

File No. 180451

Committee Item No. 12

Board Item No. 2

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date MAY 24, 2018

Board of Supervisors Meeting

Date JUNE 12, 2018

Cmte Board

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Completed by: Linda Wong Date MAY 18, 2018
 Completed by: Linda Wong Date 5/29/18

1 [Water Revenue Bond and Other Forms of Indebtedness Issuance - San Francisco Public
2 Utilities Commission - Not to Exceed \$478,440,136]

3 **Ordinance authorizing the issuance and sale of tax-exempt or taxable Water Revenue**
4 **Bonds and other forms of indebtedness (as described below) by the San Francisco**
5 **Public Utilities Commission (Commission) in an aggregate principal amount not to**
6 **exceed \$478,440,136 to finance the costs of various capital water projects benefitting**
7 **the Water Enterprise pursuant to amendments to the Charter of the City and County of**
8 **San Francisco enacted by the voters on November 5, 2002, as Proposition E;**
9 **authorizing the issuance of Water Revenue Refunding Bonds; declaring the Official**
10 **Intent of the Commission to reimburse itself with one or more issues of tax-exempt**
11 **bonds or other forms of indebtedness; and ratifying previous actions taken in**
12 **connection therewith, as defined herein.**

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

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

20 Section 1. Findings. The Board of Supervisors (the "Board") of the City hereby finds
21 and declares as follows:

22 A. On November 5, 2002, the voters of the City and County of San Francisco (the
23 "City") approved Proposition E ("Proposition E"), which among other things, authorized the
24 San Francisco Public Utilities Commission (the "Commission") to issue revenue bonds,
25 including notes, commercial paper or other forms of indebtedness, when authorized by

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

5 B. The Commission adopted the Amended and Restated Water Indenture dated as
6 of January 1, 2002, as further amended and supplemented from time to time (the "Indenture"),
7 between the Commission and U. S. Bank National Association and in connection therewith,
8 has from time to time issued revenue bonds to finance projects benefitting the Water
9 Enterprise; and

10 C. By Resolution 18-0023, adopted by the Commission on February 13, 2018 (the
11 "Commission Resolution") the Commission has determined to issue Water Revenue Bonds
12 (the "Water Revenue Bonds") and other forms of indebtedness (including without limitation
13 State Revolving Fund (SRF) Loans as described below), as well as interim funding vehicles
14 such as commercial paper, revolving credit agreements, bond anticipation notes or other
15 forms of notes, which interim funding vehicles will be issued in advance of being paid off by
16 either Water Revenue Bonds and other forms of indebtedness (including without limitation
17 SRF Loans) to finance the costs of various capital projects benefitting the Water Enterprise
18 (the "Capital Improvement Projects" such projects being more fully described in the
19 Commission Resolution), pursuant to Proposition E, and has formally requested this Board to
20 authorize the issuance and sale of Water Revenue Bonds and other forms of indebtedness for
21 such purposes, such Commission Resolution being on file with the Clerk of the Board in File
22 No. 180451; 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 Water Revenue Bonds and other forms of
25

1 indebtedness, as described above, for such purposes, including obtaining SRF Loans and/or
2 grants from the State Water Resources Control Board; and

3 E. The Commission has paid, beginning no earlier than 60 days prior to the
4 adoption of this Ordinance and will pay, on and after the date hereof, certain expenditures (the
5 "Expenditures") in connection with the acquisition, construction and/or equipping of the Capital
6 Improvement Projects; and

7 F. This Board is concurrently considering with this Ordinance, another Ordinance
8 approving a Capital Improvement Program and related supplemental appropriation totaling
9 \$499,095,424 for fiscal years ending 2019 and 2020, including expenditures of the proceeds
10 of the Water Revenue Bonds and other forms of indebtedness (including SRF Loans,
11 commercial paper, revolving credit agreements, and bond anticipation notes); and

12 G. This Board, on behalf of the Commission, adopts this Ordinance as official
13 action of the Commission in order to comply with Treasury Regulation §1.150-2 and any other
14 regulations of the Internal Revenue Service relating to the qualification for reimbursement of
15 Commission expenditures incurred prior to the date of issue of the Water Revenue Bonds and
16 other forms of indebtedness (including SRF Loans, commercial paper, revolving credit
17 agreements, and bond anticipation notes)

18 Section 2. Authorization to Issue Water Revenue Bonds and other forms of
19 indebtedness. The Board hereby authorizes the issuance and sale of Water Revenue Bonds
20 or other forms of indebtedness (including, SRF Loans, commercial paper, revolving credit
21 agreements, and bond anticipation notes) in one or more series from time to time by the
22 Commission pursuant to Proposition E and in accordance with the Commission Resolution, in
23 an aggregate principal amount not to exceed \$478,440,136 (inclusive of financing costs, but
24 exclusive of refunding indebtedness), bearing a maximum rate or rates of interest of not to
25 exceed twelve percent (12%) per annum, to finance a portion of the costs of the design,

1 acquisition and construction of the Capital Improvement Projects. Without limiting the
2 foregoing, the Commission shall be authorized to incur SRF Loans at such time, in such
3 amounts, and upon such other terms and conditions as the Commission may deem
4 advantageous, and to approve any financing documentation related thereto consistent with
5 this Ordinance. The Commission is hereby further authorized to determine the timing, amount
6 and manner of sale (i.e., competitive or negotiated) of each series of Water Revenue Bonds,
7 bond anticipation notes, revolving credit agreements, or commercial paper, pursuant to this
8 authorization; provided however, the Commission's authorization to issue Water Revenue
9 Bonds, bond anticipation notes, revolving credit agreements, or commercial paper is subject
10 to approval by the Commission of the form of substantially final offering document related to
11 such obligations (if any) and the approval of any related agreements, financing documents
12 and the filing with its Board and the Clerk of the Board any certifications required by
13 Proposition E prior to the issuance of any bonds or incurrence of any indebtedness herein
14 authorized. The Commission shall also file, within 30 days of closing any Water Revenue
15 Bond or other form of indebtedness (including SRF Loans and bond anticipation notes)
16 transactions) authorized hereby, with the Clerk of the Board of Supervisors a report showing
17 the results of the transaction, including (i) principal amount sold and method of sale, (ii) true
18 interest cost, (iii) final maturity, (iv) the facilities constructed and/or improved, and (v) a
19 statement about the remaining bonding authorization under this Ordinance (the "Report"),
20 provided that the failure to file such report shall not affect the validity of any debt authorized
21 hereunder.

22 Section 3. Authorization to Issue Water Revenue Refunding Bonds. The Board further
23 authorizes and approves the issuance by the Commission of Water Revenue Refunding
24 Bonds (the "Refunding Bonds") without limitation as to principal amount, in one or more series
25 on one or more dates, at a maximum interest rate or rates of interest not to exceed twelve

1 percent (12%) per annum, provided that each such Refunding Bond issue is permitted under
2 the applicable policies and procedures of the City and authorized by either Section 9.109 of
3 the Charter (including related ordinances and resolutions of the Board). The Refunding Bonds
4 may be issued as tax-exempt or taxable obligations, or any combination thereof. Refunding
5 Bonds s authorized hereunder shall be subject to the further following conditions, that: (i)
6 three percent (3%) net present value debt service savings or greater is achieved to ensure
7 ratepayer savings (exclusive of any issuance to refund commercial paper, revolving credit
8 notes, or bond anticipation notes); (ii) this authorization is subject to a 2-year term through
9 June 30, 2020, at which time this Board may consider an extension; principal payments and
10 term may be adjusted, where permitted under federal and state tax law, only if and when the
11 underlying capital asset funded through said refunded bonds has a useful life not in excess of
12 any limit permitted under federal and state tax law than the refunded term; and (iii) the
13 Commission shall within 30 days of any executed refunding transaction provide a savings
14 report prepared by its financial advisors (that reflects at least a three percent (3%) net present
15 value debt service savings) to the Board, together with a copy of the final Official Statement (if
16 any) with respect to such series of Refunding Bonds, provided that the failure to deliver such
17 report shall in no way affect the validity of any Refunding Bonds.

18 Section 4. Declaration of Official Intent. The Board, on behalf of the Commission,
19 hereby declares the official intent of the Commission to reimburse the Commission with
20 proceeds of the Water Revenue Bonds or other forms of indebtedness (including SRF Loans,
21 commercial paper, revolving credit notes, or bond anticipation notes) for the Expenditures with
22 respect to the Capital Improvement Projects made on and after a date that is no more than 60
23 days prior to the adoption of this Ordinance. The Commission reasonably expects on the date
24 hereof that it will reimburse the Expenditures with proceeds of the Water Revenue Bonds or
25 other forms of indebtedness (including SRF Loans, commercial paper, revolving credit notes

1 or bond anticipation notes). Each said Expenditure was and will be either (A) of a type
2 properly chargeable to a capital account under general federal income tax principles
3 (determined in each case as of the date of the Expenditure), (B) a cost of issuance with
4 respect to such obligations, (C) a nonrecurring item that is not customarily payable from
5 current revenues, or (D) a grant to pay a party that is not related to or an agent of the issuer
6 so long as such grant does not impose any obligation or condition (directly or indirectly) to
7 repay any amount to or for the benefit of the Commission. The Commission will make a
8 reimbursement allocation, which is a written allocation by the Issuer that evidences the
9 Commission's use of proceeds of the Water Revenue Bonds or other forms of indebtedness
10 to reimburse an Expenditure, no later than 18 months after the later of the date on which the
11 Expenditure is paid or the component of the Capital Improvement Projects is placed in service
12 or abandoned, but in no event more than three years after the date on which the Expenditure
13 is paid. The Commission recognizes that exceptions are available for certain "preliminary
14 expenditures," costs of issuance, certain de minimis amounts, expenditures by "small issuers"
15 (based on the year of issuance and not the year of expenditure) and expenditures for
16 construction projects of at least 5 years.

17 Section 5. General Authority. The Controller, Treasurer, the City Attorney and other
18 officers of the City, including the Director of the Office of Public Finance, and their duly
19 authorized deputies and agents are hereby authorized and directed, jointly and severally, to
20 take such actions and to execute and deliver such certificates, agreements, requests or other
21 documents, as they may deem necessary or desirable to facilitate the issuance, sale and
22 delivery of the Water Revenue Bonds or other forms of indebtedness, including Refunding
23 Bonds, and to obtain bond insurance or other credit or liquidity enhancements with respect to
24 any such obligations, , and otherwise to carry out the provisions of this Ordinance. The
25 Commission is hereby directed to provide the final form to the Clerk of the Board of any

1 disclosure document prepared in connection with the execution of any Water Revenue Bonds,
2 other forms of indebtedness, or Refunding Bonds, and the final executed Installment Sale
3 Agreement or other document reflecting the incurrence of an SRF Loan, within 30 days of the
4 closing of such transactions provided that the failure to deliver such report shall not affect the
5 validity of the obligations authorized hereunder.

6 The Commission is further directed as a part of the two-year budget review to provide to this
7 Board of Supervisors a written report about Water Revenue Bonds authorized under the Charter or
8 Proposition E (as applicable), detailing the total amount authorized, the total amount sold, the
9 remaining authorized but unissued amount, and the bond authorization no longer necessary due to
10 changes in projects and project financing, beginning in May 2020.

11 Section 6. Ratification of Prior Actions. All actions authorized and directed by this
12 Ordinance in connection with the issuance of the Water Revenue Bonds, other forms of
13 indebtedness (including SRF Loans, commercial paper, revolving credit notes, or bond
14 anticipation notes) or Refunding Bonds and heretofore taken are hereby ratified, approved
15 and confirmed by this Board.

16 Section 7. File Documents. All documents referred to as on file with the Clerk of the
17 Board are in File Nos. 180451.

1 Section 8. Effective Date. Pursuant to Charter Section 8B.124, this Ordinance shall
2 take effect thirty (30) days after its adoption.
3

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

6
7 By:

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9 Mark D. Blake
10 Deputy City Attorney
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LEGISLATIVE DIGEST
(Amended on 05/24/18)

[Water Revenue Bond and Other Forms of Indebtedness Issuance - San Francisco Public Utilities Commission - Not to Exceed \$478,440,136]

Ordinance authorizing the issuance and sale of tax-exempt or taxable Water 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 \$478,440,136 to finance the costs of various capital water projects benefitting the Water Enterprise pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002, as Proposition E; authorizing the issuance of Water Revenue Refunding Bonds; declaring the Official Intent of the Commission to reimburse itself with one or more issues of tax-exempt bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith, as defined herein.

Existing Law

This is new legislation.

Background Information

On November 5, 2002, the voters of the City and County of San Francisco approved Proposition E ("Proposition E") which authorized the Commission to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the Commission.

The proposed Ordinance authorizes the Commission to issue and sell its Water Enterprise Revenue Bonds in an amount not greater than \$478,440,136 at a maximum rate of interest of not in excess of twelve percent (12%) payable from and secured by Water Enterprise Revenues under Proposition E. The Bonds will be issued under an Amended and Restated Indenture dated as of January 1, 2002, as further amended and supplemented from time to time, between the Commission and U. S. Bank National Association. Bonds can be issued for any purposes of the Water Enterprise, including, without limitation, the financing or refinancing of capital additions, improvements, repairs and replacements to the Water Enterprise.

The Commission is authorized to determine the timing, amount and manner of sale (i.e., competitive or negotiated) of each series of Water Enterprise Revenue Bonds or the delivery of other forms of indebtedness (including State Revolving Fund Loans and/or grants from the

FILE NO. 180451

State Water Resources Control Board, referred to collectively as “SRF Loans”) pursuant to the proposed Ordinance; but the Commission’s authority to issue Water Enterprise 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. The Commission is required to provide a savings report to the Board within 30 days of the date of execution of of any refunding. The authority to issue Refunding Bonds ends June 30, 2020.

The Ordinance requires the Commission as a part of the two-year budget review to provide to the Board of Supervisors a written report about Water Revenue Bonds authorized under the Charter or Proposition E (as applicable), detailing the total amount authorized, the total amount sold, the remaining authorized but unissued amount, and the bond authorization no longer necessary due to changes in projects and project financing, beginning in May 2020.

PUBLIC UTILITIES COMMISSION

City and County of San Francisco

RESOLUTION NO.: 18-0023

WHEREAS, The General Manager of the San Francisco Public Utilities Commission (SFPUC) and staff presented the proposed FY 2018-19 and FY 2019-20 Capital Budget for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Water & Power, including the Power Enterprise (“Capital Budget”) to the Commission at public hearings held on January 18, and 25, and February 1, 2018, and copies of those presentations are on file with the Commission Secretary and incorporated herein by reference; and

WHEREAS, The proposed FY 2018-19 and FY 2019-20 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 for the capital expenditures presented in the proposed FY 2018-19 and FY 2019-20 Capital Budget to timely implement public repairs and improvement projects; and

WHEREAS, Subsequent approvals of projects to be funded through this Capital Budget would only be granted following the consideration of environmental review pursuant to the California Environmental Quality Act (CEQA), Administrative Code Chapter 31, and Proposition E (approved by the voters in 2002 for Water and Wastewater projects) by this Commission; and

WHEREAS, This Commission has considered the proposed FY2018-19 and FY2019-20 Capital Improvement Program Budgets for the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise, which total \$1,023,521,934 for FY 2018-19 and \$826,867,897 for FY 2019-20; now, therefore, be it

RESOLVED, That this Commission hereby adopts the proposed FY2018-19 and FY2019-20 SFPUC Capital Improvement Program Budgets for the Water Enterprise, the Wastewater Enterprise, and Hetch Hetchy Water and Power, including the Power Enterprise as presented at the public hearings on January 18, January 25, and February 1, 2018 and in the agenda item for the February 13, 2018 Commission meeting, and authorizes the General Manager to request the Mayor to recommend to the Board of Supervisors a supplemental appropriation, including financing costs, in the amount of \$1,141,450,922 to fund FY 2018-19 and \$917,118,237 to fund FY 2019-20 as follows:

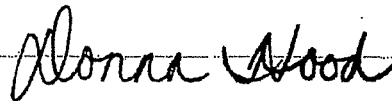
FY 2018-19 Capital Budget	Amount	Financing Costs	Total
Wastewater Enterprise	\$ 632,376,182	\$ 74,087,312	\$ 706,463,494
Water Enterprise	264,349,000	30,111,143	294,460,143
Hetchy Water	65,298,000	4,141,236	69,439,236
Hetchy Power	61,498,752	9,589,297	71,088,049
Total	\$ 1,023,521,934	\$ 117,928,988	\$ 1,141,450,922

FY 2019-20 Capital Budget	Amount	Financing Costs	Total
Wastewater Enterprise	\$ 461,855,500	\$ 48,768,071	\$ 510,623,571
Water Enterprise	187,715,000	19,200,000	206,915,000
Hetchy Water	113,266,000	8,632,357	121,898,357
Hetchy Power	64,031,397	13,649,912	77,681,309
Total	\$ 826,867,897	\$ 90,250,340	\$ 917,118,237

FURTHER RESOLVED, That the General Manager of the SFPUC is authorized to make further technical adjustments to these approved amounts as may be necessary, or upon further direction from the Commission; 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 \$496,677,886 aggregate principal amount of Water Revenue Bonds and other forms of indebtedness, including commercial paper and State Revolving Fund(SRF) loans, and \$986,843,065 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 (2) \$154,928,059 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 security documents prepared in connection with the issuance of such Bonds and other forms of indebtedness to finance these capital improvement program projects.

I hereby certify that the foregoing resolution was adopted by the Public Utilities Commission at its meeting of February 13, 2018.



Secretary, Public Utilities Commission

<p>Items 9 and 12 Files 18-0448 and 18-0451</p>	<p>Department: Public Utilities Commission</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<p>File 18-0448 is an ordinance appropriating \$483,137,393 in Water Revenue Bond proceeds and other financing sources to water capital projects.</p>	
<p>File 18-0451 is an ordinance authorizing \$478,440,136 in taxable and tax-exempt Water Revenue Bonds and other forms of debt to finance water capital projects.</p>	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. As of June 30, 2017, the Board of Supervisors authorized \$3,756,000,000 in Water Revenue Bonds. To date, \$2,938,466,847 of the Proposition E bonds have been sold with \$817,533,154 in authorized and unsold bonds. • The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for 2019 to 2028 in January 2018. The 10-Year Capital Plan provides for \$1.7 billion in Water Enterprise projects, of which \$893 million are regional water projects, \$743.6 million are local water projects, and \$90 million is for the Auxiliary Water Supply System supporting fire suppression. • The proposed ordinance (File 18-0448) appropriates \$483,137,393 to regional water projects (\$277,518,969), city projects (\$146,587,000), auxiliary water supply system (\$12,000,000), and financing costs (\$47,031,424). 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • According to the SFPUC’s 10-Year Financial Plan for FY 2018-19 to FY 2027-28, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC’s debt service coverage policy requirements. • The SFPUC 10 Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2018-19, from \$48 in FY 2017-18 to \$52 in FY 2018-19; and by \$5 in FY 2019-20, from \$52 in FY 2018-19 to \$57 in FY 2019-20. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • The SFPUC currently has more than \$1.0 billion in previously authorized and unsold Water Revenue Bonds. The SFPUC’s policy is to request authorization for bonds and other form of debt to fund new capital appropriations. Because water capital projects occur over a long period of time, projects and project financing change, which may result in previously authorized bonds no longer being needed. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed ordinance (File 18-0451) to request the SFPUC General Manager to provide a written report to the Board of Supervisors as part of the two year budget review detailing the total amount of Water Revenue Bonds authorized under Proposition E, the total amount sold, the total amount authorized and unsold, and the amount of authorized bonds that are no longer needed due to changes in projects and project financing, beginning in May 2020. • Approve File 18-0451 as amended, and File 18-0448. 	

MANDATE STATEMENT

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

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

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

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers that are located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County.

The SFPUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The regional water conveyance system includes: (a) the Hetch Hetchy System, comprised of the Hetch Hetchy Reservoir and associated pipelines; (b) the Alameda System, comprised of the San Antonio and Calaveras Reservoirs and associated pipelines including the Irvington Tunnel; and (c) the Peninsula System, comprised of the San Andreas and Crystal Springs Reservoirs and associated pipelines that connect the regional water conveyance system to the in-city distribution system. The in-city distribution system is a series of pipelines that distributes water from the regional water conveyance system to residences and retail businesses in the City.

DETAILS OF PROPOSED LEGISLATION

File 18-0448 is an ordinance (1) appropriating \$483,137,393 of Water Revenue Bond proceeds, State Water Resources Control Board revolving loan funds or grant funds, water revenues, and water capacity fees to the SFPUC Water Enterprise's capital improvement program, of which \$276,222,393 is appropriated in FY 2018-19 and \$206,915,000 is appropriated in FY 2019-20; (2) re-appropriating water capital project appropriations of \$15,958,031; and (3) placing \$376,251,393 on Controller's Reserve pending receipt of revenues and/or adoption of California Environmental Quality Act (CEQA) findings for specified projects.

File 18-0451 is an ordinance (1) authorizing the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness in an amount not to exceed \$478,440,136 to finance water capital projects; (2) authorizing the issuance of Water Revenue Refunding Bonds; (3) declaring the Official Intent of the Commission to reimburse itself; and (4) ratifying prior actions.

File 18-0451: Water Revenue Bonds

The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. According to SFPUC’s Comprehensive Annual Financial Report, SFPUC had \$4.6 billion in outstanding Water Revenue Bonds as of June 30, 2017.

Approval of the proposed ordinance (File 18-0468) would:

- Authorize SFPUC to sell \$478,440,136 in Water Revenue Bonds at a maximum interest rate of 12 percent per year. SFPUC could sell the bonds in series at a time and in an amount and manner (competitive or negotiated sale) determined by SFPUC.
- Authorize SFPUC to sell refunding bonds to refund outstanding Water Revenue Bonds without further Board of Supervisors approval. According to the proposed ordinance, SFPUC could only sell the refunding bonds if they achieved at least 3 percent net present value debt service savings. Authorization to sell refunding bonds would expire on June 30, 2020.
- Authorize SFPUC to enter into future agreements with the State Water Resources Control Board to obtain State Revolving Fund Loans in lieu of selling Water Revenue Bonds
- Provide for SFPUC to reimburse prior capital project expenditures with bond proceeds as allowed by federal income tax principles.
- Ratifies actions taken by the SFPUC and other City officials in connection with the issuance of the Water Revenue Bonds.

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

Table 1: Allocation of \$478,440,135 in Water Revenue Bonds

Use	Water Enterprise (File 18-0451)	Hetchy Hetchy Water (File 18-0450)	Total
Capital Project Appropriation	\$329,219,969	89,415,150	418,635,119
Financing Costs (14%)	46,184,858	12,543,668	58,728,526
City Services Auditor (0.2%)	658,440	178,830	837,270
Revenue Bond Oversight Committee (0.05%)	188,126	51,094	239,220
Total	\$376,251,393	\$102,188,742	\$478,440,135

Financing costs of \$58,728,526, equal to 14 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest¹, bond counsel, and other costs.

File 18-0448: Appropriation to Water Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for 2019 to 2028 in January 2018. The 10-Year Capital Plan provides for \$1.7 billion in Water Enterprise projects, of which \$893 million are regional water projects, \$743.6 million are local water projects, and \$90 million is for the Auxiliary Water Supply System supporting fire suppression.

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

The total appropriation to Water Enterprise capital projects in FY 2018-19 and FY 2019-20 is \$483,137,393, as shown in Table 2 below.

Table 2: Capital Appropriation FY 2018-19 and FY 2019-20

	FY 2018-19	FY 2019-20	Two Year Total
Source of Funds			
<u>Appropriation</u>			
Water Revenue Bonds (Table 1)	\$222,651,393	\$153,600,000	\$376,251,393
Water Enterprise Revenue	51,804,000	51,804,000	103,608,000
Capacity Fees ^a	1,767,000	1,511,000	3,278,000
Total Sources	\$276,222,393	\$206,915,000	\$483,137,393
Uses of Funds			
<u>Regional Water</u>			
Regional Water Treatment	\$15,314,000	\$14,533,000	29,847,000
Water Transmission Program	39,965,000	45,055,000	85,020,000
Water Supply and Storage	15,382,000	7,050,000	22,432,000
Watershed and Land Management	1,000,000	1,000,000	2,000,000
Long Term Monitoring & Permit Program	10,076,000	11,521,000	21,597,000
Communication & Monitoring Program	950,000	500,000	1,450,000
Buildings and Grounds Regional	35,586,000	33,545,000	69,131,000
Regional Groundwater	7,000,000		7,000,000
Alameda Creek Projects	8,000,000		8,000,000
Calaveras Dam	18,041,969		18,041,969
Close Out of Water System Improvement Program			
Bay Division	2,000,000		2,000,000
Peninsula	7,000,000		7,000,000
San Joaquin	2,000,000		2,000,000
Sunol Valley	2,000,000		2,000,000
Subtotal Regional Projects	164,314,969	113,204,000	277,518,969
<u>City Water Projects</u>			
Local Water Distribution	56,100,000	56,100,000	112,200,000
Automated Water Meter Program	1,800,000		1,800,000
John Muir Drive Site Rehabilitation	2,441,000		2,441,000
System Monitoring and Control	200,000	209,000	409,000
Local Tanks and Reservoirs	10,100,000	3,000,000	13,100,000
Pump Station Upgrades	932,000	2,250,000	3,182,000
Westside Recycled Water	6,500,000	500,000	7,000,000
City Buildings and Grounds	260,000	200,000	460,000
New Services Connection Program	968,000	1,377,000	2,345,000
Sunol Pipeline	2,700,000	700,000	3,400,000
Lombard Geotechnical	75,000	175,000	250,000
Subtotal City Projects	82,076,000	64,511,000	146,587,000
Sunset Potable Auxiliary Water Supply System	2,000,000	10,000,000	12,000,000
Subtotal Capital Projects	248,390,969	187,715,000	436,105,969
Financing Cost	27,831,424	19,200,000	47,031,424
Total Uses	\$276,222,393	\$206,915,000	\$483,137,393

\$222,651,393 of the FY 2018-19 appropriation and \$153,600,000 of the FY 2018-19 appropriation are placed on Controller's Reserve pending receipt of the Water Revenue Bond proceeds.

Descriptions of the proposed projects are included in the attachment.

FISCAL IMPACT

SFPUC Debt Service Coverage Policy and Financial Plan

According to the SFPUC's CAFR, as of June 30, 2017 the SFPUC's Water Enterprise had \$4.7 billion in outstanding debt, including \$4.6 billion in Water Revenue Bonds and \$109.7 million in Certificates of Participation. The Water Enterprise's annual debt payments in FY 2017-18 through FY 2019-20 are \$256 million, increasing to \$284 million in FY 2018-19 and \$306 million in FY 2019-20.

According to SFPUC's bond covenants with bondholders and debt service coverage policy, the ratio of net revenues to annual debt service must meet the following minimum coverage:

- Indenture coverage²: net revenues equal to a minimum of 1.35 times annual debt service
- Current coverage³: net revenues equal to a minimum of 1.10 times annual debt service

According to the SFPUC's 10-Year Financial Plan for FY 2018-19 to FY 2027-28, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements.

Water Rate Increases in FY 2018-19 and FY 2019-20

The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2017-18 is \$106, of which \$48 is water and \$58 is sewer. According to the FY 2018-19 to FY 2027-28 Financial Plan, adopted by Commission on February 13, 2018, the SFPUC planned a 9 percent increase in water rates in FY 2018-19 and 8 percent increase in water rates in FY 2019-20 to cover the Water Enterprise's operating and capital costs. The SFPUC 10 Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2018-19, from \$48 in FY 2017-18 to \$52 in FY 2018-19; and by \$5 in FY 2019-20, from \$52 in FY 2018-19 to \$57 in FY 2019-20.

On April 10, 2018, the SFPUC adopted water rate increases that were consistent with the planned rate increases included in the adopted 10 Year Financial Plan. In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

² Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service; indenture = 1.25x; SFPUC policy is 1.35x

³ Current coverage is the ratio of Net Revenues to Annual Debt Service; indenture = 1.00x; SFPUC policy is 1.25x

POLICY CONSIDERATION

San Francisco voters approved Proposition A in 2002, authorizing \$21,628,000,000 in Water Revenue Bonds. To date, \$1,348,335,000 of the Proposition A bonds have been sold with \$279,665,000 in authorized and unsold bonds.

San Francisco voters also approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approve by ordinance of two-thirds of the Board of Supervisors. Proposition E did not set a maximum amount of the Water Revenue Bonds that could be authorized. As of June 30, 2017, the Board of Supervisors authorized \$3,756,000,000 in Water Revenue Bonds. To date, \$2,938,466,847 of the Proposition E bonds have been sold with \$817,533,154 in authorized and unsold bonds.⁴ According to the SFPUC, the \$817,533,153 in authorized and unsold bonds will be used to finance the remainder of the Calaveras Dam project and other remaining projects in the Water System Improvement Program.

The SFPUC currently has more than \$1.0 billion in previously authorized and unsold Water Revenue Bonds. The proposed ordinance (File 18-0451) authorizes an additional \$478.4 million in Water Revenue Bonds, as well as entering into future agreements with the State Water Resources Control Board for funds to be used in lieu of the bonds. The SFPUC's policy is to request authorization for bonds and other form of debt to fund new capital appropriations. Because water capital projects occur over a long period of time, projects and project financing change, which may result in previously authorized bonds no longer being needed. In order for the Board of Supervisors to have full information on the total amount of authorized bonds that have been sold, have not been sold but are needed to complete the projects for which the bonds were authorized, or have not been sold but are no longer needed due to other financing sources or changes in the projects, the SFPUC should provide a written report to the Board of Supervisors with the two-year budget on the status of the bonds, beginning in May 2020.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 18-0451) to request the SFPUC General Manager to provide a written report to the Board of Supervisors as part of the two year budget review detailing the total amount of Water Revenue Bonds authorized under Proposition E, the total amount sold, the total amount authorized and unsold, and the amount of authorized bonds that are no longer needed due to changes in projects and project financing, beginning in May 2020.
2. Approve File 18-0451 as amended, and File 18-0448.

⁴ According to the SFPUC's Comprehensive Annual Financial Report, the Water Enterprise had \$145,000 in outstanding commercial paper (short term interim debt) as of June 30, 2017 that will be repaid by future Water Revenue Bond proceeds.

Project	Description
Local Water Conveyance	<ul style="list-style-type: none"> The long term program funds management of all linear assets in the local water distribution system between transmission or storage and customer connection. Funding is approved for 15 miles per year pipe line replaced or upgraded.
Water Transmission	<ul style="list-style-type: none"> Upgrades to the Transmission System including pipeline improvements and replacements, valve replacements, metering upgrades, cathodic protection, pump station upgrades and vault upgrades.
Calaveras Dam	<ul style="list-style-type: none"> Replacement of original dam; project budget increased by more than 200% from the baseline budget of \$265.2 million in 2004 to the total projected budget of \$810 million due to unanticipated subsurface conditions. Construction is now 76% complete.
Westside and Local Recycled Water	<ul style="list-style-type: none"> Funding request due to additional pipeline costs, engineering and environmental review for recommendation of a new alternative site.
Alameda Creek Projects	<ul style="list-style-type: none"> Diversion of water from Alameda Creek to Calaveras Reservoir and restoration of watershed
Regional Building and Grounds	<ul style="list-style-type: none"> Project replaces existing facilities with LEED facilities, adds storage and reconfigures the yard. Upgrades and functional restoration at Millbrae Headquarters including administrative offices, shops and laboratory facilities.
Supply and Storage	<ul style="list-style-type: none"> Upgrades to structures to meet State Division of Safety of Dams requirements. Includes Potable Reuse project to identify opportunities for direct and indirect potable water reuse and the Daly City Recycled Water Expansion Project providing 3.4 mgd recycled water to customers of the Regional Water System.
Long Term Monitoring	<ul style="list-style-type: none"> Meeting monitoring and permitting requirements of the water supply system and watershed
Regional Water Treatment	<ul style="list-style-type: none"> Major upgrades to Sunol Valley and Harry Tracy Water Treatment Plants to achieve higher level of performance and reliability.
Sunol Pipeline	<ul style="list-style-type: none"> Repairs and improvements to pipelines along fault crossings in Sunol Valley
John Muir Drive	<ul style="list-style-type: none"> EIR and other costs for recreational site development
New Service Connections	<ul style="list-style-type: none"> Added capacity for City growth and streamlined processes for new customers.
Pump Station Upgrades	<ul style="list-style-type: none"> Provides long term funding for renewal and rehabilitation of major water pump stations and hydroneumatic tanks that boost pressure within the San Francisco distribution system.
Watershed and Land Management	<ul style="list-style-type: none"> Program supports projects that improve and/or protect the water quality and/or ecological resources affected by the operation of the SFPUC. Project includes the repair, replacement, maintenance, and construction of road, fences, trails, and other ecosystem restoration.

Project	Description
Automated Water Meter Program	<ul style="list-style-type: none"> Funding complete final phase of installation of automated water meter.
Lombard Geotechnical	<ul style="list-style-type: none"> Design and construction of geotechnical improvements to the north slope of Lombard Street
Communications and Monitoring	<ul style="list-style-type: none"> Program includes a microwave project to provided critical redundant communication and funding for security improvements.
Building and Grounds	<ul style="list-style-type: none"> Funding for capital improvements at CDD facilities and structures. Projects include yard improvements to increase efficiency and reliability, a fueling station and CDD Control Center to house all systems in a single seismically reliable building.
Regional Groundwater Storage	<ul style="list-style-type: none"> Project replaces existing facilities with LEED facilities, adds storage and reconfigures the yard. Upgrades and functional restoration at Millbrae Headquarters including administrative offices, shops and laboratory facilities.
Systems Monitoring and Control	<ul style="list-style-type: none"> Improvements to facilities for controlling and monitoring San Francisco's water distribution system. Enhancements to SCADA system for remote monitoring of pressure, flow, and valve position, fiber optic and security system upgrades to improve safety and reliability.

OFFICE OF THE MAYOR
SAN FRANCISCO



MARK E. FARRELL
MAYOR

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2018 MAY -1 PM 12:05
BY [Signature]

May 1, 2018

Angela Calvillo, Clerk of the Board of Supervisors
City Hall, 1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Ms. Calvillo:

Attached is the Mayor's proposed May 1 Budget comprised of the following 13 departments: Airport Commission, Board of Appeals, Child Support Services, Environment, Law Library, the Public Library, Municipal Transportation Agency, Port, Public Utilities Commission, Rent Board, Retirement System, and Office of County Education. Also attached are an Interim Exception letter, a budget memo for the Municipal Transportation Agency (MTA) from the Controller, and the following ten pieces of legislation:

- Three supplemental appropriation ordinances for the Two-Year Capital Budgets of each of the Public Utilities Commission (PUC) Enterprises – Water, Wastewater, and Hetch Hetchy
- Three resolutions approving the issuance and sale of Power, Water, and Wastewater revenue bonds by the PUC
- One Accept and Expend Grant from the Friends of San Francisco Public Library (LIB)
- One Resolution transferring unclaimed, overpaid parking tickets to the General Fund (MTA)
- One Resolution authorizing the MTA to issue Commercial Paper Notes with the concurrence of the Board of Supervisors (MTA)
- One Proposition J Contract/Certification resolution of Specified Contracted-Out Services Previously Approved for Enterprise Departments (MTA, PUC, Airport, and Port)

If you have any questions please feel free to contact me at 554-6125.

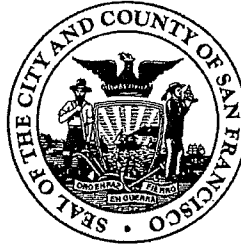
Sincerely,

A handwritten signature in black ink, appearing to read "Kelly Kirkpatrick".

Kelly Kirkpatrick
Acting Mayor's Budget Director

cc: Members of the Board of Supervisors
Harvey Rose
Controller

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
President, District 5
BOARD OF SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-7630
Fax No. 554-7634
TDD/TTY No. 544-5227

BY _____

London Breed

PRESIDENTIAL ACTION

Date: 5/17/18

To: Angela Calvillo, Clerk of the Board of Supervisors

Madam Clerk,
Pursuant to Board Rules, I am hereby:

Waiving 30-Day Rule (Board Rule No. 3.23)

File No. 180451 Mayor
(Primary Sponsor)

Title. Water Revenue Bond and Other Forms of Indebtedness Issuance - San Francisco Public Utilities Commission - Not to Exceed \$478,440,136

Transferring (Board Rule No 3.3)

File No. _____
(Primary Sponsor)

Title. _____

From: _____ Committee

To: _____ Committee

Assigning Temporary Committee Appointment (Board Rule No. 3.1)

Supervisor _____

Replacing Supervisor _____

For: _____ Meeting
(Date) (Committee)


London Breed, President
Board of Supervisors

180457

OFFICE OF THE MAYOR
SAN FRANCISCO



MARK FARRELL
MAYOR

TO:  Angela Calvillo, Clerk of the Board of Supervisors
FROM: Mayor Farrell
RE: San Francisco Public Utilities Commission Water Revenue Bond and
Other Forms of Indebtedness Issuance ----Not to Exceed \$478,440,136
DATE: May 1, 2018

Attached for introduction to the Board of Supervisors is an ordinance authorizing the issuance and sale of tax-exempt or taxable Water 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 \$478,440,136 to finance the costs of various capital water projects benefitting the Water Enterprise pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002 as Proposition E; authorizing the issuance of Water Revenue Refunding Bonds; declaring the Official Intent of the Commission to reimburse itself with one or more issues of tax-exempt bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith.

Should you have any questions, please contact Andres Power (415) 554-5168.

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BOARD OF SUPERVISORS
SAN FRANCISCO
2018 MAY - 1 PM 12:07
BY _____

1 DR. CARLTON B. GOODLETT PLACE, ROOM 200
SAN FRANCISCO, CALIFORNIA 94102-4681
TELEPHONE: (415) 554-6141

