed \$1,250,000,000, to finance on a short-term interim basis various capital projects benefitting the Wastewater Enterprise, (ii) an increase of the not-to-exceed aggregate principal amount of the Water Enterprise’s Interim Funding Program by \$250,000,000 from an aggregate principal amount not-to-exceed \$500,000,000 to an aggregate principal amount not-to-exceed \$750,000,000, to finance on a short-term interim basis various capital projects benefitting the Water Enterprise, and (iii) an increase of the not-to-exceed aggregate principal amount of the Power Enterprise’s Interim Funding Program by \$200,000,000 from an aggregate principal amount not-to-exceed \$250,000,000 to an aggregate principal amount not-to-exceed \$450,000,000, to finance on a short-term interim basis various capital projects benefitting the Power Enterprise; and ratifying previous actions taken in connection therewith, as defined herein.

Existing Law

Section 8B.124 of the Charter authorizes the San Francisco Public Utilities Commission (PUC) 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. Such indebtedness may be issued for, amongst other purposes, any lawful purpose to finance capital projects for the Water, Wastewater, and Power Enterprises of the City.

The purpose of this action is to increase the authority of the PUC to provide cost-effective interim (short-term) funding for the Wastewater, Water, and Power Enterprises’ capital projects pursuant to each Enterprise’s respective 10-year capital improvement plan.

Expansion of the respective Enterprises’ short-term borrowing programs requires approval from the Board. San Francisco Administrative Code Section 43.5, Article V (Ordinance No. 203-98 and adopted by the Board on June 8, 1998, as amended by Ordinance No. 270-06, adopted by the Board on October 24, 2006), established a procedure for the Commission to issue short-term indebtedness, including the issuance of commercial paper in anticipation of the issuance of revenue bonds.

Amendments to Current Law

The total authorized interim (short-term) funding principal for each Enterprise that may be outstanding at any one time, as approved by this Board, has historically changed as follows:

Fiscal Year	2007	2012	2015	2017	2025 (Proposed)
WASTEWATER	\$150m	\$300m	\$500m	\$750m	\$1.25b
Ordinance/Resolution	266-06	91-12	378-14	193-17	<i>Proposed</i>
BOS Approval	Oct-06	May-12	Sep-14	May-17	<i>Nov-24</i>
Fiscal Year	2003	2009			2025 (Proposed)
WATER	\$250m	\$500m			\$750m
Ordinance/Resolution	300-03	311-08			<i>Proposed</i>
BOS Approval	May-03	Dec-08			<i>Nov-24</i>
Fiscal Year	2016	2019			2025 (Proposed)
POWER*	\$90m	\$250m			\$450m
Ordinance	427-15	2-19			<i>Proposed</i>
BOS Approval	Nov-15	Jan-19			<i>Nov-24</i>

- *The Power Enterprise commercial paper program is authorized under Sections 9.107(6) and 9.107(8) in addition to Chapter 43, Article V of the Charter as of November 2018.*

Authority Granted

This ordinance authorizes the following increases:

- Wastewater Enterprise: Increases the interim (short-term) funding limit from \$750 million to \$1.25 billion.
- Water Enterprise: Increases the interim (short-term) funding limit from \$500 million to \$750 million.
- Power Enterprise: Increases the interim (short-term) funding limit from \$250 million to \$450 million.

Background Information

Interim funding instruments, such as commercial paper, bank notes, etc., are short-term financing tools used to bridge the gap between project initiation and the long-term capital project financing that typically comes through revenue bonds or other debt instruments. The PUC uses interim funding to proceed with critical infrastructure projects without delay, proceeding with long-term capital improvement plans on schedule, while ensuring that essential services continue to operate efficiently. This approach provides flexibility in managing cash flow and project timelines while longer-term financing solutions are structured and secured. Interim funding tools allow the PUC to borrow only when needed, helping the agency prevent large bond issuances before they are needed, saving ratepayers money. Interim financing also helps the PUC manage tax risks by issuing bonds principally for expenditures that have already been made, streamlining compliance with IRS rules on spend down of tax-exempt proceeds, and

allows the agency to demonstrate funding for Controller budget releases without prematurely issuing bonds.

Reason for Expansion of the Programs: In February 2024, the Commission adopted the 10-Year Capital Plans for each of the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Water and Power Enterprise, for FY 2024-25 through 2033-34. These 10-Year Capital Plans reflect an overall 34.4% increase in size from the previously approved plans, growing from \$8.8 billion to \$11.8 billion in aggregate. The projected revenue bond issuance needed to fund the plans has also grown commensurately.

The proposed expanded programs for each Enterprise are intended to meet the interim expenditures and appropriation releases needed over the future two-year budget periods of the Capital Plans. Issued commercial paper or other interim funding sources will be retired by long-term revenue bonds or future state and/or federal loans, if available, including SRF Loans and WIFIA Loans. When long-term financing is secured, interim funding program capacity is released to be used again to provide funding for project appropriations in subsequent two-year budget periods.

Increases to the programs' sizes will provide additional flexibility and allow the PUC to release approximately two years of appropriations against the programs, such that the PUC could incur actual expenditures before issuing revenue bonds or borrowing additional state or federal loans. Simply securing the letters of credit or other facilities authorized under the expansions will provide the basis for the Controller's release of project funds. This process is much more expedient and cost-effective than issuing bonds in anticipation of future spending.

As contract payments are due, the PUC has and will issue commercial paper or make draws under a borrowing vehicle under the applicable short-term interim funding program to pay those contract payment costs on a programmatic basis. In today's market, the PUC's commercial paper borrowing results in (in aggregate, across all enterprises) an approximately 4% all-in borrowing rate. This provides low-cost, interim short-term funding for capital project expenditures, in all cases in advance of the issuance of long-term revenue bonds. As the Federal Reserve continues to lower rates, the rates on commercial paper should also decline. The credit markets provide lower interest rates for a commercial paper program that has credit or liquidity support through one or more letters of credit or liquidity facilities, and that also has qualified dealers to issue and remarket the commercial paper to investors. Other short-term funding products, such as revolving lines of credit, can also provide low-cost interim funding for projects.

The proposed Enterprise programs' sizes align to the average projected, consecutive two-year budget periods in the respective five-year capital plans. These amounts are used as proxies for anticipated appropriation releases and encumbrances. These years encompass the largest anticipated expenditures of each of the capital plans.

Debt Funded Capital Improvement Plan Appropriation (in \$ 000s):

FY	Water CIP	Water 2-yr CIP	WW CIP	WW 2-yr CIP	Power CIP	Power 2-yr CIP
2024	305,138		890,195		100,398	
2025	435,622	740,759	774,782	1,664,978	182,773	283,171
2026	444,134	879,756	683,538	1,458,320	227,010	409,784
2027	463,465	907,599	806,528	1,490,066	243,820	470,831
2028	338,515	801,980	447,426	1,253,954	268,348	512,168
2029	213,137	551,652	253,145	700,571	186,106	454,454
	2-yr Avg:	776,349		1,313,578		426,081
	Current Program	500,000		750,000		250,000
	Proposed Amendment	250,000		500,000		200,000
	Proposed Interim Funding Program	750,000		1,250,000		450,000

The expanded Enterprise programs will complement future revenue bond issuances in the 10-year financial plans, and will provide flexibility with respect to the timing of those issuances. With the expansions, the PUC may obtain additional credit facilities to support capital projects on an interim basis. After capital spending tapers in the later years of the capital plans, excess credit facilities may be allowed to expire or terminate.

Expanded facilities are not expected to be used entirely or immediately upon the Board's adoption of an ordinance with the terms described here. Credit facility procurement and entry into project contracts will both be strategically timed. This work will be coordinated with the renewal of existing facilities and structured to achieve optimal pricing of PUC credit facilities. As is standard practice for the PUC, the PUC plans to seek proposals for credit facilities through a competitive solicitation process from a pre-qualified pool of bank credit facility providers. The Commission will be asked to approve any new credit facility agreements to be created under this expansion.

The increase in the size of interim financing does not change the amount of debt authorized to be undertaken by the PUC, but merely expands the interim financing tool.