

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 14, 2019 Special Budget and Finance Committee Meeting

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Items 1 and 2
Files 19-0571 and 19-0572

Department:
 Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

File 18-0571 is an ordinance amending Ordinance No. 143-18 to authorize an increase in the San Francisco Public Utilities Commission (SFPUC) authorization to sale tax-exempt and taxable Water Revenue Bonds by \$35,084,529 from \$478,440,136 to \$513,524,665 to finance water capital projects.

File 19-0572 is an ordinance appropriating \$26,071,000 of Water Revenue Bond proceeds and water revenues for the San Francisco Public Utilities Commission (SFPUC) Water Enterprise; and de-appropriating and re-appropriating \$33,997,225 of Water System Improvement Program appropriations for FY 2019-20, totaling \$60,068,225.

Key Points

- SFPUC owns and operates a municipal water supply, storage, and distribution system that provide drinking water to retail customers in the City, certain retail customers that are located outside of the City, and wholesale customers in Alameda County, Contra Costa County, and Santa Clara County.
- Proposition E, approved by San Francisco voters in 2002, allows SFPUC to issue revenue bonds to pay for water capital projects. Proposition E did not set a cap on the amount of bonds that could be issued but requires a two-thirds vote by ordinance of the Board of Supervisors to authorize the issuance of bonds. The Board of Supervisors previously authorized the issuance and sale of \$4.2 billion in Water Revenue Bonds.
- SFPUC's 10-Year Capital Plan provides for \$1.6 billion in Water Enterprise projects, of which \$763.2 million are regional water projects, \$736.1 million are local water projects, and \$125 million is for the Emergency Firefighting Water System.

Fiscal Impact

- According to the SFPUC's 10-Year Financial Plan for FY 2019-20 to FY 2028-29, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements.
- SFPUC planned an 8.3 percent increase in water rates in FY 2019-20 and a 7.8 percent increase in water rates in FY 2020-21 to cover the Water Enterprise's operating and capital costs.

Recommendation

- Approve File 19-0571 and File 19-0572.

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.

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. For FY 2019-20 to FY 2028-29, the 10-Year Capital Plan provides for \$1.6 billion in Water Enterprise projects, of which \$763.2 million are regional water projects, \$736.1 million are local water projects, and \$125 million is for the Emergency Firefighting Water System.

DETAILS OF PROPOSED LEGISLATION

File 19-0571 is an ordinance (1) amending Ordinance No. 143-18 to authorize an increase of the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness from \$478,440,136 to not-to-exceed \$513,524,665 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 19-0572 is an ordinance (1) appropriating \$26,071,000 of Water Revenue Bond proceeds and water revenues for the SFPUC Water Enterprise's capital improvement program for FY 2019-20; (2) de-appropriating and re-appropriating \$33,997,225 of Water System Improvement Program appropriations for FY 2019-20; and (3) placing \$20,571,000 on Controller's Reserve pending certification of available funds and adoption of California Environmental Quality Act (CEQA) findings for specified projects.

File 19-0571: 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 \$5.0 billion in outstanding Water Revenue Bonds as of June 30, 2018.

In June 2018, the Board of Supervisors authorized SFPUC to issue and sell not-to-exceed \$478,440,136 of Water Revenue Bonds (File No. 18-0451; Ordinance No. 143-18). Approval of the proposed ordinance (File 19-0571) would amend Ordinance No. 143-18 to increase the bonding authority by \$35,084,529 to \$513,524,665 to provide funds for additional capital projects for the Water Enterprise.

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

Table 1: Amended Allocation of \$513,524,665 in Water Revenue Bonds

| Use | Original | | Amendment | | Total |
|--|------------------------------------|--------------------------------------|------------------------------------|---|----------------------|
| | Water Enterprise (File 18-0451) | Hetch Hetchy Water (File 18-0450) | Water Enterprise (File 19-0571) | Hetch Hetchy Water (File 19-0545) ^a | |
| Capital Project Appropriation | \$329,219,969 | \$89,415,150 | \$18,000,000 | \$12,336,500 | \$448,971,619 |
| Financing Costs (14%) | 46,184,858 | 12,543,668 | 2,513,715 | 2,169,772 | 63,412,013 |
| City Services Auditor (0.2%) | 658,440 | 178,830 | 47,000 | -- | 884,270 |
| Revenue Bond Oversight Committee (0.05%) | 188,126 | 51,094 | 10,285 | 7,257 | 256,762 |
| Total | \$376,251,393 | \$102,188,742 | \$20,571,000 | \$14,513,529 | \$513,524,665 |

^a The appropriation of Hetch Hetchy Water Bond proceeds for the Mountain Tunnel project is discussed further in the Budget and Legislative Analyst report for Files 19-0545 and 19-0546.

Financing costs of \$63,412,013, equal to approximately 14 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest¹, bond counsel, and other costs.

File 19-0572: Appropriation, De-Appropriation, and Re-Appropriation to Water Enterprise

The proposed ordinance (File 19-0572) would appropriate bond proceeds and Water Enterprise revenues to regional water supply and storage projects and local water supply projects, as shown in Table 2 below. The supplemental appropriation would (1) add approximately \$13.5 million in FY 2019-20 funding for exploring alternative methods to expand regional water

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

sources including the Indirect Potable Reuse Project, Los Vaqueros expansion, and the Regional Desalination Project; (2) moving approximately \$4.5 million of the \$29.8 million budget for the Daly City Recycled Water Project from FY 2021-22 to FY 2019-20 to expedite project planning and design; (3) add \$5.5 million in new FY 2019-20 funding for exploring alternative methods to expand local water sources including the Eastside Water Purification Project; and (4) add approximately \$2.6 million in new FY 2019-20 funding for costs associated with the issuance of Water Revenue bonds.

The proposed ordinance would also de-appropriate funds from water system improvement projects that have been completed and closed out and re-appropriate the funds to the Regional Groundwater Storage Project and other system wide regional projects, as shown in Table 2.

Table 2: Proposed Water Enterprise Appropriation, De-Appropriation, and Re-Appropriation for FY 2019-20

| | FY 2019-20 |
|--|-----------------------|
| <u>Appropriation Sources</u> | |
| Bond Proceeds | \$20,571,000 |
| Water Enterprise Revenue | 5,500,000 |
| Total Sources | \$26,071,000 |
| <u>Appropriation Uses</u> | |
| Water Supply and Storage (Regional) | \$18,000,000 |
| Water Supply Projects (Local) | 5,500,000 |
| Financing Costs | 2,513,715 |
| City Services Auditor (0.2%) | 47,000 |
| Revenue Bond Oversight Committee (0.05%) | 10,285 |
| Total Uses | \$26,071,000 |
| <u>De-Appropriation</u> | |
| <i>Close Out of Water System Improvement Program</i> | |
| San Joaquin | (\$540,463) |
| Sunol Valley | (20,865,928) |
| Bay Division | (8,605,645) |
| Peninsula | (3,985,189) |
| Total De-Appropriation | (\$33,997,225) |
| <u>Re-Appropriation</u> | |
| Regional Groundwater Storage Project | \$31,158,027 |
| System Wide Regional | 2,839,198 |
| Total Re-Appropriation | \$33,997,225 |

Of the proposed appropriation of the \$26,071,000, the \$20,571,000 in bond proceeds would be placed on Controller's Reserve pending certification of available funds.

FISCAL IMPACT

SFPUC Debt Service Coverage Policy and Financial Plan

According to the SFPUC Comprehensive Annual Financial Report (CAFR), as of June 30, 2018, the SFPUC Water Enterprise had \$5.0 billion in outstanding debt, including \$4.9 billion in Water

Revenue Bonds and \$107.1 million in Certificates of Participation. The Water Enterprise's annual debt service payments in FY 2018-19 are \$286 million, increasing to \$307 million in FY 2019-20 and \$309 million in FY 2020-21.

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 2019-20 to FY 2028-29, 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 2019-20 and FY 2020-21

SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2018-19 is \$115, of which \$52 is water and \$63 is sewer. According to the FY 2019-20 to FY 2028-29 10-Year Financial Plan, SFPUC planned an 8.3 percent increase in water rates in FY 2019-20 and a 7.8 percent increase in water rates in FY 2020-21 to cover the Water Enterprise's operating and capital costs. The 10-Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2019-20, from \$52 in FY 2018-19 to \$56 in FY 2019-20; and by \$5 in FY 2020-21, from \$56 in FY 2019-20 to \$61 in FY 2020-21.

In April 2018, Public Utilities Commission adopted water rate increases that are consistent with the planned rate increases included in the adopted 10-Year Financial Plan. In accordance with Charter Section 8B.125, 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

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. Proposition E did not set a maximum amount of the Water Revenue Bonds that could be authorized. As of June 4, 2019, the Board of Supervisors authorized \$4,234,873,289 in Water Revenue Bonds. To date, \$3,339,462,000 of the Proposition E bonds have been issued and sold with \$895,411,289 in authorized and unsold bonds. According to Mr. Carlos Jacobo, Budget Director at SFPUC, SFPUC anticipates selling additional Water Revenue Bonds in the first or second quarter of FY 2019-20 with exact amounts depending on project spending and the availability of commercial paper.

² Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service

³ Current coverage is the ratio of Net Revenues to Annual Debt Service

The proposed ordinance (File 19-0571) would authorize an additional \$35.1 million in Water Revenue Bonds for a total of over \$930 million in authorized and unsold Proposition E 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.

RECOMMENDATION

Approve File 19-0571 and File 19-0572.

| | |
|--|---|
| Items 3 and 4 Files 19-0546 and 19-0545 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <p>File 18-0546 is an ordinance amending Ordinance No. 142-18 to authorize an increase of the issuance and sale of tax-exempt and taxable Power Revenue Bonds by \$44,970,467 from \$154,928,058 to \$199,898,526 to finance various capital projects.</p> | |
| <p>File 19-0545 is an ordinance (a) appropriating \$27,922,599 of Hetch Hetchy Power and Water Revenue Bonds for the San Francisco Public Utilities Commission (SFPUC) Hetch Hetchy Capital Improvement Program for FY 2019-20; (b) re-appropriating \$21,561,397 from Hetchy Power and Water revenue to Hetchy Power and Water Revenue Bonds as a source of funds for projects; (c) re-appropriating \$75,911,397 in Hetch Hetchy Enterprise revenue and Hetch Hetchy Power and Water revenue bonds as sources of funds for existing power and water capital projects; (d) de-appropriating \$15,000,000 previously appropriated to streetlight projects in FY 2018-19 and return these funds to fund balance; and (e) placing \$27,922,599 of new Power and Water Bond authorization on Controller's Reserve.</p> | |
| Key Points | |
| <ul style="list-style-type: none"> • SFPUC's Hetch Hetchy Water and Power Enterprise is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning. Power sales must generate sufficient revenues to fund the Hetch Hetchy Enterprise's operating expenses and capital program. • Proposition A, approved by voters in June 2018, allows SFPUC to issue revenue bonds to fund power facilities projects, subject to two-thirds vote of the Board of Supervisors. As a result, SFPUC proposes to de-appropriate Hetch Hetchy revenue funds that had been budgeted for certain power capital improvement projects and replace the revenue funds with bond proceeds. The Board of Supervisors previously authorized the issuance and sale of \$351.9 million in Power Revenue Bonds. • SFPUC's 10-Year Capital Plan provides for \$867.5 million in Hetch Hetchy Water capital project expenditures through FY 2028-29, and \$360.2 million in Hetch Hetchy Power capital project expenditures through FY 2028-29, totaling \$1.23 billion over ten years. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • According to the SFPUC's 10-Year Financial Plan for FY 2019-20 to FY 2028-29, total annual debt service for the Hetch Hetchy Power Enterprise is within the SFPUC's debt service coverage policy requirements. • Electricity rates paid by the City's General Fund departments increase by \$0.005 (1/2 cent) per kilowatt hour (kWh) in FY 2019-20 and FY 2020-21 to fund Hetch Hetchy Power Enterprise operating, maintenance, and capital costs. | |
| Policy Consideration | |
| <ul style="list-style-type: none"> • Replacing revenue funds with bond proceeds will contribute to higher electricity rates for retail and wholesale customers over time. | |
| Recommendation | |
| <ul style="list-style-type: none"> • Approve Files 19-0545 and 19-0546. | |

MANDATE STATEMENT

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds 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 all members of the Board of Supervisors; and issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

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 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) Hetch Hetchy Water and Power Enterprise, of which the Power Enterprise is a component, is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning. The Hetch Hetchy Water and Power Enterprise is also responsible for all water and power facilities at Hetch Hetchy. Power sales must generate sufficient revenues to fund the Hetch Hetchy Enterprise's operating expenses and capital program.

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. For FY 2019-20 to FY 2028-29, the 10-Year Capital Plan provides for \$867.5 million in Hetch Hetchy Water capital project expenditures through FY 2028-29, and \$360.2 million in Hetch Hetchy Power capital project expenditures through FY 2028-29, totaling \$1.23 billion over ten years. These projects are funded primarily by Power Revenue Bonds, Water Revenue Bonds, operating revenue, and Cap and Trade Allowances¹.

DETAILS OF PROPOSED LEGISLATION

File 19-0545: The proposed ordinance would (a) appropriate \$27,922,599 of Hetch Hetchy Power and Water Revenue Bonds for the SFPUC Hetch Hetchy Capital Improvement Program

¹ The California Cap and Trade Program sets greenhouse gas emission allowances for public and private utilities and other agencies; agencies that do not fully use their greenhouse gas emission allowance can sell the allowance to other agencies.

for FY 2019-20; (b) re-appropriate \$21,561,397 from Hetchy Power and Water revenue to Hetchy Power and Water Revenue Bonds as a source of funds for projects; (c) re-appropriate \$75,911,397 in Hetch Hetchy Enterprise revenue and Hetch Hetchy Power and Water revenue bonds as sources of funds for existing power and water capital projects; (d) de-appropriate \$15,000,000 previously appropriated to streetlight projects in FY 2018-19 and return these funds to fund balance; and (e) place \$27,922,599 of new Power and Water Bond authorization on Controller's Reserve subject to the certification of available funds.

File 19-0546: The proposed ordinance would (a) amend Ordinance No. 142-18 to authorize an increase of the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness by SFPUC to an aggregate principal amount not to exceed \$199,898,526 from \$154,928,059, (b) authorize the issuance of Power Revenue Refunding Bonds, (c) declare the official intent of the Public Utilities Commission to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and (d) ratify previous actions.

File 19-0546: Power Revenue Bonds

In June 2018, the Board of Supervisors authorized SFPUC to issue and sell not-to-exceed \$154,928,059 of Power Revenue Bonds (File No. 18-0450; Ordinance No. 142-18). Approval of the proposed ordinance (File 19-0546) would amend Ordinance No. 142-18 to increase the bonding authority by \$44,970,467 to \$199,898,526 to finance various capital projects benefitting the Power Enterprise.

Table 1: Amended Allocation of \$199,898,526 in Power Revenue Bonds

| Use | Original | Amendment | Total |
|--|----------------------|---------------------|----------------------|
| Capital Project Appropriation | \$131,688,850 | \$38,224,897 | \$169,913,747 |
| Financing Costs (17%) | 22,898,366 | 6,661,559 | 29,559,925 |
| City Services Auditor (0.2%) | 263,378 | 61,529 | 324,907 |
| Revenue Bond Oversight Committee (0.05%) | 77,464 | 22,482 | 99,946 |
| Total | \$154,928,058 | \$44,970,467 | \$199,898,526 |

Financing costs of \$29,559,925, equal to approximately 17 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest², bond counsel, and other costs.

File 19-0545: Appropriation to Support Hetch Hetchy Capital Improvement Program

The proposed ordinance appropriates \$27,922,599 in Hetch Hetchy Power and Water Revenue Bonds (File 19-0546) and re-appropriates \$75,922,397 in previously approved revenue and bond appropriations, totaling \$103,833,996, to Hetch Hetchy capital projects and bond financing costs, as shown in Table 2 below. Of the \$103,833,996:

- \$27,922,599 are new funding to the Bay Corridor project, including associated financing costs; and
- \$75,911,397 are reallocation of funding sources to existing projects.

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

Table 2: Proposed Appropriation and Re-appropriation

| | Revenue | Power | Water | Total |
|-------------------------------------|---------------------|---------------------|---------------------|----------------------|
| Sources | | | | |
| <u>Appropriation</u> | | | | |
| Bond proceeds (File 15-0546) | | \$25,745,570 | \$2,177,029 | \$27,922,599 |
| <u>Re-appropriation</u> | | | | |
| From revenues: | (\$21,561,397) | \$9,224,897 | \$12,336,500 | \$0 |
| From projects: | | | | |
| Bay Corridor | 21,000,000 | 0 | 0 | 21,000,000 |
| Treasure Island | 1,707,065 | 0 | 0 | 1,707,065 |
| Candlestick Point/ Alice Griffith | 7,814,332 | 0 | 0 | 7,814,332 |
| Distribution | 7,000,000 | 0 | 0 | 7,000,000 |
| Streetlights | 0 | 6,010,000 | 0 | 6,010,000 |
| Facilities | 0 | 9,950,000 | 0 | 9,950,000 |
| Mountain Tunnel | 0 | 12,336,500 | 10,093,500 | 22,430,000 |
| <i>Subtotal Projects</i> | \$37,521,397 | \$28,296,500 | \$10,093,500 | \$75,911,397 |
| Total Sources | \$15,960,000 | \$63,266,967 | \$24,607,029 | \$103,833,996 |
| Uses | | | | |
| <u>Appropriation</u> | | | | |
| Bay Corridor | | \$19,000,000 | | \$19,000,000 |
| Financing, reserves, audits | | 6,745,570 | 2,177,029 | 8,922,599 |
| <i>Subtotal Bond (File 15-0546)</i> | | \$25,745,570 | \$2,177,029 | \$27,922,599 |
| <u>Re-appropriation</u> | | | | |
| Bay Corridor | 0 | 21,000,000 | 0 | 21,000,000 |
| Treasure Island | 0 | 1,707,065 | 0 | 1,707,065 |
| Candlestick Point/ Alice Griffith | 0 | 7,814,332 | 0 | 7,814,332 |
| Distribution | 0 | 7,000,000 | 0 | 7,000,000 |
| Streetlights | 6,010,000 | 0 | 0 | 6,010,000 |
| Facilities | 9,950,000 | 0 | 0 | 9,950,000 |
| Mountain Tunnel | | 0 | 10,093,500 | 10,093,500 |
| Mountain Tunnel (File 19-0571) | 0 | 0 | 12,336,500 | 12,336,500 |
| <i>Subtotal Re-appropriation</i> | \$15,960,000 | \$37,521,397 | \$22,430,000 | \$75,911,397 |
| Total Uses | \$15,960,000 | \$63,266,967 | \$24,607,029 | \$103,833,996 |

In addition, the proposed ordinance de-appropriates \$15,000,000 in Hetch Hetchy Power revenues, previously appropriated to Streetlight projects, and returns these funds to the Enterprise fund balance.

FISCAL IMPACT

SFPUC Debt Service Coverage Policy and Financial Plan

According to the SFPUC Comprehensive Annual Financial Report (CAFR), as of June 30, 2018, SFPUC had \$43.0 million in outstanding Power Revenue Bonds. Total outstanding Hetch Hetchy

Power Enterprise debt as of June 30, 2018, including Clean Renewable Energy Bonds and Certificates of Participation, was \$69.8 million. Total annual Hetch Hetchy Power Enterprise debt service in FY 2018-19 is \$4.8 million and is projected to increase to \$41.2 million by the end of FY 2028-29.

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 2019-20 to FY 2028-29, total annual debt service for the Hetch Hetchy Power Enterprise is within the SFPUC's debt service coverage policy requirements.

Electricity Rate Increases in FY 2019-20 and FY 2020-21

Power Revenue Bonds are repaid from SFPUC's Hetch Hetchy Power Enterprise revenues, which are generated largely from the sale of electricity. Currently, SFPUC charges different electricity rates to different customers.

- Some City departments, including the Airport, Port, and SFPUC, pay enterprise rates, or rates equal to those set by Pacific, Gas and Electric (PG&E). These rates are adjusted automatically when PG&E's rates change.
- Other City departments and some non-City governmental entities such as the San Francisco Unified School District pay a General Use rate shown in Table 3 below.
- Retail customers in areas served by SFPUC (primarily redevelopment areas along the east side of the City) pay retail rates which are pegged to a 10 percent discount from the comparable PG&E rates. These rates are adjusted annually based on the equivalent PG&E rates as of April 1.

Table 3: Electric Rates Adopted by the SFPUC

| | FY 2018-19 Rates | FY 2019-20 Rates | FY 2020-21 Rates |
|------------------------------|---------------------|---------------------|---------------------|
| General Fund Departments | 8.48 ¢/kWh | 8.98 ¢/kWh | 9.48 ¢/kWh |
| Airport | 14.07 ¢/kWh | 14.35 ¢/kWh | 14.78 ¢/kWh |
| Other Enterprise Departments | 17.42 ¢/kWh | 17.77 ¢/kWh | 18.30 ¢/kWh |

In accordance with Charter Section 8B.125, SFPUC is responsible for setting the rates, fees and other charges for the sale of electricity. 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, SFPUC proposed rates become effective without further Board of Supervisors action.

³ Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service

⁴ Current coverage is the ratio of Net Revenues to Annual Debt Service

Combined with other miscellaneous sources of revenue, the adopted 10-Year Financial Plan projects that these rate increases provide sufficient revenues to fund the requested capital appropriation, including meeting all coverage and reserve policy targets.

POLICY CONSIDERATION

Exchange of Revenue-Based Funding Sources for Debt-Based Sources

As discussed above, in June 2018, San Francisco voters approved Proposition A, which amended the City Charter to allow SFPUC to issue revenue bonds for power facilities. As a result, SFPUC proposes to de-appropriate Hetch Hetchy revenue funds that had been budgeted for certain power capital improvement projects and replace the revenue funds with bond proceeds. Debt service payments on bonds and other forms of indebtedness have higher long-term costs than funding projects with operating revenues. According to the 10-Year Financial Plan, Hetch Hetchy Water and Power debt service payments are expected to begin increasing substantially in FY 2022-23 to \$8.1, from \$4.3 million in FY 2021-22, and continue increasing each year through the end of the 10-year projection to \$41.2 million in FY 2028-29. The increase in debt service payments, among other projected increases for operations and maintenance expenditures, will contribute to higher electricity rates for retail and wholesale customers over time.

Status of Authorized and Issued Bonds

To date, the Board of Supervisors previously authorized the issuance and sale of \$351.9 million in Power Revenue Bonds, of which \$38.8 million of Power Revenue Bonds have been sold with \$313.0 million in authorized and unsold bonds.⁵ The proposed ordinance (File 19-0546) authorizes an additional \$45.0 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.

RECOMMENDATION

Approve Files 19-0545 and 19-0546.

⁵ Not including \$50.5 million in outstanding commercial paper