

File No. 171011

Committee Item No. 6
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date October 19, 2017

Board of Supervisors Meeting

Date _____

Cmte Board

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Completed by: Linda Wong Date October 12, 2017
Completed by: Linda Wong Date _____

1 [Appropriation - Proceeds from Water Enterprise Revenue Bonds - Long Term Monitoring
2 Permit Program - \$12,600,000 - FY2017-2018]

3 **Ordinance appropriating \$12,600,000 of proceeds from Water Enterprise Revenue**
4 **Bonds to fund the Long-Term Monitoring Permit Program for the vegetation restoration**
5 **of the Water System Improvement Program construction sites and the Bioregional**
6 **Habitat Restoration projects as required by the related federal and state regulatory**
7 **permits in FY2017-2018; and placing \$12,600,000 of proceeds on Controller's Reserve**
8 **pending receipt of proceeds of indebtedness.**

9
10 Note: **Unchanged Code text and uncodified text** are in plain Arial font.
11 **Additions to Codes** are in *single-underline italics Times New Roman font*.
12 **Deletions to Codes** are in ~~italics Times New Roman font~~.
13 **Board amendment additions** are in double-underlined Arial font.
14 **Board amendment deletions** are in ~~strikethrough Arial font~~.

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

16 Section 1. The sources of funding outlined below are herein appropriated to reflect the
17 funding available for Fiscal Year 2017-2018.

18

19 **SOURCES Appropriation**

20 Fund /	Project & Activity /	Account	Description	Amount
21 Department ID	Authority			
22 26405	10015236_0001 /	480111	Water Enterprise	\$12,600,000
23 WATER CPF 2017	17731		Revenue Bonds	
24 Bond Fund /				
25 232396				

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Total SOURCE Appropriation

\$12,600,000

Section 2. The uses of funding outlined below are herein appropriated in Account 506070, Programmatic Projects, to fund the San Francisco Public Utilities Commission's Long Term Monitoring Permit Program for the Water System Improvement Program and Bioregional Habitat Restoration projects for Fiscal Year 2017-2018.

USES Appropriation

Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
26405	10015233_0001 /	506070	Programmatic	\$12,600,000
WATER CPF 2017	15549		Projects, Long-Term	
Bond Fund /			Monitoring Permit	
232396			Program	
Total USES Appropriation				<u><u>\$12,600,000</u></u>

Section 3: The total appropriation of \$12,600,000 is placed on Controller's Reserve pending receipt of proceeds of indebtedness.

Section 4: The Controller is authorized to record transfers between funds and adjust the accounting treatment of sources and uses appropriated in this ordinance as necessary to conform to Generally Accepted Accounting Principles.

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

By: *BDW*
BUCK DELVENTHAL
Deputy City Attorney

FUNDS AVAILABLE
BEN ROSENFELD, Controller

By: *BR*
BEN ROSENFELD
Controller

Items 6 and 7 Files 17-1011 and 17-1010	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • File 17-1011: The proposed ordinance would appropriate \$12,600,000 of Water Revenue Bond proceeds to fund the vegetation restoration and Bioregional Habitat Restoration (BHR) projects in order to mitigate the environmental impacts of the Water System Improvement Program (WSIP). • File 17-1010: The proposed ordinance would amend Ordinance No. 112-16, as amended by Ordinance No. 154-17, to increase the issuance of Water Revenue Bonds by \$12,600,000, from the amount of \$274,130,430 previously authorized by the Board of Supervisors under Ordinance No. 154-17 to the new amount of \$286,730,430. 	
Key Points	
<ul style="list-style-type: none"> • The WSIP consists of 83 critical water infrastructure projects needed to meet water quality requirements, ensure seismic and delivery reliability and meet water supply goals in an environmentally sustainable manner. In order to construct the WSIP projects, the SFPUC committed, through federal and state regulatory permits, to perform on site and off site mitigation of the program's environmental impacts. Two major initiatives required from the federal and state regulatory permits and approvals for WSIP include the vegetation restoration of WSIP construction sites, and habitat restoration and enhancements at various locations on property owned by the SFPUC in the Alameda Creek and Peninsula watersheds as part of the BHR program. • The Board of Supervisors previously approved the issuance of (a) \$264,997,468 in Water Revenue Bonds in June 2016 (Ordinance No. 112-16) to fund various water capital projects, and (b) \$9,132,962, increasing the Water Revenue Bond authorization to \$274,130,430 in June 2017 to purchase the Rollins Road property (Ordinance No. 154-17). The increase \$12,600,000 to pay for vegetation restoration and BHR projects would increase the total Water Revenue Bond authorization to \$286,730,430. 	
Fiscal Impact	
<ul style="list-style-type: none"> • SFPUC estimates a 4 percent annual interest for 30-year revenue bonds, to be sold during the winter of FY 2017-18. Based on total costs of \$13,023,256 (\$12,600,000 allocated to projects plus underwriter's discount and issuance costs), debt service over 30-years is estimated at \$22,594,085, including interest of \$9,570,829. Average annual debt service of \$753,136 will be funded through rates and charges to SFPUC Water customers. 	
Policy Consideration	
<ul style="list-style-type: none"> • SFPUC pays for debt service on Water Revenue Bonds and other Water Enterprise debt through water rates charged to customers. According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, water rates charged to retail customers are expected to increase by approximately 11 percent in FY 2018-19 and 10 percent in FY 2019-20 to cover Water Enterprise operating costs and debt service. 	
Recommendation	
<ul style="list-style-type: none"> • Approve the proposed ordinances. 	

MANDATE STATEMENT

Charter Section 8B.124 authorizes the San Francisco Public Utilities Commission (SFPUC) 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, to reconstruct, replace, expand, repair or improve water or clean water facilities under the jurisdiction of the SFPUC.

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

On November 5, 2002, San Francisco voters approved Proposition E, which authorized the San Francisco Public Utilities Commission (SFPUC) to issue water revenue bonds to reconstruct, replace, expand, repair, or improve SFPUC water facilities when authorized by ordinance and approved by a two-thirds vote of the Board of Supervisors.

The Water System Improvement Program (WSIP) consists of 83 critical water infrastructure projects needed to meet water quality requirements, ensure seismic and delivery reliability and meet water supply goals in an environmentally sustainable manner. In order to construct the WSIP projects, the SFPUC committed, through federal and state regulatory permits, to perform on site and off site mitigation. Two of the three¹ major initiatives required from the federal and state regulatory permits and approvals for WSIP include the following as part of the Long Term Monitoring Permit Program (LTMPP):

- **Vegetation Restoration of WSIP Construction Sites:** The purpose of this program is to revegetate the WSIP construction sites to preconstruction conditions or better. The program includes planting, monitoring and maintenance activities related to restoring and revegetating the WSIP project sites.
- **Bioregional Habitat Restoration (BHR) Program:** The purpose of this program is to compensate for the WSIP construction impacts to a broad range of habitats and special status species by restoring and enhancing habitats primarily through constructing wetlands, removing non-native species and planting native vegetation. The program includes approximately 2,000 acres of habitat restoration and enhancements at various locations on property owned by the SFPUC in the Alameda Creek and Peninsula watersheds.

¹ The third major initiative is fisheries monitoring and habitat restoration in the Alameda and Peninsula watersheds, which is not part of this appropriation request.

DETAILS OF PROPOSED LEGISLATION

File 17-1010: The proposed ordinance would amend Ordinance No. 112-16, as amended by Ordinance No. 154-17, to authorize an increase of the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness by the SFPUC in an aggregate principal amount not to exceed \$286,730,430 to finance the costs of various capital water projects benefitting the Water Enterprise, including certain BHR program and vegetation restoration costs pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002, as Proposition E; authorize the issuance of Water Revenue Refunding Bonds; declare the Official Intent of the SFPUC to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratify previous actions taken in connection therewith.

File 17-1011: The proposed ordinance would appropriate \$12,600,000 of proceeds from Water Enterprise Revenue Bonds to fund the LTMPP for vegetation restoration of the WSIP construction sites and the BHR program, as required by the related federal and state regulatory permits in FY 2017-18 and place \$12,600,000 of proceeds on Controller's Reserve pending receipt of proceeds of indebtedness.

Increase in Water Revenue Bond Authorization by \$12,600,000 (File 17-1010)

On June 14, 2016, the Board of Supervisors approved the issuance of not to exceed \$264,997,468 of SFPUC Water Revenue Bonds to finance various SFPUC water capital projects (File 16-0468, Ordinance No. 112-16). On June 15, 2017, the Board approved the increase of the issuance and sale of tax-exempt or taxable Water Revenue bonds and other forms of indebtedness by SFPUC to an aggregate principal amount not to exceed \$274,130,430 to finance the costs of various capital water projects benefitting the Water Enterprise, including new funding of \$9,132,962 to finance the cost of the acquisition of the Rollins Road property (File 17-0678, Ordinance No. 154-17).

The proposed ordinance would amend Ordinance No. 154-17, increasing the bond authorization amount by \$12,600,000, from \$274,130,430 to \$286,730,430. Revenue bonds will be issued during the winter of FY 2017-18.

\$12,600,000 Appropriation to WSIP Programs (File 17-1011)

The proposed ordinance would appropriate \$12,600,000 of Water Revenue Bond proceeds as follows:

- \$10,400,000 for the BHR program
- \$2,200,000 for vegetation restoration of the WSIP construction sites

According to Mr. Tim Ramirez of SFPUC, the appropriation would allow the continuation of both programs that are part of the SFPUC's ongoing fulfillment of federal and state permitting requirements and California Environmental Quality Act (CEQA) commitments associated with WSIP environmental impacts. The specific requirements for SFPUC's mitigation obligations on BHR sites were established by the permitting agencies issuing the environmental permits for WSIP projects, including the United States Army Corps of Engineers, United States Fish and

Wildlife Service, National Marine Fisheries Service, San Francisco Bay Regional Water Quality Control Board, and the California Department of Fish and Wildlife. The BHR program also fulfills requirements of WSIP CEQA documents developed by the City's Planning Department.

According to Mr. Ramirez, the appropriation is needed because SFPUC neglected to allocate funding for these programs in the FY 2017-18 budget due to internal miscommunication during the mid-cycle budget process. Mr. Ramirez stated that this is being rectified in the current budget process for future fiscal years.

Issuance of Water Revenue Bonds and Commercial Paper

According to Mr. Mike Brown of SFPUC, costs for the BHR program and the vegetation restoration of the WSIP construction sites at \$12,600,000 would be immediately funded through SFPUC's commercial paper program², which would allow SFPUC to begin work on the projects before the bond issuance. The commercial paper would then be refunded with the issuance of SFPUC revenue bonds during the winter of FY 2017-18. To date, Mr. Brown advises that the SFPUC has not issued any of the previously authorized Water Revenue Bonds, totaling \$274,130,430.

Under the proposed ordinance authorizing the increase in the amount and issuance of Water Revenue Bonds, Mr. Brown advises that these bonds will be sold on a competitive and tax-exempt basis.

FISCAL IMPACT

Table 1 below shows the breakdown of the requested supplemental appropriation ordinance (File 17-1011) for the \$12,600,000 required for the vegetation restoration and BHR programs in FY 2017-18.

² Commercial paper is short term, low interest debt that can be used as interim funding for capital projects pending the issuance of long term bonds. The Board of Supervisors previously authorized the Water Enterprise Commercial Paper Program in an amount not-to-exceed \$500 million.

Table 1: Total FY 2017-18 Cost of Programs and Remaining \$12,600,000 to be Appropriated

Activity	Total Estimated Cost	Appropriated to Date	Remaining Funds Required
Vegetation Restoration of WSIP Construction Sites Program			
Planning, Program Management, and Environmental Review	\$495,000	\$120,000	\$375,000
On-going Construction and Habitat Improvements	\$1,065,000	\$200,000	\$865,000
Compliance Monitoring	\$1,170,000	\$210,000	\$960,000
<i>Total Cost for Vegetation Restoration of WSIP Construction Sites Program</i>	<i>\$2,730,000</i>	<i>\$530,000</i>	<i>\$2,200,000</i>
BHR Program			
Planning, Program Management, and Environmental Review	\$1,733,000	\$280,000	\$1,453,000
On-going Construction and Habitat Improvements	\$4,654,000	\$774,000	\$3,880,000
Compliance Monitoring	\$6,873,000	\$1,806,000	\$5,067,000
<i>Total Cost for BHR Program</i>	<i>\$13,260,000</i>	<i>\$2,860,000</i>	<i>\$10,400,000</i>
Total Cost for All Programs	\$15,990,000	\$3,390,000	\$12,600,000

Debt Financing

Table 2 below shows the estimated cost for the issuance of the \$12,600,000 of revenue bonds to finance the LTMPP for vegetation restoration of the WSIP construction sites and the BHR program.

Table 2: Estimated Costs of Issuance

	Amount
Project Funds	\$12,600,000
Underwriter's Discount *	32,558
Cost of Issuance**	390,698
Estimated Total Costs of Issuance	\$13,023,256

* Underwriter's Discount is the difference between the price that the underwriter pays the issuer for the bonds and the price at which it sells the bonds in a public offering.

**Cost of Issuance includes fees for rating agencies, financial advisors, attorneys, Revenue Bond Oversight Committee, City Services Auditor

Source: SFPUC

The projected \$423,256 expense for the underwriter's discount and cost of issuance for the \$12,600,000 project would be funded from previous SFPUC authorized appropriations.

The SFPUC estimates an approximate 4 percent annual interest rate for 30-year revenue bonds, which are anticipated to be sold during the winter of FY 2017-18. Based on a total cost of \$13,023,256 shown in Table 2 above, total debt service over the 30-year term is estimated at \$22,594,085, including interest costs of \$9,570,829 and average annual debt service payments

of \$753,136. Annual debt service will be budgeted each year in the SFPUC's Water Enterprise operating budget, subject to Board of Supervisors appropriation approval, and funded through rates and charges to SFPUC Water customers.

Water Enterprise Capital Projects Bond Authorization

The total authorization of the issuance and sale of water revenue bonds in an aggregate principal amount not to exceed \$286,730,430 includes the requested funding of \$12,600,000 to finance the LTMPP, for vegetation restoration of the WSIP construction sites and the BHR program (File 17-1010).

Table 3 below shows the projects to be funded by the \$286,730,430 in Water Revenue Bond proceeds, including \$274,130,430 previously appropriated by the Board of Supervisors (Files 16-0468 and 17-0677) and \$12,600,000 requested for appropriation (File 17-1011).

Table 3: Sources and Uses of \$286,730,430 in Water Revenue Bond Proceeds

Source of Funds	
Proceeds from Sale of Water Revenue Bonds	\$286,730,430
Total Sources	\$286,730,430
Uses of Funds	
<u>Previously Appropriated</u>	
<i>Appropriated Under File 16-0648</i>	
Regional Water Treatment Program	10,013,000
Water Transmission Program	13,979,000
Buildings & Ground Regional	14,743,000
Local Water Conveyance/Distribution	105,300,000
Automated Water Meter Program	2,000,000
Buildings & Ground Improvements	1,750,000
Systems Monitoring & Control	600,000
Local Water Supply – Other Recycled Water Projects	3,500,000
Pump Station Upgrades	4,000,000
San Francisco Groundwater Supply	4,995,000
SF Westside Recycled Water Project	27,806,000
Water Infrastructure	15,100,000
Joint Water - Bonds	3,150,000
Mountain Tunnel - Joint Water	21,245,400
Subtotal, File 16-0648	\$228,181,400
Rollins Road (File 17-0677)	9,132,962
Subtotal, Previously Appropriated	\$237,314,362
LTMPP: Vegetation Restoration and BHR Programs (File 17-1011)	12,600,000
Subtotal Project Costs	249,914,362
Financing Costs	35,958,018
City Services Auditor	725,552
Revenue Bond Oversight Committee	132,498
Subtotal Financing/Other Costs	36,816,068
Total Uses	\$286,730,430

POLICY CONSIDERATION**Impact of Debt Service on Water Rates Charged to Retail Customers**

According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, estimated annual debt service in FY 2017-18 on SFPUC's Water Revenue Bonds and other Water Enterprise debt is \$260.7 million, increasing to \$305.8 million in FY 2019-20, which would include debt service on the proposed \$286,730,430 in Water Revenue Bonds.

SFPUC pays for debt service on Water Revenue Bonds and other Water Enterprise debt through water rates charged to customers. According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, water rates charged to retail customers are expected to increase by approximately 11 percent in FY 2018-19 and 10 percent in FY 2019-20 to cover Water Enterprise operating costs and debt service.

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.

RECOMMENDATION

Approve the proposed ordinances.



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Services of the San Francisco
Public Utilities Commission

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525 Golden Gate Avenue, 7th Floor
San Francisco, CA 94102
T 415.554.0773
cleanpowersf@sfgwater.org

August 16, 2017

The Honorable Edwin Lee
Mayor, City and County of San Francisco
City Hall, Room 200

The Honorable Board of Supervisors
City Hall, Room 244

Ben Rosenfield, Controller
City Hall, Room 316

**Subject: SFPUC – Long Term Monitoring Permit Program
Supplemental Appropriation Request \$12,600,000**

Ladies and Gentlemen:

Attached is a completed copy of the Request for Supplemental Appropriation in the amount of \$12,600,000 to fund the Long Term Monitoring Permit Program.

These funds are necessary to fund the implementation of the Long Term Monitoring Permit Program for the vegetation restoration of the Water System Improvement Program (WSIP) construction sites and the Bioregional Habitat Restoration (BHR) projects as required by federal and state regulatory permits related to the WSIP projects.

Funding for this supplemental request will come from the issuance of Water Enterprise revenue bonds.

Regards,

Harlan L. Kelly, Jr.
General Manager

Attachments

Edwin M. Lee
Mayor

Anson Moran
President

Ike Kwon
Vice President

Ann Moller Caen
Commissioner

Francesca Vietor
Commissioner

Vince Courtney
Commissioner


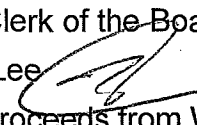
Harlan L. Kelly, Jr.
General Manager



OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM:  Mayor Edwin M. Lee 
RE: Appropriation – Proceeds from Water Enterprise Revenue Bonds - Long
Term Monitoring Permit Program - FY 2017-2018 - \$12,600,000
DATE: September 19, 2017

Attached for introduction to the Board of Supervisors is an ordinance appropriating \$12,600,000 of proceeds from Water Enterprise Revenue Bonds to fund the Long-Term Monitoring Permit Program for the vegetation restoration of the Water System Improvement Program construction sites and the Bioregional Habitat Restoration projects as required by the related federal and state regulatory permits in FY 2017-2018; and placing \$12,600,000 of proceeds on Controller's Reserve pending receipt of proceeds of indebtedness.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

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