

File No. 16047a

Committee Item No. 19

Board Item No. 10

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date May 25, 2016

Board of Supervisors Meeting

Date JUNE 14, 2016

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Resolution                                   |
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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Youth Commission Report                      |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
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Completed by: Linda Wong Date May 20, 2016

Completed by: Linda Wong Date May 31, 2016

1 [Public Utilities Commission - Issuance Water Revenue Bonds - Not to Exceed \$264,997,468]

2

3 **Ordinance authorizing the issuance and sale of tax-exempt or taxable Water Revenue**

4 **Bonds and other forms of indebtedness by the San Francisco Public Utilities**

5 **Commission (Commission) in an aggregate principal amount not to exceed**

6 **\$264,997,468 to finance the costs of various capital water projects benefitting the Water**

7 **Enterprise pursuant to amendments to the Charter of the City and County of San**

8 **Francisco enacted by the voters on November 5, 2002, as Proposition E; authorizing**

9 **the issuance of Water Revenue Refunding Bonds; declaring the Official Intent of the**

10 **Commission to Reimburse Itself with one or more issues of tax-exempt or taxable**

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 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 Indenture dated as of  
6 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 16-0035 adopted by the Commission on February 9, 2016 (the  
11 "Commission Resolution") the Commission has determined to issue Water Revenue Bonds  
12 (the "Water Revenue Bonds") and other forms of indebtedness (including SRF Loans as  
13 described below) to finance the costs of various capital projects benefitting the Water  
14 Enterprise (the "Capital Improvement Projects" such projects being more fully described in the  
15 Commission Resolution), pursuant to Proposition E, and has formally requested this Board to  
16 authorize the issuance and sale of Water Revenue Bonds for such purposes, such  
17 Commission Resolution being on file with the Clerk of the Board of Supervisors in File No.  
18 160472, which is hereby declared to be a part of this Ordinance as if set forth fully herein; and

19 D. In order to finance the costs of the Capital Improvement Projects, the Board now  
20 desires to authorize the issuance and sale of Water Revenue Bonds and other forms of  
21 indebtedness, including obtaining State Revolving Fund Loans and/or grants from the State  
22 Water Resources Control Board (collectively "SRF Loans") for such purposes; and

23 E. The Commission has paid, beginning no earlier than 60 days prior to the  
24 adoption of this Ordinance and will pay, on and after the date hereof, certain expenditures (the  
25

1 "Expenditures") in connection with the acquisition, construction and/or equipping of the Capital  
2 Improvement Projects, and

3 F. This Board is concurrently considering with this Ordinance a Capital  
4 Improvement Program related supplemental appropriations Ordinance totaling \$316,468,468  
5 for fiscal years ending 2017 and 2018, such amount being inclusive of the Water Revenue  
6 Bonds and other forms of indebtedness (including SRF Loans).

7 G. This Board, on behalf of the Commission, adopts this Ordinance as official  
8 action of the Commission in order to comply with Treasury Regulation §1.150-2 and any other  
9 regulations of the Internal Revenue Service relating to the qualification for reimbursement of  
10 Commission expenditures incurred prior to the date of issue of the Water Revenue Bonds,  
11 and

12 Section 2. Authorization to Issue Water Revenue Bonds and other forms of  
13 indebtedness. The Board hereby authorizes the issuance and sale of Water Revenue Bonds  
14 in one or more series from time to time by the Commission pursuant to Proposition E and in  
15 accordance with the Commission Resolution, and the execution and delivery of SRF Loan  
16 agreements, in an aggregate principal amount not to exceed \$264,997,468 (inclusive of  
17 financing costs), at a maximum rate or rates of interest of not to exceed twelve percent (12%)  
18 per annum to finance a portion of the costs of the design, acquisition and construction of the  
19 Capital Improvement Projects. Without limiting the foregoing, the Commission shall also be  
20 authorized to enter into agreements to obtain State Revolving Fund Loans and/or grants  
21 (collectively "SRF Loans") from the State Water Resources Control Board on such terms as  
22 the Commission may deem advantageous. The Commission is hereby authorized to  
23 determine the timing, amount and manner of sale (i.e., competitive or negotiated) of each  
24 series of Water Revenue Bonds or the delivery of other forms of indebtedness (including SRF  
25 Loans) pursuant to this authorization; provided however, the Commission's authorization to

1 issue Water Revenue Bonds or incur other forms of indebtedness (including SRF Loans) is  
2 subject to approval by the Commission of the form of substantially final offering document  
3 related to such bonds (if any) and the approval of any related agreements, financing  
4 documents and the filing with its Board and the Clerk of the Board any certifications required  
5 by Proposition E prior to the issuance of any bonds herein authorized. The Commission shall  
6 also file, within 30 days of any bond sale authorized hereby, with the Clerk of the Board of Supervisors  
7 a report showing the results of the sale of bonds or other form of indebtedness including (i) principal  
8 amount sold and method of sale, (ii) true interest cost, (iii) final maturity, (iv) the facilities constructed  
9 and/or improved, and (v) a statement about the remaining bonding authorization under this Ordinance  
10 (the "Report").

11 Section 3. Authorization to Issue Water Revenue Refunding Bonds. The Board  
12 further authorizes and approves the issuance by the Commission of Water Revenue  
13 Refunding Bonds and other forms of indebtedness (including SRF Loans) (the "Refunding  
14 Bonds"), without limitation as to principal amount, in one or more series on one or more dates,  
15 at a maximum interest rate or rates of interest not to exceed twelve percent (12%) per annum,  
16 provided that each such Refunding Bond issue or obligation is permitted under the applicable  
17 policies and procedures of the City and authorized by either Section 9.109 of the Charter or  
18 Proposition E of 2002 (including related ordinances and resolutions of the Board). The  
19 Refunding Bonds may be issued as tax-exempt or taxable bonds, or any combination thereof.  
20 Refunding Water Revenue Bonds authorized hereunder shall be subject to the further  
21 following conditions, that: (i) three percent (3%) net present value debt service savings or  
22 greater is achieved to ensure ratepayer savings; (ii) this authorization is subject to a 2-year  
23 term through June 30, 2018, at which time this Board may consider an extension; principal  
24 payments and term may be adjusted, where permitted under federal and state tax law, only if  
25 and when the underlying capital asset funded through said refunded bonds has a useful life

1 not in excess of any limit permitted under federal and state tax law than the refunded term;  
2 and (iii) the Commission shall within 30 days of any executed refunding transaction provide a  
3 savings report prepared by its financial advisors (that reflects at least a three percent (3%) net  
4 present value debt service savings) to the Board, together with a copy of the final Official  
5 Statement with respect to such series of Refunding Bonds.

6 Section 4. Declaration of Official Intent. The Board, on behalf of the Commission,  
7 hereby declares the official intent of the Commission to reimburse the Commission with  
8 proceeds of the Water Revenue Bonds or other forms of indebtedness (including SRF Loans)  
9 for the Expenditures with respect to the Capital Improvement Projects made on and after a  
10 date that is no more than 60 days prior to the adoption of this Ordinance. The Commission  
11 reasonably expects on the date hereof that it will reimburse the Expenditures with proceeds of  
12 the Water Revenue Bonds or other forms of indebtedness (including SRF Loans). Each said  
13 Expenditure was and will be either (A) of a type properly chargeable to a capital account  
14 under general federal income tax principles (determined in each case as of the date of the  
15 Expenditure), (B) a cost of issuance with respect to the Water Revenue Bonds or other forms  
16 of indebtedness (including SRF Loans), (C) a nonrecurring item that is not customarily  
17 payable from current revenues, or (D) a grant to pay a party that is not related to or an agent  
18 of the issuer so long as such grant does not impose any obligation or condition (directly or  
19 indirectly) to repay any amount to or for the benefit of the Commission. The maximum  
20 principal amount of the Water Revenue Bonds or other forms of indebtedness (including SRF  
21 Loans) to be issued for the Capital Improvement Projects is \$264,997,468 (inclusive of  
22 financing costs).

23 The Commission will make a reimbursement allocation, which is a written allocation by  
24 the Issuer that evidences the Commission's use of proceeds of the Water Revenue Bonds or  
25 other forms of indebtedness (including SRF Loans) to reimburse an Expenditure, no later than

1 18 months after the later of the date on which the Expenditure is paid or the component of the  
2 Capital Improvement Projects is placed in service or abandoned, but in no event more than  
3 three years after the date on which the Expenditure is paid. The Commission recognizes that  
4 exceptions are available for certain "preliminary expenditures," costs of issuance, certain de  
5 minimis amounts, expenditures by "small issuers" (based on the year of issuance and not the  
6 year of expenditure) and expenditures for construction projects of at least 5 years.

7 Section 5. General Authority. The Controller, Treasurer, the City Attorney and other  
8 officers of the City and their duly authorized deputies and agents are hereby authorized and  
9 directed, jointly and severally, to take such actions and to execute and deliver such  
10 certificates, agreements, requests or other documents, as they may deem necessary or  
11 desirable to facilitate the issuance, sale and delivery of the Water Revenue Bonds, Refunding  
12 Bonds, to obtain bond insurance or other credit enhancements with respect to such  
13 obligations, to obtain surety, to obtain title and other insurance with respect to the facilities to  
14 be financed, and otherwise to carry out the provisions of this Ordinance. The Commission is  
15 hereby directed to provide the final form to the Clerk of the Board of any disclosure document  
16 prepared in connection with the execution of any Water Revenue Bonds or Refunding Bonds,  
17 and the final executed Installment Sale Agreement or other document reflecting the  
18 incurrence of an SRF Loan, within 30 days of the closing of such transactions.

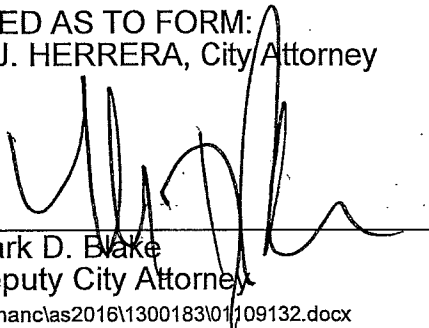
19 Section 6. Ratification of Prior Actions. All actions authorized and directed by this  
20 Ordinance in connection with the issuance of the Water Revenue Bonds or other forms of  
21 indebtedness (including SRF Loans), Refunding Bonds, and heretofore taken are hereby  
22 ratified, approved and confirmed by this Board.

23 Section 7. File Documents. All documents referred to as on file with the Clerk of the  
24 Board are in File No. 160472.

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:

8   
9 Mark D. Blake  
10 Deputy City Attorney

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**LEGISLATIVE DIGEST**

[Public Utilities Commission - Issuance Wastewater Revenue Bonds - Not to Exceed \$264,997,468]

**Ordinance authorizing the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness by the San Francisco Public Utilities Commission (Commission) in an aggregate principal amount not to exceed \$264,997,468 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 or taxable 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 \$264,997,468 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 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

FILE NO. 160472

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 authority to issue Refunding Bonds ends June 30, 2018.

<b>Items 18 and 19</b> <b>Files 16-0468 and 16-0472</b>	<b>Department:</b> Public Utilities Commission
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<p>File 16-0468 (a) appropriates \$272,233,620 in Water Capital Projects in FY 2016-17 and FY 2017-18, (b) re-appropriates \$56,750,500 in previously appropriated Water Revenue Bonds to Water Capital Projects in FY 2016-17, and (c) re-appropriates \$27,000,000 to Water Capital Projects in FY 2017-18, totaling \$355,984,120.</p>	
<p>File 16-0472 authorizes SFPUC to issue and sell tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness in an amount not to exceed \$264,997,468.</p>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• 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. The Board of Supervisors has previously authorized the SFPUC to sell up to \$3.5 billion in Water Revenue Bonds under Proposition.</li> <li>• The Water Enterprise 10-Year Capital Plan provides for \$1.4 billion in Water Enterprise capital projects through FY 2025-26, of which \$633 million are regional water projects, \$658 million are local water projects, and \$110 million is for the Auxiliary Water Supply System supporting fire suppression.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• Water rates set by SFPUC fund the Water Enterprise's operations, maintenance and capital investment activities. The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 is \$86, of which \$40 is water and \$46 is sewer. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC plans a 10 percent increase in water rates in FY 2016-17 and 7 percent increase in water rates in FY 2017-18 to cover the Water Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2016-17, from \$40 in FY 2015-16 to \$44 in FY 2016-17; and by \$3 in FY 2017-18, from \$44 in FY 2016-17 to \$47 in FY 2017-18.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>• The SFPUC's policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds. However, the proposed ordinance approves the sale of the bonds without further Board of Supervisors approval.</li> </ul>	
<b>Recommendations</b>	
<ul style="list-style-type: none"> <li>• Amend File 16-0472 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.</li> <li>• Approve File 16-0472 as amended and File 16-0468.</li> </ul>	

## 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 Public Utilities Commission (PUC) 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 PUC 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 16-0472** is an ordinance authorizing SFPUC to issue and sell tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness (such as commercial paper<sup>1</sup> or State Revolving Fund loans) in an aggregate principal amount not to exceed \$264,997,468.

**File 16-0468** is an ordinance (a) appropriating \$272,233,620 in Water Capital Projects in FY 2016-17 and FY 2017-18, (b) re-appropriating \$56,750,500 in previously appropriated Water Revenue Bonds to Water Capital Projects in FY 2016-17, and (c) re-appropriating \$27,000,000 to Water Capital Projects in FY 2017-18, totaling \$355,984,120.

<sup>1</sup> Commercial paper is short-term interim debt financing that SFPUC may issue prior to issuing revenue bonds. The Board of Supervisors previously authorized the Wastewater Enterprise's Commercial Paper Program of \$300 million (File 12-0354)

File 16-0472: Water Revenue Bonds

The San Francisco voters approved Proposition A in 2002, authorizing \$1,628,000,000 in Water Revenue Bonds to fund the Water System Improvement Program (WSIP). The San Francisco voters also 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. The Board of Supervisors has previously authorized the SFPUC to sell up to \$3.5 billion in Water Revenue Bonds under Proposition E.

Approval of the proposed ordinance (File 16-0472) would:

- Authorize SFPUC to sell \$264,997,468 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, 2018.
- 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.

File 16-0468 Appropriation to Water Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2016-17 through FY 2025-26 in January 2016. The 10-Year Capital Plan provides for \$1.4 billion in Water Enterprise projects, of which \$633 million are regional water projects, \$658 million are local water projects, and \$110 million is for the Auxiliary Water Supply System supporting fire suppression.

The total appropriation to Water Enterprise capital projects in FY 2016-17 and FY 2017-18 is \$355,984,120, as shown in Table 1 below.

**Table 2: Capital Appropriation FY 2016-17 and FY 2017-18**

	FY 2016-17	FY 2017-18	Total
<b>Source of Funds</b>			
<u>Appropriation</u>			
2017A Bond Proceeds <sup>a</sup>	\$127,269,090	\$93,493,530	\$220,762,620
Local Capital Projects	6,419,350	9,740,500	16,159,850
Wholesale Capital Projects	11,921,650	18,089,500	30,011,150
Capacity Fees <sup>a</sup>	4,300,000	1,000,000	5,300,000
<b>Subtotal Appropriation</b>	<b>149,910,090</b>	<b>122,323,530</b>	<b>272,233,620</b>
<u>De-appropriation</u>			
Prior Bond Proceeds	56,750,500	27,000,000	83,750,500
<b>Total Sources</b>	<b>\$206,660,590</b>	<b>\$149,323,530</b>	<b>\$355,984,120</b>
<b>Uses of Funds</b>			
Local Water Conveyance	\$54,500,000	\$56,100,000	\$110,600,000
Water Transmission	18,131,000	21,635,000	39,766,000
Calaveras Dam	15,000,000	20,000,000	35,000,000
Westside and Local Recycled Water	24,306,000	7,000,000	31,306,000
Alameda Creek Projects	15,000,000	7,000,000	22,000,000
Regional Building and Grounds	8,522,000	6,221,000	14,743,000
Supply and Storage	7,563,000	6,908,000	14,471,000
Long Term Monitoring	12,002,500		12,002,500
Regional Water Treatment	6,122,000	3,891,000	10,013,000
Bioregional Habitat Restoration	6,000,000		6,000,000
New Irvington Tunnel	5,000,000		5,000,000
Local Groundwater Supply	4,995,000	0	4,995,000
Pump Station Upgrades	2,500,000	1,500,000	4,000,000
Watershed and Land Management	1,990,000	1,990,000	3,980,000
Automated Water Meter Program	1,000,000	1,000,000	2,000,000
Seismic Upgrade of Bay Division Pipeline	2,000,000		2,000,000
Communications and Monitoring	939,000	994,000	1,933,000
Building and Grounds	750,000	1,000,000	1,750,000
Regional Groundwater Storage	1,748,000		1,748,000
Systems Monitoring and Control	100,000	500,000	600,000
Bond Financing and Monitoring	18,492,090	13,584,530	32,076,620
<b>Total Uses</b>	<b>\$206,660,590</b>	<b>\$149,323,530</b>	<b>\$355,984,120</b>

<sup>a</sup> Placed on Controller's Reserve

\$131,569,090 of the FY 2016-17 appropriation and \$94,493,530 of the FY 2017-18 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

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. The

Public Utilities Commission adopted the FY 2016-17 to FY 2025-26 Capital Plan and Financial Plan at the February 9, 2016 Commission meeting.

### **Water Rate Increases in FY 2016-17 and FY 2017-18**

The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 is \$86, of which \$40 is water and \$46 is sewer. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC plans a 10 percent increase in water rates in FY 2016-17 and 7 percent increase in water rates in FY 2017-18 to cover the Water Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2016-17, from \$40 in FY 2015-16 to \$44 in FY 2016-17; and by \$3 in FY 2017-18, from \$44 in FY 2016-17 to \$47 in FY 2017-18.

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.

### **POLICY CONSIDERATION**

According to the SFPUC's Chief Financial Officer, the SFPUC's policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds and associated financing documents. Therefore, SFPUC will submit future legislation to the Board of Supervisors to approve the sale of up to \$264,997,468 in Water Revenue Bonds.<sup>2</sup>

However, according to the proposed ordinance (File 16-0472), the "Board hereby authorizes the issuance and sale of Water Revenue Bonds in one or more series from time to time by the Commission pursuant to Proposition E...in an aggregate principal amount not to exceed \$264,997,468..." While the proposed ordinance requires Public Utilities Commission approval of the final offering document related to the sale of bonds and other related agreements and financing documents, the proposed ordinance does not require Board of Supervisors approval. The proposed ordinance only requires that these documents "be filed with the Clerk of the Board". Therefore, the File 16-0472 should be amended to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.

### **RECOMMENDATIONS**

1. Amend File 16-0472 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.
2. Approve File 16-0472 as amended and File 16-0468.

<sup>2</sup> The SFPUC will not submit legislation to the Board of Supervisors to approve refunding bonds that comply with the provisions of the proposed ordinance (File 16-0473), which are discussed above.

## Attachment

Project	Description
Local Water Conveyance	<ul style="list-style-type: none"> <li>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.</li> </ul>
Water Transmission	<ul style="list-style-type: none"> <li>Upgrades to the Transmission System including pipeline improvements and replacements, valve replacements, metering upgrades, cathodic protection, pump station upgrades and vault upgrades.</li> </ul>
Calaveras Dam	<ul style="list-style-type: none"> <li>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.</li> </ul>
Westside and Local Recycled Water	<ul style="list-style-type: none"> <li>Funding request due to additional pipeline costs, engineering and environmental review for recommendation of a new alternative site.</li> </ul>
Alameda Creek Projects	<ul style="list-style-type: none"> <li>Diversion of water from Alameda Creek to Calaveras Reservoir and restoration of watershed</li> </ul>
Regional Building and Grounds	<ul style="list-style-type: none"> <li>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.</li> </ul>
Supply and Storage	<ul style="list-style-type: none"> <li>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.</li> </ul>
Long Term Monitoring	<ul style="list-style-type: none"> <li>Meeting monitoring and permitting requirements of the water supply system and watershed</li> </ul>
Regional Water Treatment	<ul style="list-style-type: none"> <li>Major upgrades to Sunol Valley and Harry Tracy Water Treatment Plants to achieve higher level of performance and reliability.</li> </ul>
Bioregional Habitat Restoration	<ul style="list-style-type: none"> <li>Mitigation of habitat impact</li> </ul>
New Irvington Tunnel	<ul style="list-style-type: none"> <li>New seismically safe tunnel adding redundancy to water system. Construction was substantially complete in 2015. Remaining work is contractor's puc list, site restoration and final in-service training.</li> </ul>
Local Groundwater Supply	<ul style="list-style-type: none"> <li>Additional funding for continuation of project duration due to updated schedule forecast and associated changes in estimated costs.</li> </ul>
Pump Station Upgrades	<ul style="list-style-type: none"> <li>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.</li> </ul>
Watershed and Land Management	<ul style="list-style-type: none"> <li>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.</li> </ul>



Attachment

Project	Description
Automated Water Meter Program	<ul style="list-style-type: none"> <li>Funding complete final phase of installation of automated water meter.</li> </ul>
Seismic Upgrade of Bay Division Pipeline	<ul style="list-style-type: none"> <li>Lining repair</li> </ul>
Communications and Monitoring	<ul style="list-style-type: none"> <li>Program includes a microwave project to provided critical redundant communication and funding for security improvements.</li> </ul>
Building and Grounds	<ul style="list-style-type: none"> <li>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.</li> </ul>
Regional Groundwater Storage	<ul style="list-style-type: none"> <li>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.</li> </ul>
Systems Monitoring and Control	<ul style="list-style-type: none"> <li>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.</li> </ul>

OFFICE OF THE MAYOR  
SAN FRANCISCO



EDWIN M. LEE  
MAYOR

May 2, 2016

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 the following 11 pieces of legislation:

- One supplemental appropriation ordinance for the Two-Year Capital Budgets for the Municipal Transportation Authority (MTA)
- One resolution approving the issuance and sale of revenue bonds by the MTA
- One supplemental appropriation ordinance for Mission Bay Improvement Fund for Warrior Arena Improvement Capital Projects for the MTA
- One supplemental appropriation ordinance for surplus revenue and reappropriation for debt service payment for the Public Library
- 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 Proposition J Contract/Certification resolution of Specified Contracted-Out Services Previously Approved for Enterprise Departments (MTA, PUC, Airport, and Port)

Additionally, there are two letters attached; one memo from the Controller related to the MTA budget and a release of reserve request for the PUC. We request that all items be scheduled for the May 18, 2016 Budget and Finance meeting.

If you have any questions please feel free to contact me at 554-6253.

Sincerely,

A handwritten signature in black ink, appearing to read "Melissa Whitehouse".

Melissa Whitehouse  
Mayor's Budget Director, Acting

cc: Members of the Board of Supervisors  
Harvey Rose  
Controller

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City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

## MEMORANDUM

TO: Derek Evans, Clerk, Public Utilities Revenue Bond Oversight Committee

FROM: Linda Wong, Assistant Clerk, Budget and Finance Committee *LW*

DATE: May 13, 2016

SUBJECT: LEGISLATION INTRODUCED

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The Board of Supervisors' Budget and Finance Committee has received the following proposed legislation, introduced by Mayor Lee:

**File No. 160472**

**Ordinance authorizing the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness by the San Francisco Public Utilities Commission (Commission) in an aggregate principal amount not to exceed \$264,997,468 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 or taxable bonds or other forms of indebtedness; and ratifying previous actions taken in connection therewith, as defined herein.**

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

