

File No. 220499

Committee Item No. 10

Board Item No. 35

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Appropriations Committee Date May 25, 2022

Board of Supervisors Meeting Date June 7, 2022

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Completed by: Brent Jalipa Date May 20, 2022

Completed by: Brent Jalipa Date May 31, 2022

[SFPUC Power Revenue Bond Issuance - Various Capital Projects Benefitting the Power Enterprise - Not to Exceed \$140,889,875]

Ordinance authorizing the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission (SFPUC) (“Commission”) in an aggregate principal amount not to exceed \$140,889,875 to finance the costs of various capital projects benefitting the Power Enterprise under the Charter, including amendments to the Charter enacted by the voters on June 5, 2018, commonly referred to as Proposition A; authorizing the issuance of Power Revenue Refunding Bonds; declaring the Official Intent of the Commission to Reimburse Itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith, as defined herein.

NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in single-underline italics Times New Roman font.
Deletions to Codes are in ~~strikethrough italics Times New Roman font~~.
Board amendment additions are in double-underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

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

Section 1. Findings. The Board of Supervisors (“Board”) of the City hereby finds and declares as follows:

A. On June 5, 2018, the voters of the City and County of San Francisco (“City”) approved Proposition A (“Proposition A”), which among other things, authorized the Commission to issue revenue bonds, including notes, commercial paper or other forms of

1 indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of
2 Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving
3 water facilities, clean water facilities or power facilities or combinations of water, clean water
4 facilities and power facilities under the jurisdiction of the Commission, or for any lawful
5 purpose of the water, clean water and power facilities; and

6 B. The Commission adopted the Indenture dated as of May 1, 2015, as further
7 amended and supplemented from time to time ("Indenture"), between the Commission and U.
8 S. Bank National Association and in connection therewith, has from time to time issued power
9 revenue bonds to finance projects benefitting the Power Enterprise; and

10 C. By Resolution 22-0030, adopted by the Commission on February 8, 2022
11 ("Commission Resolution") the Commission has determined to issue Power Revenue Bonds
12 ("Power Revenue Bonds") and other forms of indebtedness (including without limitation state
13 and federal loan programs as described below), as well as interim funding vehicles such as
14 commercial paper, revolving credit agreements, bond anticipation notes or other forms of
15 notes, which interim funding vehicles will be issued in advance of being paid off by either
16 Power Revenue Bonds and other forms of indebtedness (including without limitation state and
17 federal loan programs) to finance the costs of various capital projects benefitting the Power
18 Enterprise (the "Capital Improvement Projects" such projects being more fully described in the
19 Commission Resolution), pursuant to Proposition A, and has formally requested this Board to
20 authorize the issuance and sale of Power Revenue Bonds and other forms of indebtedness
21 for such purposes, such Commission Resolution being on file with the Clerk of the Board in
22 File No. 220499; and

23 D. In order to finance the costs of the Capital Improvement Projects, the Board now
24 desires to authorize the issuance and sale of Power Revenue Bonds and other forms of
25 indebtedness, as described above, for such purposes, including obtaining SRF Loans and/or

1 grants from the State Water Resources Control Board, or other loans under other federal loan
2 programs;

3 E. This Board, on behalf of the Commission, adopts this Ordinance as official
4 action of the Commission in order to comply with Treasury Regulation §1.150-2 and any other
5 regulations of the Internal Revenue Service relating to the qualification for reimbursement of
6 Commission expenditures incurred prior to the date of issue of the Power Revenue Bonds and
7 other forms of indebtedness (including, without limitation and for illustrative purposes only,
8 SRF Loans, commercial paper, revolving credit agreements, and bond anticipation notes).

9 Section 2. Authorization to Issue Power Revenue Bonds and other forms of
10 indebtedness. The Board hereby authorize the issuance and sale of taxable or tax-exempt
11 Power Revenue Bonds in one or more series from time to time by the Commission pursuant
12 the Charter, including Proposition A, in an aggregate principal amount not to exceed
13 \$140,889,875 (inclusive of financing costs), at a maximum rate or rates of interest of not to
14 exceed twelve percent (12%) per annum to finance a portion of the costs of the design,
15 acquisition and construction of the Capital Improvement Projects.

16 Section 3. Authorization to Issue Power Revenue Refunding Bonds; Commercial
17 Paper Retirement. The Board further authorizes and approves the issuance by the
18 Commission of Power Revenue Refunding Bonds ("Refunding Bonds") without limitation as to
19 principal amount, in one or more series on one or more dates, at a maximum interest rate or
20 rates of interest not to exceed twelve percent (12%) per annum, provided that each such
21 Refunding Bond issue is permitted under the applicable policies and procedures of the City
22 and authorized by Section 9.109 of the Charter (including related ordinances and resolutions
23 of the Board). The Refunding Bonds may be issued as taxable or tax-exempt obligations, or
24 any combination thereof. Refunding Bonds s authorized hereunder shall be subject to the
25 further following conditions, that: (i) three percent (3%) net present value debt service savings

1 or greater is achieved to ensure ratepayer savings (exclusive of any issuance to refund
2 commercial paper, revolving credit notes, or bond anticipation notes); (ii) that the maturity of
3 the refunded bonds is not extended; (iii) this authorization is subject to a 5-year term through
4 June 30, 2027, at which time this Board may consider an extension; principal payments and
5 term may be adjusted, where permitted under federal and state tax law, only if and when the
6 underlying capital asset funded through said refunded bonds has a useful life not in excess of
7 any limit permitted under federal and state tax law than the refunded term; and (iv) the
8 Commission shall within 30 days of any executed refunding transaction provide a refunding
9 savings report ("Bond Refunding Savings Report") prepared by its financial advisors (that
10 reflects at least a three percent (3%) net present value debt service savings) to the Board for
11 inclusion in Board File No. 220499, together with a copy of the final Official Statement (if any)
12 with respect to such series of Refunding Bonds, provided that the failure to deliver such Bond
13 Refunding Savings Report shall in no way affect the validity of any Refunding Bonds.
14 Notwithstanding the foregoing, the Commission is authorized to issue Refunding Bonds for
15 non-economic factors, including by way of illustration, eliminating onerous covenants and
16 obsolete provisions contained in the Commission's indenture or other security documents.
17 The Commission shall request a waiver of the savings requirement for any Refunding Bonds
18 issued for non-economic reasons. In furtherance of the purpose of managing the Commission
19 outstanding indebtedness, the General Manager is hereby authorized and directed, in
20 consultation the City Attorney, from Available Power Enterprise Revenues to retire
21 outstanding Power Enterprise Commercial Paper at such times and in such amounts
22 advantageous to the Commission.

23 Section 4. Declaration of Official Intent. The Board, on behalf of the Commission,
24 hereby declares the official intent of the Commission to reimburse the Commission with
25 proceeds of the Power Revenue Bonds or other forms of indebtedness (including SRF Loans

1 or other federal loans, commercial paper, revolving credit notes, or bond anticipation notes)
2 for the Expenditures with respect to the Capital Improvement Projects made on and after a
3 date that is no more than 60 days prior to the adoption of this Ordinance. The Commission
4 reasonably expects on the date hereof that it will reimburse the Expenditures with proceeds of
5 the Power Revenue Bonds or other forms of indebtedness (including, without limitation and for
6 illustrative purposes only, SRF Loans, commercial paper, revolving credit notes or bond
7 anticipation notes). Each said Expenditure was and will be either (A) of a type properly
8 chargeable to a capital account under general federal income tax principles (determined in
9 each case as of the date of the Expenditure), (B) a cost of issuance with respect to such
10 obligations, (C) a nonrecurring item that is not customarily payable from current revenues, or
11 (D) a grant to pay a party that is not related to or an agent of the issuer so long as such grant
12 does not impose any obligation or condition (directly or indirectly) to repay any amount to or
13 for the benefit of the Commission. The Commission will make a reimbursement allocation,
14 which is a written allocation by the Issuer that evidences the Commission's use of proceeds of
15 the Power Revenue Bonds or other forms of indebtedness to reimburse an Expenditure, no
16 later than 18 months after the later of the date on which the Expenditure is paid or the
17 component of the Capital Improvement Projects is placed in service or abandoned, but in no
18 event more than three years after the date on which the Expenditure is paid. The
19 Commission recognizes that exceptions are available for certain "preliminary expenditures,"
20 costs of issuance, certain de minimis amounts, expenditures by "small issuers" (based on the
21 year of issuance and not the year of expenditure) and expenditures for construction projects
22 of at least 5 years.

23 Section 5. General Authority. The Controller, Treasurer, the City Attorney and other
24 officers of the City and their duly authorized deputies and agents are hereby authorized and
25 directed, jointly and severally, to take such actions and to execute and deliver such

1 certificates, agreements, requests or other documents, as they may deem necessary or
2 desirable to facilitate the issuance, sale and delivery of the Power Revenue Bonds, Refunding
3 Bonds, to obtain bond insurance or other credit enhancements with respect to such
4 obligations, to obtain surety, to obtain title and other insurance with respect to the facilities to
5 be financed, and otherwise to carry out the provisions of this Ordinance. The Commission is
6 hereby directed to provide the final form to the Clerk of the Board of any disclosure document
7 prepared in connection with the execution of any Power Revenue Bonds or Refunding Bonds,
8 and the final executed Installment Sale Agreement or other document reflecting the
9 incurrence of an SRF Loan or loan under eligible federal program, within 30 days of the
10 closing of such transactions.

11 Section 6. Ratification of Prior Actions. All actions authorized and directed by this
12 Ordinance in connection with the issuance of the Power Revenue Bonds or other forms of
13 indebtedness, Refunding Bonds, and heretofore taken are hereby ratified, approved and
14 confirmed by this Board.

15 Section 7. File Documents. All documents referred to as on file with the Clerk of the
16 Board are in File Nos. 220499.

17 Section 8. Effective Date. Pursuant to Charter Section 8B.124, this Ordinance shall
18 take effect thirty (30) days after its adoption.

19
20 APPROVED AS TO FORM:
21 DAVID CHIU, City Attorney

22
23 By: /s/ Mark D. Blake
24 Mark D. Blake
25 Deputy City Attorney
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REVISED LEGISLATIVE DIGEST
(Amended in Committee, 5/25/2022)

[SFPUC Power Revenue Bond Issuance - Various Capital Projects Benefitting the Power Enterprise - Not to Exceed \$140,889,875]

Ordinance authorizing the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission (SFPUC) ("Commission") in an aggregate principal amount not to exceed \$140,889,875 to finance the costs of various capital projects benefitting the Power Enterprise under the Charter, including amendments to the Charter enacted by the voters on June 5, 2018, commonly referred to as Proposition A; authorizing the issuance of Power Revenue Refunding Bonds; declaring the Official Intent of the Commission to Reimburse Itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith.

Existing Law

This is new legislation.

Background Information

The proposed Ordinance authorizes the issuance by the SFPUC of its power enterprise revenue bonds ("Power Revenue Bonds") in an amount not to exceed \$140,889,875 to finance the costs of various capital projects benefitting the SFPUC Power Enterprise. The Power Revenue Bonds will be issued pursuant to amendments to the Charter sections enacted by the voters November 5, 2020 as Proposition E, at a maximum rate of 12% per annum. The Ordinance delegates to the SFPUC the authority to determine the timing, amount and manner of sale of Power Revenue Bonds (i.e., competitive or negotiated), subject to the SFPUC approving the form of a substantially final offering document.

The Power Revenue Bonds will be issued pursuant to the terms of a Trust Indenture dated as of May 1, 2015, as further amended and supplemented from time to time ("Indenture"), between the Commission and U. S. Bank National Association, as trustee thereunder.

The Commission is authorized to determine the timing, amount and manner of sale (i.e., competitive or negotiated) of each series of Power Revenue Bonds or other forms of indebtedness (including without limitation state and federal loans), as well as interim funding vehicles such as commercial paper, revolving credit agreements, bond anticipation notes or other forms of notes, which interim funding vehicles will be issued in advance of being paid off by either Power Revenue Bonds and other forms of indebtedness (including state and federal loans) to finance the costs of various capital projects benefitting the Power Enterprise ("Capital Improvement Projects"), pursuant to Proposition E; but the Commission's authority to issue Power Revenue Bonds or incur other forms of indebtedness is subject to further approval by the Commission of the form of substantially final offering document related to such bonds (if any) and the approval of any related financing documents.

Finally the Ordinance provides for the issuance of Refunding Bonds under Charter Section 9.109 without returning to the Board for approval provided that the Commission achieves at least 3% present value debt service savings, and satisfies other conditions contained in the Ordinance. The Commission is required to provide a savings report to the Board within 30 days of the date of execution of any refunding.

The authority to issue Refunding Bonds is for a 5-year term through June 30, 2027, at which time this Board may consider an extension.

Upon issuance of the Bonds, to the extent permitted by law, one-twentieth of one percent (0.05%) of the gross proceeds of the Bonds will be deposited in a fund established by the City Controller's Office and appropriated by the Board at the direction of the Public Utilities Revenue Bond Oversight Committee established by Proposition P.

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Items 9 & 10 Files 22-0498 & 22-0499	Department: Public Utilities Commission
EXECUTIVE SUMMARY	
Legislative Objectives • File 22-0499 is an ordinance authorizing the San Francisco Public Utilities Commission (SFPUC) to issue \$140,889,875 in Power Revenue Bonds to fund Hetch Hetchy Water and Power Enterprise capital projects. • File 22-0498 is an ordinance appropriating \$211,004,676 of Water Revenue Bond, Power Revenue Bonds, Cap and Trade revenues, and Hetch Hetchy Water and Power Revenues. Key Points • Of the \$211 million appropriation, \$65 million are allocated to Power projects, \$115 million are allocated to Water projects, and \$31 million are financing costs, including capitalized interest and debt service reserve. • Between 2014 and 2020, the Board of Supervisors authorized \$535.7 million in Power Revenue Bonds, of which \$163.6 million were issued and \$372.1 million were authorized but not issued. Approval of new Power Revenue Bonds would increase total authorization to \$676.6 million and authorized but not issued bonds to \$513.0 million. According to the SFPUC 10-Year Financial Plan, SFPUC plans to issue \$110 million in Power Revenue Bonds in FY 2022-23; total bond issuance over the 10 years through FY 2031-32 is \$605 million. If the SFPUC issues \$110 million in Power Revenue Bonds in FY 2022-23, SFPUC will continue to have \$403 million in authorized and unissued Power Revenue Bonds. According to SFPUC this authorization is projected to be fully utilized to meet the approved capital spending requirements of the Power Enterprise. Fiscal Impact • Annual Hetch Hetchy Enterprise debt service for outstanding debt is \$3.9 million in FY 2022-23, increasing to \$47.2 million in FY 2031-32. • SFPUC is currently undergoing a rate study, evaluating rates for Hetch Hetchy and CleanPowerSF customers. According to the 10-Year Financial Plan, SFPUC expects to increase Hetch Hetchy customer rates, which includes rates charged to City agencies, by 9.8 percent in FY 2022-23 and 8.4 percent in FY 2023-24. Given that the 10-Year Financial Plan projects annual Hetch Hetchy Fund balances and debt service coverage ratios that exceed SFPUC policy and bond covenants, the Board of Supervisors should request a report from SFPUC on proposed Hetch Hetchy and CleanPowerSF customer rate increases in FY 2022-23 and FY 2023-24. According to SFPUC staff, SFPUC will submit a memorandum to the Clerk of the Board following the Commission's actions on Hetch Hetchy and CleanPowerSF rates in accordance with Charter Section 8B.125 Recommendations • Amend the proposed ordinance (File 22-0499) to state that the required report detailing issuance of Power Revenue bonds will be included in the legislative file.	

- Request a report from SFPUC on proposed Hetch Hetchy and CleanPowerSF customer rate increases in FY 2022-23 and FY 2023-24 prior to the Budget and Appropriation Committee's recommendations in June 2022.
- Approve File 22-0499 as amended and File 22-0498.

MANDATE STATEMENT

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the Public Utilities Commission, when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors; and issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

Charter Section 8B.124 states that the Public Utilities Commission is authorized to issue revenue bonds and other forms of indebtedness, when authorized by two-thirds vote of the Board of Supervisors, for Water Enterprise and Wastewater Enterprise capital projects

Charter Section F1.113 states that 0.2 percent of the City's budget, excluding bond debt, must be set-aside for the Controller's audit fund.

Charter Section 5A.31(d) states that one-twentieth of one percent (0.05%) from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

BACKGROUND

The Hetch Hetchy Enterprise is composed of Hetch Hetchy Water, which manages the water system in and around the Hetch Hetchy Reservoir, and Hetch Hetchy Power, which is responsible for power generation.¹ Because power is generated hydroelectrically, some capital projects benefit both Hetch Hetchy Water and Hetch Hetchy Power operations. Hetch Hetchy Power primarily provides electricity to City agencies and other government entities.

DETAILS OF PROPOSED LEGISLATION

File 22-0499 is an ordinance authorizing (a) the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission (SFPUC) in an aggregate principal amount not to exceed \$140,889,875 to finance the costs of various Hetch Hetchy Power Enterprise capital projects; (b) the issuance of Power Revenue Refunding Bonds; (c) declaring the intent of SFPUC to reimburse itself with one

¹ CleanPowerSF, which provides renewable electricity to residential and commercial customers in San Francisco, is also part of the Hetch Hetchy Enterprise, and the subject of File 22-0497.

or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and (d) ratifying previous actions taken for purpose of issuing the bonds.

File 22-0498 is an ordinance appropriating \$211,004,676, consisting of Power Revenue Bonds, Water Revenue Bonds, Hetch Hetchy revenues, and Cap and Trade revenues. \$140,889,875 of Power Bond proceeds and \$67,069,801 of Water Bond proceeds are placed on Controller's Reserve pending Controller certification of the availability of funds. Sources and uses of the appropriated funds are shown in Table 1 below. Projects funded by the appropriated funds are subject to final approval by the SFPUC and the Board of Supervisors of the California Environmental Quality Act (CEQA) findings.

Power Revenue Bond Issuance

At the February 8, 2022 Commission meeting, the SFPUC approved the issuance of new Power Revenue Bonds to finance Power capital projects in FY 2022-23. The proposed ordinance allows the issuance of commercial paper or other interim debt to finance the projects prior to the issuance of the revenue bonds and provides for SFPUC to access California Water Resources Control Board revolving loan funds or grant funds.

The SFPUC may issue taxable or tax-exempt bonds in one or more series through either a negotiated or competitive sale. The SFPUC is to report to the Board of Supervisors within 30 days of the bond issuance: (i) the principal amount sold and method of sale, (ii) true interest cost, (iii) final maturity, (iv) the facilities constructed and/or improved, and (v) a statement about the remaining bonding authorization.

In addition, the SFPUC may issue refunding bonds to repay outstanding Power Revenue Bond debt if the issuance of the refunding bonds results in net present value debt service savings of 3 percent and does not extend the maturity date. If the SFPUC issues refunding bonds, then the SFPUC needs to submit to the Board of Supervisors the final official statement for the refunding bonds and a statement from the financial advisor on the 3 percent net present value debt service savings. SFPUC may request authorization to issue refunding bonds for other reasons than debt service savings if other benefits accrue, such as removal of bond covenants deemed to be onerous to the SFPUC. The authorization to issue refunding bonds extends through June 2027.

FY 2022-23 Capital Budget

The proposed ordinance appropriates \$211.0 million in new bonds to fund Water Enterprise projects in the 10-Year Capital Plan for FY 2022-23 through FY 2031-32, shown in Table 1 below.

Table 1: Sources and Uses of Funds

	Power Bond Proceeds	Water Bond Proceeds (File 22-0503)	Hetch Hetchy Revenue	Cap & Trade	Total
Sources	\$140,889,875	\$67,069,801	\$2,265,000	\$780,000	\$211,004,676
Uses					
Retail Power Distribution Projects	\$57,032,000				\$57,032,000
Streetlight Replacement			2,258,910		2,258,910
Treasure Island Projects	1,482,543				1,482,543
General Fund Energy Efficiency				780,000	780,000
Power Asset Acquisition	3,406,000				3,406,000
Hetch Hetchy Water Infrastructure		45,723,000			45,723,000
Hetch Hetchy Water - Power Projects	44,140,154				44,140,154
Hetch Hetchy Joint Projects - Water		11,286,331			11,286,331
Hetch Hetchy Joint Project - Power	13,794,404				13,794,404
Bond Financing Costs	20,724,619	9,912,917			30,637,536
City Services Auditor	239,710	114,018	6,090		359,818
Revenue Bond Oversight Committee	70,445	33,535			103,980
Total Uses	\$140,889,875	\$67,069,801	\$2,265,000	\$780,000	\$211,004,676

Source: Appropriation Ordinance

^a Bond financing costs include the costs of interim, short-term funding for projects by the Commercial Paper Program, such as accrued interest and credit bank and dealer fees associated with outstanding commercial notes as well as capitalized interest and other issuance costs.

Projects funded by the proposed appropriation are summarized in the Attachment.

Power Revenue Bonds

Between 2014 and 2020, the Board of Supervisors authorized \$535,698,530 in Power Revenue Bonds, of which \$163,555,000 were issued and \$372,143,530 were authorized but not issued. Approval of new Power Revenue Bonds would increase total authorization to \$676,588,405 and authorized but not issued bonds to \$513,033,405. According to the SFPUC 10-Year Financial Plan, SFPUC plans to issue \$110 million in Power Revenue Bonds in FY 2022-23; total bond issuance over the 10 years through FY 2031-32 is \$605 million. If the SFPUC issues \$110 million in Power Revenue Bonds in FY 2022-23, SFPUC will continue to have \$403 million in authorized and unissued Power Revenue Bonds. According to SFPUC this authorization is projected to be fully utilized to meet the approved capital spending requirements of the Power Enterprise.

FISCAL IMPACT*Debt Issuance*

SFPUC anticipates issuing \$140.9 million in Power Revenue Bonds at 5 percent interest and for a 30-year term. Capitalized interest costs over 30 months are \$17.6 million² and issuance costs are \$2.8 million³ for net bond proceeds of approximately \$120.5 million. Average annual debt service over 30 years is approximately \$9.5 million.

The 10-Year Financial Plan provides for issuing \$110 million in Power Revenue Bonds in 2023 and future Power Revenue Bond issuances totaling \$605 million over 10 years. Annual Hetch Hetchy Enterprise debt service for outstanding debt is \$3.9 million in FY 2022-23, increasing to \$47.2 million in FY 2031-32.

The year-end Hetch Hetchy Enterprise fund balance is estimated to increase from \$71.1 million in FY 2022-23 to \$119.4 million in FY 2031-32. The SFPUC fund balance reserve policy is for fund balance to equal at least 25 percent of annual operating and maintenance expenses. According to the 10-Year Financial Plan, the Hetch Hetchy Enterprise fund balance is estimated to equal at 37 percent in FY 2022-23, increasing to 56 percent in FY 2027-28, before decreasing to 39 percent in FY 2031-32.

The annual debt service coverage ratio is estimated to be 30.9 in FY 2022-23, decreasing to 4.0 in FY 2031-32. According to covenants with bond holders, the annual debt service coverage ratio – the ratio of annual debt service to unrestricted fund balance and net revenues – should equal 1.25, and according to SFPUC financial policies, the annual debt service coverage ratio should equal 1.5. The SFPUC 10-Year Financial Plan assumes that the Hetch Hetchy Enterprise will have sufficient net revenues and unrestricted fund balance to achieve a debt service coverage ratio of at least 1.5.

Power Rates

SFPUC is currently undergoing a rate study, evaluating rates for Hetch Hetchy and CleanPowerSF customers. According to the 10-Year Financial Plan, SFPUC expects to increase Hetch Hetchy customer rates, which includes rates charged to City agencies, by 9.8 percent in FY 2022-23 and 8.4 percent in FY 2023-24. Given that the 10-Year Financial Plan projects annual Hetch Hetchy Fund balances and debt service coverage ratios that exceed SFPUC policy and bond covenants, the Board of Supervisors should request a report from SFPUC on proposed Hetch Hetchy and CleanPowerSF customer rate increases in FY 2022-23 and FY 2023-24 prior to the Budget and Appropriation Committee's recommendations in June 2022. According to SFPUC staff, SFPUC will submit a memorandum to the Clerk of the Board following the Commission's actions on Hetch Hetchy and CleanPowerSF rates in accordance with Charter Section 8B.125.

² Capitalized interest is the amount of interest that accrues on the bonds during the construction period prior to placement of the asset into service.

³ Issuance costs include underwriting fees, legal fees, financial advisory fees, credit enhancement fees, and other miscellaneous fees typically associated with a bond financing.

POLICY CONSIDERATION

File 22-0499 states that SFPUC should submit a report to the Clerk of the Board of Supervisors following sale of the Power Revenue bonds showing the results of the transaction, including (i) principal amount sold and method of sale, (ii) true interest cost, (iii) final maturity, (iv) the facilities constructed and/or improved, and (v) a statement about the remaining bonding authorization. The proposed ordinance should be amended to state that the required report detailing issuance of Power Revenue bonds approved by File 22-0499 will be included in the legislative files for the respective ordinances.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 22-0499) to state that the required report detailing issuance of Power Revenue bonds will be included in the legislative file.
2. Request a report from SFPUC on proposed Hetch Hetchy and CleanPowerSF customer rate increases in FY 2022-23 and FY 2023-24 prior to the Budget and Appropriation Committee's recommendations in June 2022.
3. Approve File 22-0499 as amended and File 22-0498.

Attachment: Hetch Hetchy Water and Power Projects

Of the \$211 million appropriation, \$65 million are allocated to Power projects, \$115 million are allocated to Water projects, and \$31 million are financing costs, including capitalized interest and debt service reserve.

Power Projects: \$65 million*Retail Power Distribution: \$57 million*

The largest retail power distribution project is connecting new Hetch Hetchy electricity users to the grid, including The Shipyard development at India Basin, 2000 Marin and 1990 Newcomb (the proposed new and existing City Distribution Development administrative buildings), University of California at San Francisco (UCSF) building, and other locations.

Other power distribution projects include (a) intervening facilities, which consists of transformers, fault interrupters, and infrastructure to connect PG&E facilities to customers;⁴ (b) substation improvements; and (c) connections to affordable housing improvements.

Other Power Projects: \$8 million

The FY 2022-23 budget allocates \$3.4 million for a valuation of PG&E assets. This project is in response to the Board of Supervisors 2019 resolution to evaluate the purchase of PG&E assets, and in July 2021 the SFPUC filed with the California Public Utilities Commission a Petition of Valuation of PG&E electricity assets in San Francisco.

The other power projects funded in FY 2022-23 include (a) installation of streetlighting at 16 feet – 18 feet above the sidewalk to improve lighting for pedestrians; (b) undergrounding of electrical service on Treasure Island; and (c) municipal renewable energy projects consisting of solar, wind, and other renewable sources.

Water and Joint Water-Power Projects: \$114.9 million*Water Infrastructure: \$45.7 million*

Hetch Hetchy water infrastructure project includes installation of valves in the three San Joaquin Pipeline transmission lines between Oakdale and Tracy to upgrade/install valves, allowing shutoff of water flow and entry of maintenance staff to inspect, maintain, and repair the pipelines.

Power Infrastructure: \$44.1 million

Power infrastructure projects consist of a series of projects to improve power transmission, including rehabilitation of the switchyard at Moccasin, inspection and maintenance of the existing conveyance of water from Hetch Hetchy Reservoir to Moccasin, monitoring of Priest Dam, upgrades to the Moccasin Powerhouse bypass, repair and replacement of power transmission facilities to extend the life of the facilities, upgrades to the transmission line

⁴ The Federal Energy Regulatory Commission (FERC) requires that all new or reconfigured connections to Hetch Hetchy customers be to the primary voltage and not to PG&E's downtown network.

between the Warnerville Substation to Modesto Irrigation District's Standiford Substation, rehabilitation of the Moccasin Powerhouse generators and upgrades to the Powerhouse, and other projects.

Water-Power Joint Projects: \$25.1 million

Joint Hetch Hetchy water and power projects consist of several infrastructure projects, including wildfire mitigation; planning and design for upgrades to the Early Intake Dam on the Tuolumne River; assessment and repair and replacement of facilities, including campgrounds, fish hatcheries, and maintenance yards; and other condition assessment and repair and replacement of dams, and roads and bridges; security and communications upgrades; and other projects.



To: Angela Calvillo, Clerk of the Board of Supervisors
From: Ashley Groffenberger, Mayor's Budget Director
Date: May 1, 2022
Re: Mayor's May 1 FY 2022-23 and FY 2023-24 Budget Submission

Madam Clerk,

In accordance with Administrative Code section 3.3, the Mayor's Office hereby submits the Mayor's proposed May 1 budget by May 1st, corresponding legislation, and related materials for Fiscal Year (FY) 2022-23 and FY 2023-24.

In addition to the Mayor's Proposed FY 2022-23 and FY 2023-24 May 1 Budget Book, the following items are included in the Mayor's submission:

- The May 1 Annual Appropriation Ordinance and Annual Salary Ordinance, along with Administrative Provisions, physical copies of which will be delivered by the Controller's Office
- 11 separate pieces of trailing legislation (see list attached)
- A Transfer of Function letter detailing the transfer of positions from one City department to another
- An Interim Exception letter
- A letter from the City Controller regarding the San Francisco Municipal Transportation Agency budget

Sincerely,

A handwritten signature in black ink, appearing to read "A. Groffenberger", followed by a long horizontal flourish.

Ashley Groffenberger
Mayor's Budget Director

cc: Members of the Board of Supervisors
Budget & Legislative Analyst's Office
Controller

DEPT	Item	Relevance to Budget	Type of Legislation
AIR	Prop J Certification - previously approved	Costs related to Prop J services assumed in budget.	Resolution
BOA	Board of Appeals Surcharges on Permit Fees	Legislation that allows the Board of Appeals to adjust existing surcharges on permit fees, license fees, permit review fees, and permit and license renewal fees for permits and licenses issued by the Planning Department, Department of Building Inspection, Department of Public Works, Department of Public Health, Police Department, and the Entertainment Commission	Ordinance
LIB	In-Kind Grant of Friends of San Francisco Public Library	Grant assumed in budget.	Resolution
MTA	Prop J Certification - previously approved	Costs related to Prop J services assumed in budget.	Resolution
PRT	California State Lands Commission Grant	Grant assumed in budget.	Resolution
PRT	Prop J Certification - previously approved	Costs related to Prop J services assumed in budget.	Resolution
PUC	CleanPowerSF Capital Budget	Appropriates funds to support PUC CleanPowerSF capital budget expenditures.	Ordinance
PUC	Hetch Hetchy Capital Budget	Appropriates funds to support PUC Hetch Hetchy capital budget expenditures.	Ordinance
PUC	Wastewater Capital Budget	Appropriates funds to support PUC Wastewater Enterprise capital budget expenditures.	Ordinance
PUC	Water Capital Budget	Appropriates funds to support PUC Water Enterprise capital budget expenditures.	Ordinance
PUC	Power Debt Authorization	Authorizes bond issuance to finance Power capital projects.	Ordinance
PUC	Wastewater Debt Authorization	Authorizes bond issuance to finance Wastewater capital projects.	Ordinance
PUC	Water Debt Authorization	Authorizes bond issuance to finance Water capital projects.	Ordinance
PUC	Prop J Certification - previously approved	Costs related to Prop J services assumed in budget.	Resolution



TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Tom Paulino
RE: Ordinance---SFPUC Power Revenue Bond Issuance----Not to Exceed
\$140,889,875
DATE: May 1, 2022

Ordinance authorizing the issuance and sale of tax-exempt or taxable Power Revenue Bonds and other forms of indebtedness (as described below) by the San Francisco Public Utilities Commission ("Commission") in an aggregate principal amount not to exceed \$140,889,875 to finance the costs of various capital projects benefitting the Power Enterprise under the Charter, including amendments to the Charter enacted by the voters on June 5, 2018 commonly referred to as Proposition A; authorizing the issuance of Power Revenue Refunding Bonds; declaring the Official Intent of the Commission to Reimburse Itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith.

Should you have any questions, please contact Tom Paulino at 415-554-6153.

PUBLIC UTILITIES COMMISSION

City and County of San Francisco

RESOLUTION NO. 22-0030

WHEREAS, On January 7, 2022, this Commission heard and considered budget priorities for the department. Additionally, on January 7, January 14, and January 20, 2022, the San Francisco Public Utilities Commission (SFPUC) General Manager and staff additionally presented the preliminary proposed FY 2022-23 Capital Budget for the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water & Power, including the Power Enterprise and CleanPowerSF ("Capital Budget") including the list of projects, cost estimates, and schedules to the Commission; and

WHEREAS, An overview of the proposed FY 2022-23 Capital Budget for each SFPUC Enterprise is set forth as Attachment A and is on file with the Commission Secretary; and

WHEREAS, the Capital Budget Steering Committee recommended proceeding with only a single year capital budget supplemental for FY 2022-23; and

WHEREAS, As a preliminary step to development of the FY 2022-23 Capital Budget, a baseline review of all existing project appropriations was completed for potential closeout or repurposing to new capital budget needs; and

WHEREAS, The FY 2022-23 Capital Budget submittals went through a quality review to assure the budget addresses the immediate capital improvement needs of each Enterprise and reflects a sound project prioritization process which included a validation of costs and schedule of all proposed projects and an assessment of the ability to deliver the projects within FY 2022-23; and

WHEREAS, The proposed FY 2022-23 Capital Budget must be submitted to, and approved by the Mayor and the Board of Supervisors; and

WHEREAS, The SFPUC General Manager recommends that the Commission request a supplemental appropriation ordinance for the capital expenditures for each of the three Enterprises presented in the proposed FY 2022- 23 Capital Budget to timely implement public improvement projects; and

WHEREAS, Approval of funding mechanisms do not constitute a project under the California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(4) related to the creation of government funding mechanisms which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment; and

WHEREAS, The subsequent approvals of projects to be funded through this Capital Plan would be considered only after the necessary environmental review process in conformance with CEQA, Administrative Code Chapter 31, and Proposition E (approved by the voters in 2002 for Water and Wastewater projects) by this Commission; and

WHEREAS, The Water Enterprise is de-appropriating and re-appropriating \$38,331,660 in Water Capital Projects to fund project spending in FY 2022-23; and

WHEREAS, The Wastewater Enterprise is de-appropriating and re-appropriating \$41,158,347 in Wastewater Capital Projects to fund project spending in FY 2022-23; and

WHEREAS, This Commission has considered the proposed FY 2022-23 Capital Budget for the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise and CleanPowerSF, which totals \$1,117,521,515, as set forth in Attachment A to the February 8, 2022 staff report; now, therefore, be it

RESOLVED, That this Commission hereby adopts the FY 2022-23 SFPUC Capital Budget in the amount of \$1,117,521,515 for the Water Enterprise, the Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise and CleanPowerSF as presented at the public hearings on January 7, January 14, and January 20, 2022 and as set forth in the attached Attachment A, as follows:

FY 2022-23 Capital Budget	Amount	Financing Costs	Total
Wastewater Enterprise	\$ 687,374,066	\$ 105,629,835	\$ 793,003,901
Water Enterprise	101,319,297	9,387,595	110,706,892
Hetchy Water	114,943,889	20,228,083	135,171,972
Hetchy Power	66,185,543	10,867,161	77,052,704
CleanPowerSF	<u>1,586,046</u>	<u>0</u>	<u>1,586,046</u>
Total	\$ 971,408,841	\$ 146,112,674	\$ 1,117,521,515

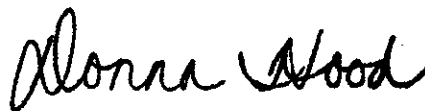
and be it;

FURTHER RESOLVED, That this Commission authorizes the General Manager to seek Board of Supervisors approval for the de-appropriation and re-appropriation of \$38,331,660 in Water Capital Projects and de-appropriation and re-appropriation of \$41,158,347 in Wastewater Capital Project funding; and, be it

FURTHER RESOLVED, That the SFPUC General Manager is authorized to reallocate funds within an Authority Code as provided in the staff report and Attachment A appended to this Resolution and to make further technical adjustments to these approved amounts as may be necessary, or upon further direction from the Commission, the Mayor, or the Board of Supervisors; and, be it

FURTHER RESOLVED, The General Manager is hereby authorized and directed to submit to the Board of Supervisors proposed ordinances authorizing the issuance of (1) not to exceed \$129,653,767 aggregate principal amount of Water Revenue Bonds and other forms of indebtedness, including commercial paper and State Revolving Fund (SRF) loans, (2) \$704,198,901 aggregate principal amount of Wastewater Revenue Bonds and other forms of indebtedness, including commercial paper and SRF loans, under the terms of Proposition E (approved by the voters November 2002), and (3) \$140,889,875 aggregate principal amount of Power Revenue Bonds and other forms of indebtedness, including commercial paper and loans, subject to the terms of Charter Sections 9.107(6) and 9.107(8). The General Manager shall return to this Commission for a subsequent discretionary approval of any disclosure and transaction related documents prepared in connection with the issuance of such Bonds and other forms of indebtedness.

I hereby certify that the foregoing resolution was adopted by the Public Utilities Commission at its meeting of February 8, 2022.



Secretary, Public Utilities Commission