

File No. 101386

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: November 17, 2010

Board of Supervisors Meeting

Date _____

Cmte Board

- | | | |
|-------------------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report <i>4</i> |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |
| <input type="checkbox"/> | <input type="checkbox"/> | Public Correspondence |

OTHER

(Use back side if additional space is needed)

<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____

Completed by: Victor Young

Date: November 12, 2010

Completed by: Victor Young

Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Water Revenue Bonds Issuance for 2010 - Not to Exceed \$600,000,000]

2
3 **Resolution approving the issuance of water revenue bonds and water revenue refunding**
4 **bonds in an aggregate principal amount not to exceed \$600,000,000 to be issued by the**
5 **Public Utilities Commission of the City and County of San Francisco; affirming covenants**
6 **contained in the indenture pursuant to which the water revenue bonds are issued;**
7 **authorizing the taking of appropriate actions in connection therewith; and related**
8 **matters.**

9
10 WHEREAS, pursuant to Section 9.107 of the Charter (the "Charter") of the City and
11 County of San Francisco (the "City"), the Board of Supervisors of the City (the "Board") is
12 authorized to provide for the issuance of revenue bonds by the Public Utilities Commission of
13 the City (the "Commission") following the approval of the issuance of such revenue bonds by
14 a majority of the voters, such revenue bonds to be issued and sold in accordance with State
15 law or any procedure provided for by ordinance; and,

16 WHEREAS, pursuant to Section 9.109 of the Charter, the Board is authorized to
17 provide for the issuance of bonds of the City for the purpose of refunding any revenue bonds
18 of the City then outstanding without voter approval, provided that such refunding is expected
19 to result in net debt service savings to the City on a present value basis, calculated as
20 provided by ordinance; and,

21 WHEREAS, at a duly called and held revenue bond election on November 5, 2002, a
22 majority of voters voting on the measure approved Proposition E ("Proposition E of 2002") to
23 authorize the Commission to issue its revenue bonds, including notes, commercial paper or
24 other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of
25

1 the Board, for the purpose of reconstructing, replacing, expanding, repairing or improving
2 water facilities under the jurisdiction of the Commission (the "Projects"); and,

3 WHEREAS, on August 4, 2009, the Board passed its Ordinance No. 189-09, approving
4 the issuance and sale of water revenue bonds by the Commission pursuant to Proposition E
5 of 2002, in an aggregate principal amount not to exceed \$1,310,307,119, to finance Projects
6 that fall under the Commission's Water System Improvement Program ("WSIP Projects"),
7 which ordinance became effective on September 12, 2009; and,

8 WHEREAS, on April 20, 2010, the Board passed its Ordinance No. 089-10 ("Ordinance
9 No. 089-10" and together with the aforesaid Ordinance No. 189-09, the "Ordinances")
10 approving the issuance and sale of additional water revenue bonds by the Commission
11 pursuant to Proposition E of 2002, in one or more series and on one or more dates, in an
12 aggregate principal amount not to exceed \$1,737,724,038, including (i) \$1,647,249,198
13 principal amount to finance WSIP Projects and associated financing costs, (ii) \$62,000,000
14 principal amount to finance Projects relating to the Commission's Advance Meter
15 Infrastructure System ("AMI Projects") and associated financing costs, and (iii) \$28,474,840
16 principal amount to finance Projects other than WSIP Projects and AMI Projects ("Other CIP
17 Projects" and together with the AMI Projects, "Non-WSIP Projects") and associated financing
18 costs, which ordinance became effective on May 30, 2010; and,

19 WHEREAS, pursuant to the Ordinances and Proposition E of 2002, the Board has
20 therefore approved the issuance and sale of additional water revenue bonds by the
21 Commission pursuant to Proposition E of 2002, in one or more series and on one or more
22 dates, in a total aggregate principal amount not to exceed \$3,048,031,157, as described
23 above; and,

24 WHEREAS, pursuant to Proposition E of 2002, the Commission has previously issued
25 \$890,225,000 aggregate principal amount of New Money Bonds (defined below); and,

1 WHEREAS, an aggregate principal amount not to exceed \$2,157,806,157 remains
2 authorized by the Board pursuant to the Ordinances and unissued by the Commission; and,

3 WHEREAS, a condition of approval in each of the aforesaid Ordinances is that the
4 Commission shall return to the Board prior to the issuance of any such water revenue bonds
5 to obtain approval by resolution of the Board of any related financing or disclosure documents
6 prepared in connection with the issuance of such water revenue bonds; and,

7 WHEREAS, the Commission, pursuant to the terms of a resolution adopted by the
8 Commission on November 9, 2010 (the "Resolution"), has authorized the issuance of its San
9 Francisco Water Revenue Bonds in an aggregate principal amount not to exceed
10 \$500,000,000, for the purpose of financing and refinancing Projects, funding reserve funds
11 (including the replacement of existing reserve fund credit instruments) and paying costs of
12 issuance and other incidental costs therefor, with the title and series designations to be
13 determined by the General Manager of the Commission (the "New Money Bonds"); authorized
14 the issuance of its San Francisco Water Revenue Refunding Bonds without limitation as to
15 par amount, for the purpose of refunding outstanding water revenue bonds or commercial
16 paper of the Commission, funding reserve funds and paying costs of issuance and other
17 incidental costs therefor, with the title and series designations to be determined by the
18 General Manager of the Commission, provided that the applicable requirements of the
19 policies, procedures and Charter of the City are satisfied (the "Refunding Bonds" and together
20 with the New Money Bonds, the "Bonds"); approved the form of one or more Supplemental
21 Indentures (the "Supplemental Indentures"), by and between the Commission and U.S. Bank
22 National Association, as trustee (the "Trustee"), which supplements the Amended and
23 Restated Indenture dated as of August 1, 2002, as amended and supplemented (collectively
24 with the Supplemental Indentures, the "Indenture") by and between the Commission and the
25 Trustee; and authorized other related actions and matters; and,

1 WHEREAS, the Resolution, among other things, establishes a maximum rate of
2 interest for the Bonds of twelve percent (12%) per annum; now, therefore, be it

3 RESOLVED by the Board of Supervisors of the City and County of San Francisco, as
4 follows:

5 Section 1. Recitals. All of the recitals herein are true and correct.

6 Section 2. Approval and Authorization of New Money Bonds and Refunding Bonds.

7 The Board hereby authorizes and approves the issuance by the Commission of New Money
8 Bonds in an aggregate principal amount not to exceed \$600,000,000, in one or more series
9 and on one or more dates, at a maximum rate or rates of interest not to exceed twelve percent
10 per annum. The New Money Bonds may be issued as tax-exempt bonds, taxable bonds or
11 Build America Bonds, as authorized by the American Recovery and Reinvestment Act of
12 2009, or any combination thereof.

13 The Board further authorizes and approves the issuance by the Commission of
14 Refunding Bonds, without limitation as to principal amount, in one or more series and on one
15 or more dates, at a maximum rate or rates of interest not to exceed twelve percent per
16 annum, provided that each such Refunding Bond issue is permitted under the applicable
17 policies and procedures of the City and authorized by either (A) Section 9.109 of the Charter
18 or (B) Proposition E of 2002 (including related ordinances and resolutions of the Board). The
19 Refunding Bonds may be issued as tax-exempt bonds or taxable bonds, or any combination
20 thereof.

21 The forms of the Bonds, in substantially the forms presented to the Board, as set forth
22 in the exhibits to the Supplemental Indentures, are hereby approved. The President or the
23 General Manager of the Commission or the designee of either, and the Controller of the City
24 or any deputy thereof, are hereby authorized and directed to approve and to execute the
25 Bonds by manual or facsimile signature, with such changes, additions, amendments or

1 modifications therein which he or she may approve with the advice of the City Attorney, such
2 approval to be conclusively evidenced by the execution and delivery of the Bonds.

3 Section 3. Affirmation of Existing Bond Covenants. The Board hereby confirms
4 Section 5.01(b) of the Indenture which sets forth the disposition of Revenues (as defined in
5 the Indenture) applicable to the Bonds (as defined in the Indenture) and covenants with the
6 holders of the Bonds that the Revenues shall be appropriated and expended as set forth in
7 Section 5.01(b) of the Indenture. The Board also hereby declares that the City will comply
8 with all of the terms, provisions and covenants contained in the Indenture, as the same may
9 be amended from time to time, including the covenants to establish, fix, prescribe and collect
10 rates, fees and charges sufficient to enable the Commission to comply with the terms,
11 conditions and covenants of the Indenture.

12 Section 4. Approval of Financing Documents. In accordance with the grant of authority
13 contained in the Ordinances, the forms of Supplemental Indentures, Official Notices of Sale,
14 Notices of Intention to Sell Bonds, Bond Purchase Agreements, Official Statements, Escrow
15 Agreements and Continuing Disclosure Certificates relating to the Bonds, submitted to this
16 Board and on file with the Clerk of the Board, are hereby approved. The Controller, the
17 Treasurer, the City Attorney and the officers of the Commission authorized by resolution of the
18 Commission, and their designees, are hereby authorized to execute, attest, seal, publish and
19 deliver (as appropriate) each such document, with such changes thereto as the officer
20 executing or publishing the same shall approve with the advice of the City Attorney, such
21 approval to be conclusively evidenced by the execution and delivery, or the publication, as
22 applicable, of such document.

23 Section 5. Proposition P. Pursuant to Proposition P approved by the voters of the City
24 in November 2002, this resolution and the Bonds are subject to, and incorporate by reference,
25 the provisions of Section 5A.30 et seq. ("Public Utilities Revenue Bond Oversight Committee")

1 of Chapter V of the San Francisco Administrative Code (the "Proposition P Requirements").
2 Pursuant to the Proposition P Requirements, to the extent permitted by law, one-twentieth of
3 one percent of the gross proceeds of the Bonds shall be deposited in a fund established by
4 the Controller's Office and appropriated by the Board at the direction of the public utilities
5 revenue bond oversight committee established by Proposition P Requirements to cover the
6 costs of said committee.

7 Section 6. General Authority. The Controller of the City, the Treasurer of the City, the
8 City Attorney, and all other appropriate officers, employees, representatives and agents of the
9 City are hereby authorized and directed to do everything necessary or desirable to provide for
10 the issuance and security of the Bonds, including, but not limited to, executing and delivering
11 such certificates and other documents as they may deem necessary or advisable, including
12 without limitation any custody agreements or filing agent agreements required by the Trustee.

13 Section 7. Release of Finance Committee Reserve. The Budget and Finance
14 Committee also releases the remaining balance held on reserve pursuant to Ordinance No.
15 311-08 for Project CUW 300 WSIP Financing Cost.

16
17 APPROVED AS TO FORM:

18 DENNIS J. HERRERA, City Attorney

19
20
21 By:


22 MARK D. BLAKE
23 Deputy City Attorney
24
25

Item 2
File 10-1386

Department:
Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objective

- Resolution to approve the issuance of up to \$600,000,000 in Water Revenue Bonds by the Public Utilities Commission (PUC) to fund two projects in the PUC's Water System Improvement Program (WSIP). The proposed resolution would also approve various financing documents related to the proposed bond issuance.

Key Points

- The PUC's Water System Improvement Project (WSIP) is a series of 86 separate capital improvement projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The 86 individual projects are categorized into five geographic regions and standalone projects, and have a current total estimated cost of \$4,585,556,261, including financing costs.
- On November 4, 2002, San Francisco voters approved Proposition E, which authorized the PUC to issue an unlimited amount of either Wastewater or Water Revenue Bonds for needed capital improvements for the PUC's water, wastewater, and power facilities. In order for the PUC to issue Water Revenue Bonds under Proposition E, the PUC must first (a) receive bond authority by a two-thirds vote of the Board of Supervisors by ordinance, and then (b) receive approval to issue such bonds by a majority vote of the Board of Supervisors by resolution.
- Pursuant to Proposition E, the Board of Supervisors has previously authorized the PUC to issue \$2,969,173,380 in Water Revenue Bonds for WSIP, including (a) \$1,321,924,182 under File 09-0886, and (b) \$1,647,249,198 under File 10-0341. As of the writing of this report, the PUC has issued \$890,225,000 in Water Revenue Bonds out of the total bond authority of \$2,969,173,380, such that \$2,078,948,380 in bond authority remains. The PUC is now requesting approval to issue \$600,000,000 in Water Revenue Bonds for WSIP projects from the remaining \$2,078,948,380 in bond authority previously approved by the Board of Supervisors pursuant to Proposition E.

Fiscal Impact

- The estimated debt service on the proposed \$600,000,000 Water Revenue Bond issuance, totals \$1,320,010,050 over 40 years, including \$600,000,000 in principal and \$720,010,050 in interest. Such debt service would be paid from PUC water revenues paid by water customers.
- The proposed \$600,000,000 issuance of Water Revenue Bonds includes (a) \$498,659,800 for two of the PUC's largest WSIP projects, and (b) \$101,340,200 in financing costs.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

On November 4, 2002, San Francisco voters approved Proposition E, which authorized the PUC to issue an unlimited amount of either Wastewater or Water Revenue Bonds for needed capital improvements for the PUC's water, wastewater, and power facilities. In order for the PUC to issue such Water Revenue Bonds under Proposition E, the PUC must first (a) receive bond authority by a two-thirds vote of the Board of Supervisors by ordinance, and then (b) receive approval to issue such bonds by a majority vote of the Board of Supervisors by resolution.

Background

The PUC's Water System Improvement Project (WSIP) is a series of 86 separate capital improvement projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The 86 individual projects are categorized into five geographic regions and standalone projects, and have a current total estimated cost of \$4,585,556,261, including financing costs.

Pursuant to Proposition E, the Board of Supervisors has previously authorized the PUC to issue \$2,969,173,380 in Water Revenue Bonds for WSIP, including (a) \$1,321,924,182 under File 09-0886, and (b) \$1,647,249,198 under File 10-0341. As of the writing of this report, the PUC has issued \$890,225,000 in Water Revenue Bonds out of the total bond authority of \$2,969,173,380, such that \$2,078,948,380 in bond authority remains.

The PUC is now requesting approval to issue \$600,000,000 in Water Revenue Bonds for two WSIP projects from the remaining \$2,078,948,380 in bond authority previously approved by the Board of Supervisors pursuant to Proposition E.

DETAILS OF PROPOSED LEGISLATION

The proposed issuance of \$600,000,000 in Water Revenue Bonds would fund a portion of (a) the Harry Tracy Water Treatment Plant Improvement Project, (b) the San Joaquin Pipeline Project, and (c) related financing costs, under the PUC's Water System Improvement Program as summarized in Table 1 below.

Table 1: Uses of Bond Proceeds

Project Costs	
Harry Tracy Water Treatment Plant Improvement Project	
Project Management	\$11,818,097
Planning	6,334,242
Environmental	7,085,412
Design	15,169,254
Bid and Award	475,115
Construction Management	25,230,239
Construction	213,210,872
Close-Out	478,246
Subtotal: Harry Tracy Water Treatment Plant Improvement Project	\$279,801,477
San Joaquin Pipeline	
Project Management	8,715,142
Planning	4,860,822
Environmental	6,810,600
Design	15,387,978
Bid and Award	455,959
Construction Management	21,654,203
Construction	160,098,197
Close-Out	875,422
Subtotal: San Joaquin Pipeline Project	218,858,323
Total Project Costs	\$498,659,800
Financing	
Costs of Issuance	1,000,000
Underwriters' Discount	6,000,000
Capitalized Interest	77,775,000
Debt Service Reserve Fund	16,565,200
Financing Costs Total	\$101,340,200
Grand Total	\$600,000,000

The Harry Tracy Water Treatment Plant Project

The Harry Tracy Water Treatment Plant (HTWTP) treats water pumped from the Peninsula for delivery to customers in Northern San Mateo County and San Francisco. The HTWTP Project, which, according to the PUC is currently estimated to cost \$352,500,000, would increase the capacity of the HTWTP from 120 million gallons per day to 140 million gallons per day and improve seismic reliability following a major earthquake. The HTWTP Project includes: (a) extensive seismic, hydraulic, and electric upgrades throughout the Plant, (b) five new filters, (c) improvements to the wastewater and sludge handling systems, (d) a new 11 million gallon treated water reservoir, and (e) associated piping and equipment replacement.

The PUC anticipates construction of the Harry Tracy Water Treatment Plant (HTWTP) Project to commence on April 4, 2011 and end on November 20, 2015. According to Mr. Carlos Jacobo, Budget Director at the PUC, the original completion date has been delayed by approximately five months, from June 12, 2015 to November 20, 2015, due to identified seismic risks associated with the discovery of the Serra Fault underneath the two existing water reservoirs. According to Mr. Jacobo, discovery of this fault resulted in the PUC deciding to abandon the two existing water reservoirs located directly above the fault and instead construct a new water reservoir and associated facility improvements. Environmental review for the HTWTP Project was completed in October of 2010.

As shown in Table 1 above, the proposed issuance of \$600,000,000 in Water Revenue Bonds includes \$279,801,477 for the Harry Tracy Water Treatment Plant Project, which is estimated to have a total cost of \$352,500,000. According to Mr. Jacobo, the PUC anticipates funding the estimated cost of \$352,500,000 using (a) \$56,978,404 in previously issued Water Revenue Bonds for the HTWTP Project, (b) the proposed Water Revenue Bond issuance of \$279,801,477, and (c) a separate Water Revenue Bond issuance of \$15,720,119, subject to future Board of Supervisors approval. The Budget and Legislative Analyst notes that, as discussed above, the PUC has a remaining authorization to issue Water Revenue Bonds of \$2,078,948,380, which is more than sufficient for the proposed issuance of an additional \$600,000,000 of Water Revenue Bonds, including the HTWTP Project and the San Joaquin Pipeline System Project.

The Budget and Legislative Analyst notes that the total current estimated cost of \$352,500,000 for the HTWTP Project is \$13,100,100 less than the PUC's previous estimate of \$365,600,000 as of July 1, 2010. According to Mr. Jacobo, this reduction of \$13,100,000, or 3.6 percent, is due to a reduction in previously estimated construction costs.

The San Joaquin Pipeline System Project

The San Joaquin Pipeline System consists of three large pipelines (and one crossover facility which allows water to be diverted from one pipeline to another) that convey Hetch Hetchy water 47.5 miles across the San Joaquin Valley. The delivery capacity of these three pipelines has been reduced from their original capacity of 300 million gallons per day to 290 million gallons per day due to deteriorating pipeline linings. The San Joaquin Pipeline System Project is currently estimated to have a total cost \$309,907,722. The project would provide 17 miles of new pipeline running parallel to the existing pipelines through the San Joaquin Valley and new pipeline crossover facilities, in order to increase the capacity of the San Joaquin Pipeline System to 313 million gallons per day.

According to Mr. Jacobo, environmental review for the San Joaquin Pipeline System Project was completed on July 9, 2009, and construction began in June of 2010. Construction is anticipated to be completed in March of 2014.

As shown in Table 1 above the proposed issuance of \$600,000,000 in Water Revenue Bonds includes \$218,858,323 for the San Joaquin Pipeline System Project, which is estimated to have a total cost of \$309,907,722. According to Mr. Jacobo, the PUC anticipates funding the estimated cost of \$309,907,722 using (a) \$87,318,323 in previously issued Water Revenue Bonds, (b) the proposed Water Revenue Bond issuance of \$218,858,323, and (c) a separate Water Revenue

Bond issuance of \$3,731,076, subject to future Board of Supervisors approval. The Budget and Legislative Analyst notes that, as discussed above, the PUC has a remaining authorization to issue Water Revenue Bonds of \$2,078,948,380, which is more than sufficient for the proposed issuance of an additional \$600,000,000 in Water Revenue Bonds, including the HTWTP Project and the San Joaquin Pipeline System Project.

The Budget and Legislative Analyst notes that the current estimated cost of \$309,907,722 of the San Joaquin Pipeline System Project is the same as the PUC's previous estimate of \$309,907,722 as of July 1, 2010.

FISCAL IMPACT

According to Mr. Jacobo, the proposed issuance of \$600,000,000 in Water Revenue Bonds will be sold in December of 2010.

Mr. Jacobo estimates that the bonds will have an interest rate of 4.5 percent and term of 40 years. Total estimated debt service for the \$600,000,000 in Water Revenue Bonds over the 40 years that the bonds would be outstanding is \$1,320,010,050, including \$600,000,000 of principal and \$720,010,050 of interest, with an average annual debt service of \$32,195,367.

Mr. Jacobo advised that the debt service on all Water Revenue Bonds will be paid by the PUC's customers who are charged for the use of water. Table 2 below shows the impact on average monthly water costs for a single family residence.

Table 3: Impact on Average Monthly Water Costs for a Single Family Residence

Cost Category	Average Cost *			
	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Previously Issued Water Bonds	\$13.81	\$17.24	\$18.45	\$21.17
\$600,000,000 Proposed Water Bonds	-	-	0.14	1.57
Subtotal Debt Service	\$13.81	\$17.24	\$18.58	\$22.73
Other Water Non-Debt Related Costs	18.14	18.66	21.82	20.27
Total	\$31.95	\$35.90	\$40.40	\$43.00

* Water rates have been approved through FY 2013-2014.

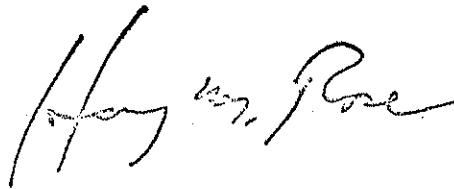
The proposed resolution would also provide the PUC with the discretionary authority to (a) sell any portion of the proposed Water Revenue Bonds through either a negotiated or competitive sale, and (b) sell any portion of the proposed Water Revenue Bonds as Federally Taxable Build America Bonds. Typically, the PUC sells Water Revenue Bonds, as being exempt from Federal Income Taxes being paid to the Internal Revenue Service of the Federal Government. However, under provisions of the Federal American Recovery and Reinvestment Act of 2009, a new category of taxable bonds were created called Build America Bonds. In accordance with the sale of Build America Bonds, the Federal government pays the PUC an amount equal to 35.0 percent

of the interest expense paid by the PUC to bondholders (approximating the Federal Income Taxes payable by the investor for received interest income).

According to Mr. Jacobo, the Federal legislation which created Build America Bonds is scheduled to expire on December 31, 2010. Mr. Jacobo anticipates that new Federal legislation will be enacted which will extend the Build America Bonds program, however, it is anticipated that the amount paid to the City by the Federal government would be reduced from the current rate of 35.0 percent of the interest paid by the PUC to bondholders to a rate of 32.0 percent. In order to receive the higher 35.0 percent rate to the City from the Federal government, the PUC must issue the proposed Water Revenue Bonds prior to December 31, 2010. Mr. Jacobo estimates that if the PUC issued the proposed Water Revenue Bonds subsequent to December 31, 2010, the debt service payable by the PUC, through rates charged to water customers, would increase by approximately \$14,800,000 over the 40 year life of the proposed bonds.

RECOMMENDATION

Approve the proposed resolution.



Harvey M. Rose

cc: Supervisor Avalos
Supervisor Mirkarimi
Supervisor Elsbernd
President Chiu
Supervisor Alioto-Pier
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner



AGENDA ITEM
Public Utilities Commission
City and County of San Francisco



DEPARTMENT Financial Services

AGENDA NO. 13

MEETING DATE November 9, 2010


Authorize the Issuance of up to a principal amount of \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program

Project Manager: Charles Perl

<p>Summary of Proposed Commission Action:</p>	<p>Discussion and possible action authorizing the issuance of up to a principal amount of \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program (WSIP), in one or more series of bonds and subject to the further approval of the Board of Supervisors; approving the form and authorizing the execution and delivery of related documents; authorizing the General Manager to sell in one or more series of bonds on either a competitive or a negotiated basis, as the General Manager determines is in the best financial interest of the SFPUC; delegating to the General Manager authorization to award each series of bonds to the highest bidder (lowest-cost); and authorizing the General Manager to submit a resolution to the Board of Supervisors authorizing the issuance of not to exceed \$600,000,000 aggregate principal amount of Water Revenue Bonds; provided, however, the issuance of such Water Revenue Bonds shall be subject to the terms of Proposition E (approved by the voters November 2002); and adopting findings pursuant to the California Environmental Quality Act; this Resolution also seeks authority delegated to the General Manager to issue in one or more series of Water Revenue Refunding Bonds, provided a 3% net present value savings threshold is met, as outlined in the SFPUC Debt Management Policy.</p>
<p>Background:</p>	<p>San Francisco voters approved Proposition E in November 2002. The Proposition authorized the issuance of revenue bonds to finance costs for SFPUC capital programs, including the Water System Improvement Program (WSIP) and Water Enterprise projects.</p> <p><i>Size:</i> The size of each series of bonds is a function of the amount of commercial paper being refunded, if any; projected WSIP encumbrances; the amount of refunding bonds, if any; debt service reserve funds; and financing costs. The bond sale of 2010 Series FG, with a not to exceed amount of \$600,000,000, is planned for early December and the bonds will be issued under the financing authority of Proposition E.</p>

APPROVAL:

DEPARTMENT /
BUREAU



 Mike Housh

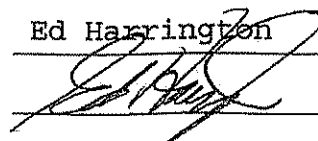
FINANCE

Todd L. Rydstrom

COMMISSION
SECRETARY

GENERAL
MANAGER

Ed Harrington



The total combined WSIP-related bond issuance to date under Propositions A and E is \$2,165,095,000. The bonds issued under Proposition A include \$507,815,000 in 2006 (Series 2006 A) and \$824,000,000 in 2009 (Series 2009 A and Series 2009 B, \$412,000,000 issued in each series). The total WSIP-related bond issuance to date under Proposition A is \$1,331,815,000 out of the total authority of \$1,628,000,000.

Bond sales issued under the authority of Proposition E require an ordinance from the Board of Supervisors and a resolution from both the Commission and the Board of Supervisors upon each issuance. The Board of Supervisors provided authorization to issue these revenue bonds with ordinance 189-09 approved on August 4, 2009, for the issuance of up to \$1,310,307,119 for WSIP Projects. On April 30, 2010, the Board passed Ordinance 089-10, authorizing Proposition E Water Revenue Bonds in an amount up to \$1,737,724,038 for both WSIP projects as well as other Water Enterprise Capital Improvement Projects, including the Advanced Meter Infrastructure project; the WSIP-related authorization is \$1,647,249,198. The combined authorization under Proposition E to finance WSIP is \$2,957,556,317 and the remaining debt issuance capacity under Proposition E is \$2,124,276,317.

The bonds issued under Proposition E include \$890,225,000 in two sales, of which \$833,280,000 is WSIP related and \$56,945,000 for AMI. The first sale, in June 2010 (Series 2010 ABC), included a tax-exempt revenue bond series, a taxable Build America Bonds (BABs) series with a Federal subsidy offset of 35% of the interest costs, and a refunding series, which alone resulted in \$920K in savings to rate payers. The second sale, in August 2010 (Series 2010 DE), included a combined tax-exempt revenue bond series and a refunding series, which alone resulted in \$2.7M in savings to rate payers, and a taxable Build America Bonds (BABs) series.

Schedule: Final Board of Supervisors approval of a Resolution to issue these bonds will be requested at the November 16, 2010 meeting. If approved, the bond sale will be scheduled for early December 2010 in order to take advantage of the 12/31/2010 expiration of the BABs' subsidy.

Bond Documents: The Commission is being asked to approve the form and authorize the execution of documents relating to the bond sale. These documents are described below.

- 1) Tenth, Eleventh, and Taxable Supplemental Indentures – The Indenture is the bond document providing both the legal structure and security for the bonds, including pledge of revenues, covenants, default and remedy provisions, flow of funds (priority for use of pledged revenues) and provisions to issue additional debt. The Supplemental Indentures set forth the terms of each individual series of bonds, including maturities, interest rates and terms of early redemption.
- 2) Official Statement (Preliminary/Final) – Primary disclosure document for bidders and investors regarding terms of bonds, security, risk factors, financial and operating results and projections and background information. The document is substantially final (except for certain pricing information) and through this resolution the General Manager is permitted to make such changes as are necessary to update the document.
- 3) Official Notice of Sale – Document inviting bids, if sold on a competitive bid basis, and describing details of the bonds, including the method of delivering bids, the

	<p>date, time and place of bid opening, and the basis for determining the winning bid.</p> <ol style="list-style-type: none"> 4) Notice of Intention to Sell – Brief document published up to 15 days prior to sale date alerting prospective investors and bidders of sale. 5) Continuing Disclosure Certificate – Document containing commitments to providing annual financial and operating data disclosure, and interim disclosure in the event of certain enumerated events, for the benefit of bondholders. 6) Bond Purchase Agreement – Agreement between the underwriter(s) and the SFPUC in the event of a negotiated sale. 7) Custody Agreement – Agreement with Trustee to hold the good faith deposit between bond pricing and closing. 8) Escrow Agreement – Agreement related to advance refunding of bonds whereby the Trustee holds bond proceeds in trust and repays the bonds at the call date. 9) Filing Agent Agreement – An Agreement between the SFPUC and the Trustee instructing the Trustee to file and receive the BABs subsidy on an annual basis on the SFPUC’s behalf.
<p>Result of Inaction:</p>	<p>A delay or denial in approving this agenda item will adversely impact the SFPUC’s ability to complete the Water System Improvement Program.</p>
<p>Description of Scope of Services:</p>	<p>SFPUC Finance staff has analyzed the financing requirements of the Water System Improvement Program and determined that a bond funding at this time would be advantageous to meet the program’s encumbrances related to anticipated contract awards and construction schedules, and to ensure the receipt of the 35% interest payment subsidy from the U.S. Treasury, given under the BABs program, which is set to expire 12/31/10.</p> <p>SFPUC Finance worked collaboratively with outside financial advisors, as well as the City Attorney’s Office and outside bond and disclosure counsel, to develop all aspects of the documents associated with the sale of water revenue bonds, including all attachments. The individuals and firms working with the SFPUC on this financing are as follows:</p> <ul style="list-style-type: none"> • City Attorney of the City and County of San Francisco • Disclosure Counsel: Jones Hall, A Professional Law Corporation • Co-Bond Counsel: Sidley Austin LLP and Amira Jackmon, Attorney at Law • Co-Financial Advisors: Public Financial Management, Inc., and Backstrom McCarley Berry & Co., LLC • Trustee: U.S. Bank National Association
<p>Recommendation:</p>	<p>SFPUC staff recommends that the Commission adopt the attached resolution.</p>
<p>Attachments:</p>	<ol style="list-style-type: none"> 1) SFPUC Resolution – Bond Authorization 2) Corresponding Board of Supervisors’ Resolution 3) Form of Preliminary Official Statement 4) Form of Tenth, Eleventh, and Taxable Supplemental Indentures

Agenda Item: Authorize the Issuance of up to \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program (WSIP) Commission Meeting Date: November 9, 2010

- | | |
|--|---|
| | <ul style="list-style-type: none">5) Form of Official Notice of Sale6) Form of Notice of Intention to Sell7) Form of Continuing Disclosure Certificate (see Appendix in Preliminary Official Statement)8) Form of Bond Purchase Agreement9) Form of Custody Agreement10) Form of Escrow Agreement11) Form of Filing Agent Agreement |
|--|---|

PUBLIC UTILITIES COMMISSION
City and County of San Francisco

RESOLUTION NO. 10-0199

WHEREAS, at a duly called and held election on November 5, 2002, a majority of voters voting on the measure approved Proposition E ("Proposition E of 2002") which, among other things, authorized the San Francisco Public Utilities Commission (the "Commission") of the City and County of San Francisco (the "City") to issue its 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 of the City (the "Board"), for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities under the jurisdiction of the Commission (the "Projects"); and

WHEREAS, on August 4, 2009, the Board passed its Ordinance No. 189-09, approving the issuance and sale of water revenue bonds by the Commission pursuant to Proposition E of 2002, in a principal amount not to exceed \$1,310,307,119, to finance and refinance Projects that are within the Commission's Water System Improvement Program ("WSIP Projects"), which ordinance became effective on September 12, 2009; and

WHEREAS, on April 20, 2010, the Board passed an ordinance to approve, among other things, (i) the issuance and sale of water revenue bonds by the Commission pursuant to Proposition E of 2002, in a principal amount not to exceed \$1,737,724,038, to finance WSIP Projects and Projects other than WSIP Projects ("Non-WSIP Projects"), and (ii) the issuance and sale of water revenue refunding bonds by the Commission pursuant to Proposition E of 2002 or pursuant to Section 9.109 of the Charter of the City (the "Charter") to refinance WSIP Projects and Non-WSIP Projects, without limitation as to amount, provided that the applicable policies and procedures of the City are satisfied; and

WHEREAS, under the authority granted by the Charter, including without limitation Proposition E of 2002, and the authority granted or proposed to be granted by the ordinances hereinabove mentioned, it is proposed that the Commission issue one or more series of water revenue bonds for the principal purpose of providing long-term financing or refinancing for WSIP Projects or Non-WSIP Projects, or some combination thereof, in an aggregate principal amount not to exceed \$600,000,000 (the "New Money Bonds"), and one or more series of water revenue refunding bonds for the principal purpose of refunding outstanding water revenue bonds or commercial paper of the Commission, subject to limitation as to principal amount as provided herein (the "Refunding Bonds," and together with the New Money Bonds, the "Bonds"), all pursuant to the Amended and Restated Indenture, dated as of August 1, 2002 (as amended and supplemented, the "Indenture"), by and between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), and one or more supplemental indentures as herein provided; and

WHEREAS, each such refunding of the Commission's outstanding water revenue bonds is proposed to be accomplished by depositing proceeds of the Refunding Bonds and certain other amounts in an irrevocable escrow fund established and held in trust by the trustee for the bonds to be refunded pursuant to an escrow agreement between the Commission and said trustee (each, an "Escrow Agreement"), which moneys and the investment income thereon are to be applied to pay the principal of and the interest and redemption premium, if any, on the bonds to be refunded; and

WHEREAS, it is proposed that such Bonds be issued (i) as obligations the interest on which is exempt from federal income tax (the "Tax-Exempt Bonds") pursuant to one or more supplemental indentures, between the Commission and the Trustee (each, a "Supplemental Indenture for Tax-Exempt Bonds"), (ii) as obligations the interest on which is not exempt from federal income tax but which are not Build America Bonds (as described below, the "Taxable Bonds") pursuant to one or more supplemental indentures, between the Commission and the Trustee (each, a "Supplemental Indenture for Taxable Bonds"), or (iii) as taxable bonds which are direct-subsidy "Build America Bonds" authorized under the federal American Reinvestment and Recovery Act of 2009 (the "Build America Bonds"), pursuant to one or more supplemental indentures, between the Commission and the Trustee (each, a "Supplemental Indenture for Build America Bonds," and together with the Supplemental Indentures for Tax-Exempt Bonds and the Supplemental Indentures for Taxable Bonds, the "Supplemental Indentures"), or (iv) in some combination thereof; and

WHEREAS, it is proposed that such Bonds be sold in one or more competitive sales pursuant to one or more official notices of sale (the "Official Notices of Sale") and one or more notices of intention to sell bonds (the "Notices of Intention"), or in one or more negotiated sales pursuant to one or more Bond Purchase Contracts (the "Bond Purchase Contracts"), or in some combination of competitive and-negotiated sales; and

WHEREAS, it is proposed that one or more official statements for the Bonds (the "Official Statements") be used in connection with the offering and sale of the Bonds from time to time; and

WHEREAS, if this Commission resolution is adopted, the General Manager will request the Board to adopt a resolution approving the Official Statement and other related documents herein mentioned; and

WHEREAS, it is proposed that one or more continuing disclosure certificates (the "Continuing Disclosure Certificates") be executed and delivered with the Bonds in order to assist the purchasers or underwriters thereof in complying with Securities and Exchange Commission Rule 15c2-12; and

WHEREAS, pursuant to Article IX of the Indenture, the Indenture may be amended from time to time upon the compliance with the terms and conditions provided in said Article IX; and

WHEREAS, the voters of the City approved Proposition P in November 2002, pursuant to which this resolution and the Bonds are subject to the provisions of Section 5A.30 *et seq.* ("Public Utilities Revenue Bond Oversight Committee") of Chapter V of the San Francisco Administrative Code (the "Proposition P Requirements"), including the requirement that, to the extent permitted by law, one-twentieth of one percent of the gross proceeds of the Bonds shall be

deposited in a fund established by the Office of the Controller of the City (the "Controller's Office") and appropriated by the Board at the direction of the Public Utilities Revenue Bond Oversight Committee to cover the costs of said committee; and

WHEREAS, the Commission has been presented with and has examined the proposed forms of a Supplemental Indenture for Tax-Exempt Bonds, a Supplemental Indenture for Taxable Bonds, a Supplemental Indenture for Build America Bonds, an Official Notice of Sale for Tax-Exempt Bonds, an Official Notice of Sale for Taxable Bonds, an Official Notice of Sale for Build America Bonds, Notices of Intention, a Bond Purchase Contract, an Escrow Agreement, an Official Statement and a Continuing Disclosure Certificate; and

WHEREAS, subject to the further approval of the Board, the Commission is duly authorized and empowered, pursuant to each and every requirement of law, to authorize the foregoing transactions and issue the Bonds and to authorize the publication, execution and delivery (as appropriate) of one or more Supplemental Indentures for Tax-Exempt Bonds, Supplemental Indentures for Taxable Bonds, Supplemental Indentures for Build America Bonds, Official Notices of Sale, Notices of Intention, Bond Purchase Contracts, Escrow Agreements, Official Statements, Continuing Disclosure Certificates and related documents for the purposes, in the manner and upon the terms provided herein; now, therefore, be it

RESOLVED by the Public Utilities Commission of the City and County of San Francisco, as follows:

Section 1. Issuance of the Bonds. The issuance of the New Money Bonds, in one or more series and on one or more dates, in an aggregate principal amount not to exceed \$600,000,000, is hereby authorized and approved by the Commission, subject to Board approval pursuant to the Charter and subject to the limitations and conditions provided herein. The New Money Bonds may be issued for the purpose of providing funds (a) for the financing or refinancing of WSIP Projects or Non-WSIP Projects, or some combination thereof, in such relative amounts as may be determined by the General Manager, and (b) to pay the costs of issuance of the New Money Bonds. If determined to be beneficial to the Commission by the General Manager, with the advice of Public Financial Management, Inc. and Backstrom McCarley Berry & Co., LLC, the financial advisors to the Commission with respect to the Bonds (the "Financial Advisors"), the New Money Bonds may also be issued for the secondary purposes of providing funds for (i) the credit enhancement of any New Money Bonds (including without limitation bond insurance policies and/or reserve fund surety bonds or insurance policies), and (ii) the funding of debt service reserves for the New Money Bonds or for other bonds issued under the Indenture. The New Money Bonds may be issued as Tax-Exempt Bonds, Taxable Bonds, or as Build America Bonds, or some combination thereof, in such relative amounts as may be determined by the General Manager with the advice of the Financial Advisors.

The issuance of the Refunding Bonds, in one or more series and on one or more dates, is hereby authorized and approved by the Commission, subject to the limitations and conditions provided herein. The Refunding Bonds may be issued (a) for the purpose of refunding outstanding water revenue bonds or commercial paper of the Commission without limitation as to principal amount, provided that such Refunding Bonds (i) satisfy the applicable requirements of the Indenture, including without limitation Section 3.04 or Section 3.05 of the Indenture, (ii) satisfy the applicable requirements of the City's policies and procedures for refunding bonds, and (iii) are

authorized to be issued under either (A) Section 9.109 of the Charter or (B) Proposition E of 2002 (including related ordinances and resolutions of the Board); and (b) to pay the costs of issuance of the Refunding Bonds. If determined to be beneficial to the Commission by the General Manager, with the advice of the Financial Advisors, the Refunding Bonds may also be issued for the secondary purposes of providing funds for (y) the credit enhancement of any Refunding Bonds (including without limitation bond insurance policies and/or reserve fund surety bonds or insurance policies), and (z) the funding of debt service reserves for the Refunding Bonds. The Refunding Bonds may be issued as Tax-Exempt Bonds or as Taxable Bonds, or some combination thereof, in such relative amounts as may be determined by the General Manager with the advice of the Financial Advisors.

The Bonds shall be issued in accordance with this resolution, the Indenture and the Charter. The General Manager is hereby authorized and directed to determine the aggregate principal amount of Bonds to be issued from time to time (subject to the maximum amount and further limitations and conditions set forth herein) and to determine the various titles and series designations of the Bonds. The forms of the Bonds, in substantially the forms set forth in the forms of the Supplemental Indentures presented to this meeting, are hereby approved. The President or General Manager of the Commission is hereby authorized and directed to approve and to execute the Bonds by manual or facsimile signature, and the Secretary of the Commission is hereby authorized and directed to attest, by manual or facsimile signature, with such changes, additions, amendments or modifications thereto which they may approve with the advice of the City Attorney, such approval to be conclusively evidenced by the execution and delivery of the Bonds, subject to the limitations set forth in Section 2 hereof.

Section 2. Sale of the Bonds. The sale of the Bonds, in one or more series and on one or more dates, is hereby authorized and approved by the Commission, subject to Board approval pursuant to the Charter and subject to the limitations and conditions provided herein. The Commission hereby delegates to the General Manager the authority to determine, with the advice of the Financial Advisors, whether to sell the Bonds from time to time by negotiated sale or competitive sale, provided that the General Manager shall not approve the sale of the Bonds on a negotiated basis until he determines, upon consultation with the Financial Advisors, that (i) the sale of the Bonds through a negotiated process is likely to enhance the ability of the Commission to timely sell the Bonds or to achieve a lower overall cost to the Commission, or both, and (ii) the requirements of Section VIII of the Commission's Debt Management Policies and Procedures, as the same may have been amended and in effect at the time of such determination, have been satisfied. The interest rate or rates on the Bonds shall not exceed twelve percent (12%) and the final maturity of any Bonds shall not be later than 40 years after the issue date thereof.

Section 3. Escrow Agreements. The proposed form of Escrow Agreement submitted to this Commission, and the terms and conditions thereof, is hereby approved. In order to implement any refunding authorized herein, the General Manager or his designee is hereby authorized to enter into one or more Escrow Agreements with the trustee of the water revenue bonds to be refunded, substantially in the form presented to this meeting and on file with the Secretary of the Commission, with such changes and additions as the General Manager may approve upon consultation with the City Attorney, each such approval to be evidenced conclusively by the delivery to the trustee of such Escrow Agreement. The Secretary of the Commission is directed to file a copy of said form of Escrow Agreement with the minutes of this meeting.

Section 4. Disposition of Revenues; Rate Covenant. Section 5.01(b) of the Indenture which sets forth the disposition of Revenues (as defined in the Indenture) applicable to the Commission's Water Enterprise Bonds is hereby confirmed by the Commission and the Commission further confirms, pledges and covenants with the holders of the Bonds that the Revenues shall be appropriated and expended in the order of priority set forth in Section 5.01(b) of the Indenture, as the same may be amended from time to time. This Commission also declares that the Commission will comply with all of the terms, provisions and covenants contained in the Indenture, as the same may be amended from time to time, including the covenants to establish, fix, prescribe and collect rates, fees and charges sufficient to enable the Commission to comply with the terms, conditions and covenants of the Indenture.

Section 5. Supplemental Indentures for Tax-Exempt Bonds, Taxable Bonds, and Build America Bonds. The proposed form of Supplemental Indenture for Tax-Exempt Bonds, the proposed form of Supplemental Indenture for Taxable Bonds, and the proposed form of Supplemental Indenture for Build America Bonds, submitted to this Commission, and the terms and conditions thereof, are hereby approved. The President or General Manager of the Commission or their designees are authorized and directed to execute and deliver and the Secretary of the Commission or the designee thereof is authorized to attest one or more Supplemental Indentures in such forms, with such additions thereto or changes therein which they may approve with the advice of the City Attorney, such approval to be conclusively evidenced by the execution and delivery of such Supplemental Indentures. The Secretary of the Commission is directed to file a copy of each form of Supplemental Indenture with the minutes of this meeting. Subject to the further limitations hereof, the principal amount, date, maturity date or dates, maximum interest rate or rates, series designation, interest payment dates, forms, registration privileges, place or places of payment, terms of redemption, insurance provisions and other terms of the Bonds shall be as provided in the Indenture.

Section 6. Preliminary Official Statements and Official Statements. The preliminary Official Statement (the "Preliminary Official Statement"), in substantially the form submitted to the Commission, is hereby approved, and the General Manager or the General Manager's designee is hereby authorized to certify from time to time, for and on behalf of the Commission, that the Preliminary Official Statement, with such changes, additions and supplements as they may deem necessary or appropriate in the interest of the Commission, in consultation with the City Attorney, is deemed final as of its date, within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (except for the omission of certain final pricing, rating and related information as permitted by said rule). The Preliminary Official Statement is hereby authorized to be used from time to time in connection with marketing of the Bonds and the Official Notices of Sale for the Bonds, if applicable. In connection with the sale of all or a portion of the Bonds, the General Manager is hereby authorized and directed, for and on behalf of the Commission, to execute an Official Statement for such Bonds in substantially the form of the Preliminary Official Statement, and to cause the delivery of such Official Statement to the purchasers of such Bonds. Notwithstanding the foregoing authorization, Commission staff is hereby directed to return to the Commission for authorization of any Preliminary Official Statement or Official Statement to be used in connection with any sale of Bonds that is to occur more than ninety (90) days following the later of (i) the first sale of Bonds pursuant to the authority granted hereunder or (ii) the most recent Commission approval of the form of such Preliminary Official Statement or Official Statement.

Section 7. Competitive Sale; Official Notices of Sale. If the General Manager determines to sell all or a portion of the Bonds by competitive sale from time to time, the proposed forms of Official Notice of Sale inviting bids for such Bonds, submitted to this Commission, are hereby approved, and the Financial Advisors are hereby authorized and directed to disseminate one or more Official Notices of Sale to prospective bidders in connection with each sale of Bonds, with such additions, changes and corrections thereto as the General Manager shall approve with the advice of the City Attorney, such approval to be conclusively evidenced by the dissemination thereof to prospective bidders. In a competitive sale, sealed proposals shall be received on such date or dates as shall be selected and changed as necessary by the General Manager for the purpose of the sale of the Bonds, in accordance with the terms and conditions of the applicable Official Notice of Sale. In a competitive sale, the General Manager is hereby authorized to award the Bonds to be sold to the highest responsible bidder, so long as such bid shall provide a true interest cost to the Commission of not to exceed twelve percent (12%) per annum, and the price to be paid to the Commission for such series of Bonds shall not be less than the par value thereof, less a total discount of not to exceed five percent (5%). If such true interest cost and price are acceptable to the General Manager and satisfy the foregoing criteria, the General Manager is hereby authorized and directed to accept, on behalf of the Commission, the best responsive bid for such series of Bonds. The Secretary of the Commission is directed to file a copy of the proposed form of Official Notice of Sale with the minutes of this meeting.

Section 8. Notices of Intention. The proposed form of Notice of Intention, submitted to this Commission, is hereby approved. If the General Manager determines to sell all or a portion of the Bonds by competitive sale, the General Manager is hereby authorized and directed to cause a Notice of Intention, subject to such corrections, revisions or additions as may be approved by the General Manager (such approval to be conclusively evidenced by the publication thereof), to be published once at least five days before the date of sale of the applicable series of Bonds in a financial newspaper of general circulation in the City and in a financial publication generally circulated throughout the state or reasonably expected to be disseminated among prospective bidders for the Bonds. The Secretary of the Commission is directed to file a copy of said form of Notice of Intention with the minutes of this meeting.

Section 9. Negotiated Sale; Bond Purchase Contracts. If the General Manager determines to sell all or a portion of the Bonds by negotiated sale from time to time pursuant to the authority granted in Section 2 hereof, the General Manager is hereby authorized to select and appoint one or more underwriters (the "Underwriters") from the Commission's or the City's pool of prequalified underwriters in accordance with the City's policies and procedures with respect thereto, subject to the limits on underwriter compensation set forth below. The General Manager is hereby authorized and directed, for and on behalf of and in the name of the Commission, to sell at one or more negotiated sales, Bonds in such aggregate principal amount as the General Manager may determine, subject to the further limitations and conditions hereof. The General Manager or his designee is hereby authorized to enter into one or more Bond Purchase Contracts with one or more of the Underwriters, individually or collectively as the General Manager deems appropriate, substantially in the form presented at this meeting and on file with the Secretary of the Commission, with such changes and additions as the General Manager may approve upon consultation with the City Attorney, such approval to be evidenced conclusively by the execution and delivery of each such Bond Purchase Contract; provided, however, that the total compensation to the Underwriters shall not exceed one percent (1%) of the par value of the

Bonds. Bonds sold in a negotiated sale shall be delivered to the Underwriters upon payment of the purchase price agreed upon in the applicable Bond Purchase Contract, together with accrued interest, if any.

Section 10. Continuing Disclosure Certificate. The proposed form of Continuing Disclosure Certificate for the Bonds, submitted to this Commission, is hereby approved. The General Manager or the General Manager's designee is hereby authorized and directed to execute Continuing Disclosure Certificates for the Bonds from time to time, substantially in the form submitted to this Commission, with such additions, changes and corrections thereto as the General Manager or the designee thereof shall approve with the advice of the City Attorney, such approval to be conclusively evidenced by the execution and delivery of such Continuing Disclosure Certificates. The Secretary of the Commission is directed to file a copy of said form of Continuing Disclosure Certificate with the minutes of this meeting.

Section 11. Submittal to Board for Approval. The General Manager has submitted and the Board has passed an ordinance authorizing the issuance of the Bonds and other water revenue bonds for the financing and refinancing of WSIP Projects and Non-WSIP Projects, in compliance with Proposition E of 2002, and the General Manager is hereby authorized and directed to submit to the Board for adoption a resolution approving the issuance of the Bonds as required by the Charter. Any and all prior actions of the officers of the Commission in furtherance of this paragraph are hereby ratified and confirmed.

Section 12. CEQA Findings. A Final Program EIR ("PEIR") was prepared for the WSIP and certified by the Planning Commission on October 30, 2008 by Motion No. 17734; and thereafter, the Commission approved the WSIP and adopted findings and a Mitigation Monitoring and Reporting Program (MMRP) as required by the California Environmental Quality Act ("CEQA") on October 30, 2008 by Resolution No. 08-200; and the PEIR has been made available for review by the Commission and the public, and is part of the record before this Commission. The Commission has reviewed and considered further WSIP project specific Final EIRs ("FEIRs"), and Mitigated Negative Declarations ("MNDs") and adopted findings and MMRPs, which are on file with the Commission Secretary, and finds that the PEIR, FEIRs and MNDs are adequate for its use as the decision-making body for the actions taken herein, and hereby reaffirms the previously adopted findings, including the Statements of Overriding Considerations, and the MMRPs (CEQA Findings) and incorporates the same herein as part of this Resolution by this reference thereto. The Commission further finds that there have been no substantial Program or project changes and no substantial changes in circumstances that would require major revisions to the PEIR, FEIRs and MNDs due to the involvement of new significant environmental effects or an increase in the severity of previously identified significant impacts, and there is no new information of substantial importance that would change the conclusions set forth in the PEIR, FEIRs and MNDs. On July 27, 2009, the City Planning Department issued a final Certificate of Determination/Exemption from environmental review for the AMI Project, which is on file with the Clerk of the Board of Supervisors in File No. 091094. Pursuant to Charter Section 8B.124(b), the Commission will not issue bonds for a Project until receipt of a Certification by the San Francisco Planning Department that facilities to be funded with such bonds will comply with applicable requirements of CEQA.

Section 13. Proposition P. Pursuant to Proposition P approved by the voters of the City in November 2002, this resolution and the Bonds are subject to, and incorporate by reference, the

Proposition P Requirements. Pursuant to the Proposition P Requirements, to the extent permitted by law, one-twentieth of one percent of the gross proceeds of the Bonds shall be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the Public Utilities Revenue Bond Oversight Committee established by Proposition P Requirements to cover the costs of said committee.

Section 14. General Authority. The General Manager, the Deputy General Manager and Chief Operating Officer and the Assistant General Manager, Business Services and Chief Financial Officer, of the Commission and the officers of the City are hereby authorized and directed, each acting alone, for and in the name and on behalf of this Commission, to execute and deliver any and all documents, certificates and representations, including, but not limited to, signature certificates, no-litigation certificates, tax certificates, letters of representation relating to book-entry registration, custody agreements, filing agent agreements, and certificates concerning the contents of the Official Statements and the Preliminary Official Statements, to contract for municipal bond insurance for all or a portion of the Bonds if determined by the General Manager, with the advice of the Financial Advisors, to be beneficial to the Commission, to contract for one or more surety bonds or insurance policies for the debt service reserves for the Bonds if determined by the General Manager, with the advice of the Financial Advisors, to be beneficial to the Commission, to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the issuance and sale of the Bonds, the financing or refinancing of the Projects, the refunding of outstanding water revenue bonds or commercial paper, and the other actions which the Commission has approved in this resolution. The General Manager is authorized to delegate any of the responsibilities or duties set forth in this resolution to the Deputy General Manager and Chief Operating Officer or to the Assistant General Manager, Business Services and Chief Financial Officer, of the Commission.

Section 15. Ratification. All actions heretofore taken by the officials, employees and agents of the Commission with respect to the authorization, sale and issuance of the Bonds are hereby approved, confirmed and ratified.

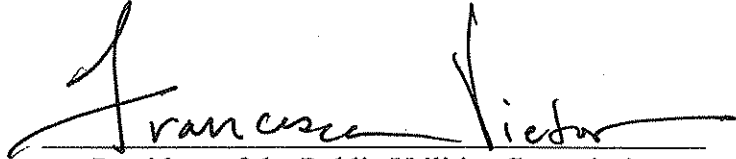
Section 16. Effective Date. This resolution shall take effect from and after its adoption.

PASSED AND ADOPTED on November 9, 2010, by the following vote:

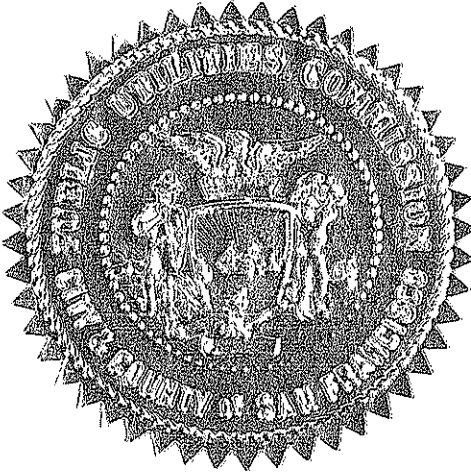
AYES: 3 (Vietor, Crowley, Moran)

NOES: 0

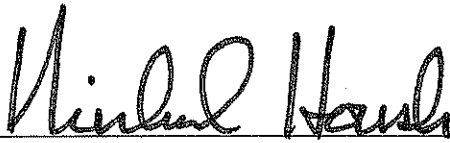
ABSENT: 1 (Caen)



President of the Public Utilities Commission
of the City and County of San Francisco



Attest:



Secretary of the Public Utilities Commission
of the City and County of San Francisco

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

By: _____
Mark D. Blake
Deputy City Attorney

CERTIFICATE OF SECRETARY

I, Michael Housh, Secretary of the Public Utilities Commission of the City and County of San Francisco, hereby certify that the foregoing is a full, true and correct copy of Resolution No. 10-0199 duly adopted at the regular meeting of the Public Utilities Commission, duly and regularly held on November 9, 2010, of which meeting all of the members of said Commission had due notice.

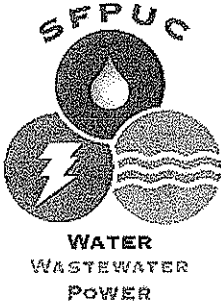
I further certify that at least 72 hours prior to such meeting I caused to be delivered to the Documents Department of the San Francisco Public Library two copies of the agenda for such meeting to be posted immediately upon receipt by such Department at the place designated by the City Librarian for the posting of agenda in the central public library, which place is accessible to the public in accordance with Section 8.16 of the Administrative Code of the City and County of San Francisco, and that a brief description of such resolution appeared as an item on such agenda.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Public Utilities Commission of the City and County of San Francisco thereto this 10th day of November, 2010.



Michael Housh
Secretary of the Public Utilities
Commission of the City and
County of San Francisco



SAN FRANCISCO PUBLIC UTILITIES COMMISSION

1155 Market St., 11th Floor, San Francisco, CA 94103 • Tel. (415) 554-3155 • Fax (415) 554-3161 • TTY (415) 554.3488



RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2010 NOV -2 PM 2:17

TO: Angela Calvillo, Clerk of the Board of Supervisors

FROM: Nathan Purkiss, 554-3404

DATE: 11/11/10

SUBJECT: Resolution approving the issuance of water revenue bonds by the Public Utilities Commission.

GAVIN NEWSOM
MAYOR

FRANCESCA VIETOR
PRESIDENT

ANSON MORAN
VICE PRESIDENT

ANN MOLLER CAEN
COMMISSIONER

F.X. CROWLEY
COMMISSIONER

ED HARRINGTON
GENERAL MANAGER

Please find the original and 4 copies of a Board of Supervisors resolution approving the issuance of water revenue bonds by the Public Utilities Commission for the Water System Improvement Program. The entire packet includes:

1. Board of Supervisor's Resolution approving the issuance of water revenue bonds by the Public Utilities Commission for the Water System Improvement Program.
2. Draft copy of the SFPUC Agenda Item and resolution related to this item. The Public Utilities Commission will hear this item on this item November 9th, 2010, prior to the anticipated hearing at the Budget and Finance Committee November 17, 2010.
3. Copies of bond Issuance Documents.

Scheduling Note: It is critical that this item be heard at the November 17th Budget and Finance Committee meeting and voted at the full Board on November 23rd in order to hold a scheduled December 9th Bond Sale. This is because the Public Utilities Commission plans to take advantage of the Build America Federal subsidy program, which expires on December 31st.

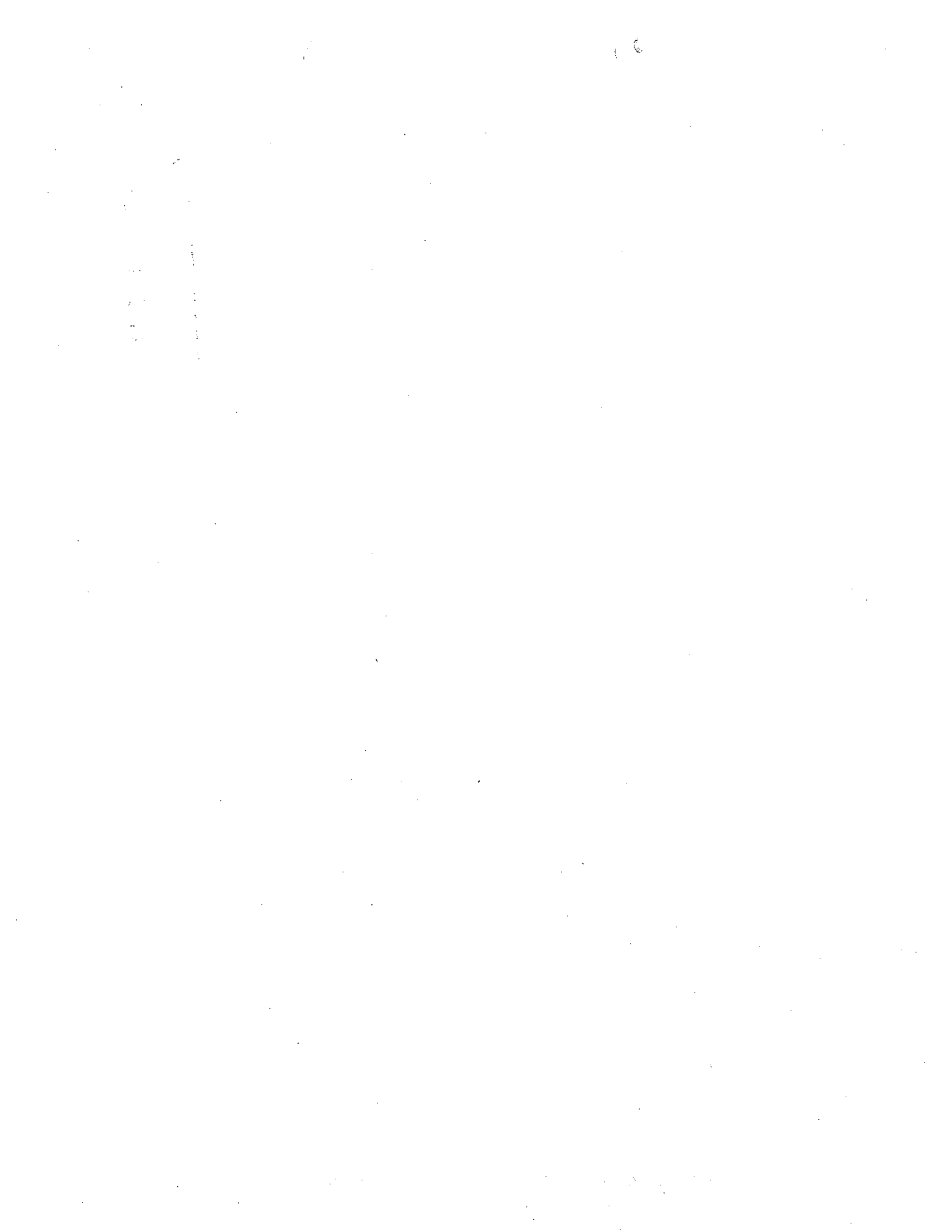
Please contact us if you need any additional information on these items.

Departmental representative to receive a copy of the adopted resolution:

Name: Nathan Purkiss

Phone: 554-3404

Interoffice Mail Address: 1155 Market Street, 11th Floor





AGENDA ITEM

Public Utilities Commission

City and County of San Francisco



DEPARTMENT Financial Services AGENDA NO. _____
 MEETING DATE November 9, 2010

Authorize the Issuance of up to a principal amount of \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program

Project Manager: Charles Perl

Summary of Proposed Commission Action:	<p>Discussion and possible action authorizing the issuance of up to a principal amount of \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program (WSIP), in one or more series of bonds and subject to the further approval of the Board of Supervisors; approving the form and authorizing the execution and delivery of related documents; authorizing the General Manager to sell in one or more series of bonds on either a competitive or a negotiated basis, as the General Manager determines is in the best financial interest of the SFPUC; delegating to the General Manager authorization to award each series of bonds to the highest bidder (lowest-cost); and authorizing the General Manager to submit a resolution to the Board of Supervisors authorizing the issuance of not to exceed \$600,000,000 aggregate principal amount of Water Revenue Bonds; provided, however, the issuance of such Water Revenue Bonds shall be subject to the terms of Proposition E (approved by the voters November 2002); and adopting findings pursuant to the California Environmental Quality Act; this Resolution also seeks authority delegated to the General Manager to issue in one or more series of Water Revenue Refunding Bonds, provided a 3% net present value savings threshold is met, as outlined in the SFPUC Debt Management Policy.</p>
Background:	<p>San Francisco voters approved Proposition E in November 2002. The Proposition authorized the issuance of revenue bonds to finance costs for SFPUC capital programs, including the Water System Improvement Program (WSIP) and Water Enterprise projects.</p> <p><i>Size:</i> The size of each series of bonds is a function of the amount of commercial paper being refunded, if any; projected WSIP encumbrances; the amount of refunding bonds, if any; debt service reserve funds; and financing costs. The bond sale of 2010 Series FG, with a not to exceed amount of \$600,000,000, is planned for early December and the bonds will be issued under the financing authority of Proposition E.</p>

APPROVAL:

DEPARTMENT / BUREAU _____

FINANCE Todd L. Rydstrom

COMMISSION SECRETARY Mike Housh

GENERAL MANAGER Ed Harrington

In 2010, the SFPUC has already issued \$935,630,000 in water revenue bonds in two sales, of which \$890,225,000 is WSIP related. The first sale of \$488,705,000 in June 2010 (2010 Series ABC), included a tax-exempt revenue bond series, a taxable Build America Bonds (BABs) series with a Federal subsidy offset of 35% of the interest costs, and a refunding series, which alone resulted in \$920K in savings to rate payers. The second sale \$446,925,000 was issued on August 4, 2010 (2010 Series DE), and included a combined tax-exempt revenue bond series and a refunding series, which alone resulted in \$2.7M in savings to rate payers, and a taxable Build America Bonds (BABs) series.

In addition to the bonds issued under Proposition E, bond sales issued under Proposition A (\$507,815,000 in 2006 and \$412,000,000 each for the 2009 Series A and the 2009 Series B bonds), brings the total bonds issued for the program to \$2,222,040,000, or 48.5% of the \$4,585,600,000 total WSIP budget.

Bond sales issued under the authority of Proposition E require an ordinance from the Board of Supervisors and a resolution from both the Commission and the Board of Supervisors upon each issuance. The Board of Supervisors provided authorization to issue these in revenue bonds with ordinance 189-09 approved on August 4, 2009, for the issuance of up to \$1,310,307,119 for WSIP Projects. On April 30, 2010, the Board passed Ordinance 089-10, authorizing Proposition E Water Revenue Bonds in an amount up to \$1,737,724,038 for both WSIP projects as well as other Water Enterprise Capital Improvement Projects, including the Advanced Meter Infrastructure project. The combined authorization under Proposition E to finance WSIP is 2,957,556,301 and \$890,225,000 in bonds have been issued under this authority to date. There is a remaining debt issuance capacity under Proposition E of \$2,067,331,301.

Schedule: Final Board of Supervisors approval of a Resolution to issue these bonds will be requested at the November 16, 2010 meeting. If approved, the bond sale will be scheduled for early December 2010 in order to take advantage of the 12/31/2010 expiration of the BABs' subsidy.

Bond Documents: The Commission is being asked to approve the form and authorize the execution of documents relating to the bond sale. These documents are described below.

- 1) Tenth, Eleventh, and Twelfth Supplemental Indentures – The Indenture is the bond document providing both the legal structure and security for the bonds, including pledge of revenues, covenants, default and remedy provisions, flow of funds (priority for use of pledged revenues) and provisions to issue additional debt. The Supplemental Indentures set forth the terms of each individual series of bonds, including maturities, interest rates and terms of early redemption.
- 2) Official Statement (Preliminary/Final) – Primary disclosure document for bidders and investors regarding terms of bonds, security, risk factors, financial and operating results and projections and background information. The document is substantially final (except for certain pricing information) and through this resolution the General Manager is permitted to make such changes as are necessary

	<p>to update the document.</p> <ol style="list-style-type: none"> 3) Official Notice of Sale – Document inviting bids, if sold on a competitive bid basis, and describing details of the bonds, including the method of delivering bids, the date, time and place of bid opening, and the basis for determining the winning bid. 4) Notice of Intention to Sell – Brief document published up to 15 days prior to sale date alerting prospective investors and bidders of sale. 5) Continuing Disclosure Certificate – Document containing commitments to providing annual financial and operating data disclosure, and interim disclosure in the event of certain enumerated events, for the benefit of bondholders. 6) Bond Purchase Agreement – Agreement between the underwriter(s) and the SFPUC in the event of a negotiated sale. 7) Custody Agreement – Agreement with Trustee to hold the good faith deposit between bond pricing and closing. 8) Escrow Agreement – Agreement related to advance refunding of bonds whereby the Trustee holds bond proceeds in trust and repays the bonds at the call date.
Result of Inaction:	A delay or denial in approving this agenda item will adversely impact the SFPUC’s ability to complete the Water System Improvement Program.
Description of Scope of Services:	<p>SFPUC Finance staff has analyzed the financing requirements of the Water System Improvement Program and determined that a bond funding at this time would be advantageous to meet the program’s encumbrances related to anticipated contract awards and construction schedules and to ensure the receipt of the 35% interest payment subsidy from the U.S. Treasury, given under the BABs program, which is set to expire 12/31/10.</p> <p>SFPUC Finance worked collaboratively with outside financial advisors, as well as the City Attorney’s Office and outside bond and disclosure counsel, to develop all aspects of the documents associated with the sale of water revenue bonds, including all attachments. The individuals and firms working with the SFPUC on this financing are as follows:</p> <ul style="list-style-type: none"> • City Attorney of the City and County of San Francisco • Disclosure Counsel: Jones Hall, A Professional Law Corporation • Co-Bond Counsel: Sidley Austin LLP and Amira Jackmon, Attorney at Law • Co-Financial Advisors: Public Financial Management, Inc., and Backstrom McCarley Berry & Co., LLC • Trustee: U.S. Bank National Association
Recommendation:	SFPUC staff recommends that the Commission adopt the attached resolution.
Attachments:	<ol style="list-style-type: none"> 1) SFPUC Resolution – Bond Authorization 2) Corresponding Board of Supervisors’ Resolution 3) Form of Preliminary Official Statement 4) Form of Tenth, Eleventh, and Twelfth Supplemental Indentures

Agenda Item: Authorize the issuance of up to \$600,000,000 in Water Revenue Bonds under Proposition E to fund the Water System Improvement Program (WSIP) Commission Meeting Date: November 9, 2010

- | | |
|--|---|
| | <ul style="list-style-type: none">5) Form of Official Notice of Sale6) Form of Notice of Intention to Sell7) Form of Continuing Disclosure Certificate (see Appendix in Preliminary Official Statement)8) Form of Bond Purchase Agreement9) Form of Custody Agreement10) Form of Escrow Agreement11) Form of Filing Agent Agreement |
|--|---|