

File No. 100338

Committee Item No. 13

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Sub-Committee BUDGET AND FINANCE

Date: April 14, 2010

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
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| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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Completed by: Andrea S. Ausberry

Date Friday, April 09, 2010

Completed by: _____

Date _____

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

FILE NO. 100338

ORDINANCE NO. _____

RO#10030

SA#30

1 [Appropriating \$33,735,421 ~~30,483,021~~ of proceeds from debt and fee revenues for water
 2 capital improvements at the Public Utilities Commission for FY~~2009-2010~~ 2010-2011 and
 3 FY2011-2012.]

4
 5 Ordinance appropriating \$33,735,421 ~~30,483,021~~ of proceeds from debt and fee
 6 revenues for the San Francisco Public Utilities Commission (SFPUC) Water
 7 Enterprise's Capital Improvement Program for FY~~2009-2010~~ 2010-2011 and FY2011-
 8 2012 and placing \$29,642,138 by project on Controller's reserve subject to SFPUC's
 9 and Board of Supervisors' discretionary approval following completion of project-
 10 related analysis pursuant to the California Environmental Quality Act (CEQA), where
 11 required, and receipt of proceeds of indebtedness and fee revenues.

12 Note: Additions are single-underline italics Arial;
 13 Deletions are ~~strikethrough italics Arial~~.
 14 Board amendment additions are double underlined.
 15 Board amendment deletions are ~~strikethrough-normal~~.

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

17
 18 Section 1. The sources of funding outlined below are herein appropriated to reflect the
 19 funding available for Fiscal Year ~~2009-2010~~ 2010-2011 and Fiscal Year 2011-2012.

1 **SOURCES Appropriation**

2	Fund	Index Code /	Subobject	Description	Amount
3		Project Code			
4	5W CPF 02E – Public	*WTR5WCPF02E /	80111	Proceeds from Sale	\$28,474,840
5	Utilities Commission-	CUW02E00 – 2002		of Bonds	
6	2002 Proposition E Bond	Proposition E Bond Funds			
7	Fund				
8	<u>5W CPF 02E – Public</u>	<u>*WTR5WCPF02E /</u>	<u>80111</u>	<u>Proceeds from Sale</u>	<u>\$3,252,400</u>
9	<u>Utilities Commission-</u>	<u>CUW02E00 – 2002</u>		<u>of Bonds</u>	
10	<u>2002 Proposition E Bond</u>	<u>Proposition E Bond Funds</u>			
11	<u>Fund</u>				
12	5W CPF CAP - Public	*WTR5WCPFCAP /	99999B	Capacity Fees –	\$840,883
13	Utilities Commission –	CUW68301 – Water		Fund Balance	
14	Capital Projects Capacity	Capacity Fee Program			
15	Fee Program				
16	5W CPF CAP - Public	*WTR5WCPFCAP /	79993	Capacity Fees –	\$1,167,298
17	Utilities Commission –	CUW68301 – Water		Projected	
18	Capital Projects Capacity	Capacity Fee Program			
19	Fee Program				
20	Total SOURCES Appropriation				<u>\$33,735,421</u>
21					<u>30,483,021</u>

22
 23 Section 2. The uses of funding outlined below are herein appropriated in Subobject 06700
 24 Buildings Structures and Improvements and 081C4 Internal Audits, and reflects the projected
 25

1 uses of funding to support the Water Capital Improvement Program at the San Francisco
 2 Public Utilities Commission for Fiscal Year 2010-2011 and Fiscal Year 2011-2012 ~~2009-2010~~.

3
 4 **USES Appropriation**

5	Fund	Index Code /	Subobject	Description	Amount
6		Project Code			
7	5W CPF CAP - Public	*WTR5WCPFCAP	06700 Buildings,	Local Water	\$2,008,181
8	Utilities Commission -		Structures, and	Conveyance /	
9	Capital Projects Capacity	Project: CUW26000	Improvements	Distribution	
10	Fee Program				
11					
12	5W CPF 02E - Public	*WTR5WCPF02E	06700 Buildings,	Local Water	\$24,203,614
13	Utilities Commission- 2002		Structures, and	Conveyance /	
14	Proposition E Bond Fund	Project: CUW26000	Improvements	Distribution	
15					
16	5W CPF 02E - Public	*WTR5WCPF02E	06700 Buildings,	Non WSIP	\$4,218,802
17	Utilities Commission- 2002		Structures, and	Bond Financing	
18	Proposition E Bond Fund	Project: CUW02E00	Improvements	Costs	
19					
20	5W CPF 02E - Public	*WTR5WCPF02E	081C4 Internal	City Services	\$52,424
21	Utilities Commission- 2002		Audits	Auditor	
22	Proposition E Bond Fund	Project: CUW02E00			
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Fund	Index Code / Project Code	Subobject	Description	Amount
<u>5W CPF 02E – Public</u>	<u>*WTR5WCPF02E</u>	<u>XXXXX</u>	<u>Financing</u>	<u>\$3,252,400</u>
<u>Utilities Commission- 2002</u>		<u>Financing Costs</u>	<u>Costs - AMI</u>	
<u>Proposition E Bond Fund</u>	<u>Project: CUW30x</u>		<u>Project</u>	
Total USES Appropriation				<u>\$30,483,024</u>
				<u>33,735,421</u>

Section 3. \$29,642,138 of the appropriation is hereby placed on Controller's Appropriation Reserve by project. Release of appropriation reserves by the Controller is subject to the prior occurrence of: 1) the SFPUC's and the Board of Supervisors' discretionary adoption of CEQA Findings for projects, following review and consideration of completed project-related environmental analysis, where required, pursuant to CEQA, the State CEQA Guidelines, and Chapter 31 of the San Francisco Administrative Code, and 2) the Controller's certification of funds availability, including proceeds of indebtedness and fee revenues .

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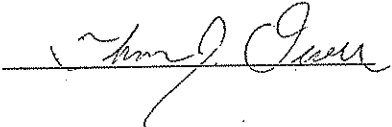
FUNDS AVAILABLE

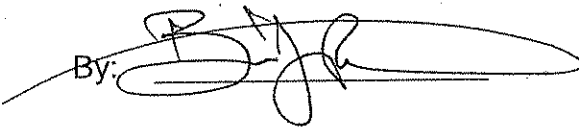
APPROVED AS TO FORM:

BEN ROSENFELD

DENNIS J. HERRERA, City Attorney

Controller

By: 

By: 

Deputy City Attorney

Date: 3/16/2010

Amended Date: 4/8/2010

Item 13
File 10-0338 (continued from April 7, 2010)

Department:
 Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objective

- File 10-0338: Ordinance appropriating \$33,735,421, including (a) \$31,727,240 from the proceeds of Water Revenue Bonds, and (b) \$2,008,181 in Water Capacity Fees (see Footnote 2 on page 3), to fund (a) the PUC's \$30,483,021 Replacement and Retrofit (RnR) Project, and (b) \$3,252,400 in financing costs for the PUC's Advanced Meter Infrastructure (AMI) Project.

Fiscal Impact

- The proposed ordinance would appropriate a total of \$33,735,421 from Water Revenue Bond proceeds, with debt service paid by water customers, and Water Capacity Fees.

Key Points

- On April 7, 2010, the Budget and Finance Committee approved File 10-0341, an ordinance authorizing the Public Utilities Commission (PUC) to issue up to \$1,737,724,038 in Water Revenue Bonds to fund (a) \$1,647,249,198 in Water System Improvement Program costs, (b) \$62,000,000 for the PUC's Advanced Metering Infrastructure (AMI) Project, and (c) \$28,474,840 in Replacement and Retrofit (RnR) Project costs in FY 2010-2011 and FY 2011-2012.
- The Board of Supervisors previously appropriated \$58,747,000 to the AMI Project (File 09-0548). However that appropriation did not include the needed \$3,252,400 in financing costs for the AMI Project.
- The proposed ordinance would appropriate \$33,735,421 in Water Revenue Bond proceeds (\$31,727,240) and Water Capacity Fees (\$2,008,181) to fund (a) \$30,483,021 in FY 2010-2011 and FY 2011-2012 costs of the PUC's Replacement and Retrofit (RnR) Project, an ongoing project to replace the PUC's aging water distribution main pipelines throughout the City, and (b) the \$3,252,400 in financing costs for the PUC's Advanced Metering Infrastructure (AMI) Project which were not included in the previous appropriation for the AMI Project.
- The proposed ordinance was continued by the Budget and Finance Committee as a result of the increase to the proposed appropriation by \$3,252,400 in order to include the needed AMI Project financing costs which have not been previously appropriated.

Recommendation

- Approved the proposed ordinance.

BACKGROUND

Replacement and Retrofit (RnR) Projects (File 10-0338)

The PUC's Replacement and Retrofit (RnR) Project is an ongoing project to either replace or retrofit all existing water distribution main pipelines in the City. According to Mr. Carlos Jacobo, PUC Budget Director, many of the PUC's existing underground¹ water distribution main pipelines are over 100 years old and in need of replacement. The PUC has historically funded the RnR Project through operating funds appropriated in the PUC's annual budget. Under the proposed ordinance, \$28,747,840 in Water Revenue Bond proceeds would be utilized instead of operating funds.

Advanced Meter Infrastructure (AMI) Project (File 10-0341)

The PUC's Advanced Meter Infrastructure (AMI) Project is a \$67,755,135 project to (a) retrofit or replace all 180,000 existing visual-read conventional water meters with advanced digital water meters and (b) create an associated network of transmitters to provide for the wireless transmission of water consumption data from the advanced digital water meters to the PUC's Customer Service Department and related organizations. The PUC previously intended to finance the AMI Project through a ten-year lease financing agreement with a private lender through the State of California's G\$mart lease financing program, and previously, on June 16, 2009, the Board of Supervisors approved an appropriation of \$58,747,600 in lease financing proceeds to fund the AMI Project (File 09-0548). That appropriation did not include financing costs because, according to Mr. Jacobo, at the time of the appropriation, it was not the City's practice to appropriate financing costs.

According to Mr. Jacobo, the PUC now instead intends to finance the AMI Project through an appropriation of Water Revenue Bond proceeds in an amount of \$62,000,000 in order to (a) reduce overall financing costs, and (b) extend the financing period to the life of the advanced meters. The PUC inadvertently did not include the needed \$3,252,400 in AMI Project financing costs in the requested appropriation.

The Board of Supervisors also previously approved the execution of four separate professional service agreements necessary for the implementation of the AMI Project (File 09-1094).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$33,735,421, including (a) \$31,727,240 from the proceeds of Water Revenue Bonds, and (b) \$2,008,181 in Water Capacity Fees, to fund (a) the PUC's \$30,483,021 Replacement and Retrofit (RnR) Project related to the City's water distribution main pipelines, and (b) \$3,252,400 in financing fees for the PUC's Advanced Meter Infrastructure (AMI) Project.

¹ According to Mr. Jacobo, most of these pipelines run underneath City streets, such that the PUC's RnR Project budget includes funding for excavating City streets, pipe repair and/or replacement as well as the subsequent repaving of City streets.

Replacement and Retrofit (RnR) Projects

The proposed ordinance would appropriate \$30,483,021 for the PUC's ongoing Replacement and Retrofit (RnR) Project, to replace existing aged water distribution main pipelines. As discussed above, the PUC historically funds the RnR Project through water revenues annually appropriated by the Board of Supervisors in the PUC's budget. According to Mr. Jacobo, the PUC now intends to finance a portion of the RnR Project through bond fund monies in order to balance the benefits of (a) cash financing capital projects which results in the lowest overall cost to the rate payers, and (b) spreading the cost of the RnR program over the life of the capital assets using debt financing.

The proposed ordinance would appropriate a total of \$30,483,021 to the RnR Project, including (a) 28,474,840 in bond proceeds from the issuance of Water Revenue Bonds, and (b) \$2,008,181 in Water Capacity Fees², to fund a portion of the PUC's RnR budget for FY 2010-2011 and FY 2011-2012, as shown in Table 1 below.

Table 1: Sources and Uses of Funds for the Replacement and Retrofit Project in FY 2010-2011 and FY 2011-2012

	FY 2010- 2011	FY 2011- 2012	Total
Sources			
Water Capacity Fees	\$840,883	\$1,167,298	\$2,008,181
Proceeds from Water Revenue Bond Issuance	11,294,412	17,180,428	28,474,840
Subtotal Appropriated by File 10-0338 (subject of this request)	\$12,135,295	\$18,347,726	\$30,483,021
To Be Requested In PUC's Budget for FY 2010-2011 and FY 2011-2012	\$12,800,865	\$8,401,307	\$21,202,172
Total	\$24,936,160	\$26,749,033	\$51,685,193
Uses			
Planning	\$511,324	\$531,784	\$1,043,108
Environmental Review	46,484	48,344	94,828
Design	139,452	145,032	284,484
Construction	22,544,738	23,446,809	45,991,547
Subtotal Project Costs	\$23,241,998	\$24,171,969	\$47,413,967
Financing Costs	1,694,162	2,577,064	4,271,226
Total	\$24,936,160	\$26,749,033	\$51,685,193

Advanced Meter Infrastructure (AMI) Project

The PUC's AMI Project would retrofit or replace all of the City's 180,000 existing visual-read conventional water meters with advanced digital water meters. As further discussed in the Background Section above, the Board of Supervisors previously appropriated \$58,747,600 for the AMI Project from the proceeds of lease financing proceeds (File 09-0548). Since that appropriation, the PUC has decided to fund the AMI Project through the expenditure of Water

² According to Mr. Jacobo, Water Capacity Fees are paid by property owners to the PUC when new construction requires the PUC to expand water delivery capacity.

Revenue Bonds instead of lease financing proceeds in order to reduce overall financing costs³. The \$1,737,724,038 bond issuance ordinance (File 10-0341) includes \$62,000,000 for the AMI Project, which would be combined with other funding sources to finance the AMI Project budget of \$67,755,135, including the \$62,000,000 from Water Revenue Bonds, as shown in Table 2 below.

Table 2: Sources and Uses of Funds for the AMI Project

Sources	
Water Revenue Bonds	\$62,000,000
PUC's Replacement and Retrofit Funds	5,427,880
Hunter's Point Shipyard Area Project Fund ⁴	327,255
Total	\$67,755,135
Uses	
Replacement of Water Meters 2 Inches and Under	\$51,588,000
Retrofit of Water Meters 3 inches and Above	147,982
Data Collection Units	360,022
Software and Software Maintenance	218,610
Meter Pit Covers and Lids	3,001,112
Project Management, Training, and Programming	68,295
Performance and Payment Bond	1,155,000
Contingency	2,745,843
Optional Services	3,129,754
Optional Electrical Meters at Hunter's Point Shipyard Area	327,255
City Attorney, Department of Technology, and Other Costs	1,679,755
Subtotal Project Costs	\$64,421,627
City Services Auditor	81,108
Financing Costs	3,252,400
Total	\$67,755,135

Of the \$62,000,000 in Water Revenue Bonds shown in Table 2 above, \$58,747,600 was previously appropriated by the Board of Supervisors for the AMI Project under File 09-0548 from lease financing proceeds. According to Mr. Jacobo, although the PUC is changing the funding source from lease financing proceeds to Water Revenue Bond proceeds, the PUC was not required to amend the previous appropriation of \$58,747,600 to represent this new source of funds. The financing costs of \$3,252,400, when added to the previous appropriation of \$58,747,600, equals \$62,000,000. The debt service on such bonds is paid by water customers.

FISCAL IMPACT

The proposed ordinance would appropriate a total of \$33,735,421, including (a) \$31,727,240 from the proceeds of Water Revenue Bonds, and (b) \$2,008,181 in Water Capacity Fees. As discussed previously, the \$31,727,240 of Water Revenue Bond proceeds is part of a

³ According to Mr. Jacobo the average interest rate on the relevant Water Revenue Bonds is estimated to be 3.85 percent. In contrast, the bids received by the PUC for lease financing included interest charges of 4.25 percent.

⁴ The PUC's Hunter's Point Shipyard Area Project would provide retail electricity service (for a fee which has yet to be determined) to the occupants of the residential and commercial construction planned under the San Francisco Redevelopment Agency's Hunter's Point Shipyard Area Redevelopment Project.

\$1,737,724,039 Water Revenue Bond issuance previously approved by the Budget and Finance Committee on April 7, 2010.

RECOMMENDATION

Approve the proposed ordinance.