CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 30, 2026 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
3	26-0944	Lease Modification - United Airlines, Inc. - Rental Abatement - Not to Exceed $7,175,000	1
4	26-0947	Real Property Lease Amendment - Retroactive - Mattison Family Trust - 555 Polk Street - $202,500 Annual Base Rent With 3% Annual Increases	5
5	26-0945	Contract Amendment - Polydyne, Inc. - Wastewater Treatment Polymers - Not to Exceed $12,060,000	11
6	26-0809	Funding of Outstanding Indebtedness - 525 Golden Gate Avenue - PUC Issuance of Revenue Bonds and Other Forms of Indebtedness - Water Enterprise - NTE $492,820,000 - Wastewater Enterprise - NTE $224,570,000 - Power Enterprise - NTE $12,610,000	15
7 - 10	26-0950	Professional Services Agreement - Stantec Consulting Services, Inc. - PRO.0336.A, Specialized and Technical As-Needed Services - Not to Exceed $20,000,000	
	26-0951	Professional Services Agreement - AECOM Technical Services, Inc. - PRO.0336.C, Specialized and Technical As-Needed Services - Not to Exceed $20,000,000	
	26-0952	Professional Services Agreement - Jacobs Engineering Group, Inc. - PRO.0336.B, Specialized and Technical As-Needed Services - Not to Exceed $20,000,000	

TABLE OF CONTENTS (continued)

Item	File		Page
	26-0953	Professional Services Agreement - LEE Inc. - PRO.0336.D, Specialized and Technical As-Needed Services - Not to Exceed $20,000,000	26
11	26-0954	Professional Services Agreement - Deloitte Transactions and Business Analytics LLP - PRO.0339(R), Power Capital Program Management Contract - Not to Exceed $30,000,000	40

Item 3 File 26-0944	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the lease and use agreement between the San Francisco International Airport (Airport) and United Airlines, Inc., to provide a rental abatement of up to $7,175,000 to reimburse United for completing base building improvements within its Terminal 2 (T2) lounge premises, with no change to the existing lease term of July 1, 2023 through June 30, 2033.

Key Points

- United occupies lounge space on the third floor of Terminal 2, where it is undertaking an expansion that includes a new rooftop terrace, an enlarged credentialing lobby, and redevelopment of an adjacent stairwell to improve passenger circulation. These improvements create 4,568 square feet of new leasable space.
- Because these base building improvements are integrated into the overall lounge design, Airport staff determined it would not be efficient for the Airport to complete these improvements separately. United incorporated the improvements into its broader lounge construction, which is expected to be completed in December 2026. Rent for the additional premises will begin upon the earlier of lounge opening or November 1, 2026.

Fiscal Impact

- The proposed rental abatement reimburses only verified, eligible costs associated with the base building improvements, not exceeding $7,175,000. Eligible costs include construction, design and engineering, and general conditions.
- The newly created 4,568 square feet is projected to generate approximately $1.2 million in incremental revenue in FY 2026-27 and $19.7 million over the remaining lease term through FY 2032-33. Total projected revenue for the full lounge premises over that period is approximately $110.6 million. Incremental revenue from the added space is expected to surpass the abatement amount within four years, and total incremental revenue over the seven-year term exceeds the rent abatement amount by $11.9 million.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Overview of Airline Lease and Use Agreements

Airline lease and use agreements establish the framework governing airline operations at San Francisco International Airport (Airport), including rate-setting methodology, gate allocation, operating procedures, and standard business terms. Most carriers operated under the Airport's 2011 Lease, which was extended to June 30, 2023 due to pandemic-related disruptions. Following renewed negotiations, the Airport and Signatory Airlines finalized the 2023 Lease in November 2022. All Signatory Airlines execute the same standard lease form, with only conforming changes to reflect individual premises. The Airport continues to offer the 2023 Lease to all carriers, while non-Signatory Airlines may operate under a month-to-month permit subject to higher fees.

In June 2023, the Board of Supervisors approved a lease and use agreement with United Airlines, Inc. and 28 other airlines (File 23-0204). In July 2024, the Airport administratively approved Modification No. 1 to the lease to establish a streamlined process for managing significant operational and space-related disruptions to United during the Terminal 3 West Modernization Project.

Tenant T2 Lounge Project

United Airlines, Inc. occupies lounge space on the third floor of Terminal 2 under its lease and use agreement with the Airport. United Airlines is expanding its lounge facilities at the Airport and has leased approximately 21,219 square feet on the third floor of Terminal 2. To support the functionality of the leased space, United is undertaking several base building improvements that exceed typical tenant improvements and will have long-term benefit to the Airport's property. These improvements include construction of a new rooftop terrace, an expanded credentialing lobby, and redevelopment of an adjacent stairwell to improve vertical access within Terminal 2. The enhancements create additional leasable space of 4,568 square feet and are expected to generate future revenue for the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Modification No. 2 to the lease between the San Francisco International Airport and United Airlines, Inc., authorizing a rental abatement of up to $7,175,000 to reimburse United for the construction of specified base building improvements. The amendment does not modify the existing lease term of July 1, 2023 through June 30, 2033.

The Airport is proposing to provide a rental abatement not to exceed $7,175,000, to offset eligible construction costs associated with the base building improvements. The improvement work, still under construction, will add approximately 4,187 square feet for the rooftop terrace and approximately 381 square feet for the expanded credentialing lobby, for a total of 4,568 square feet. In addition, United is redeveloping a nearby public stairwell to enhance circulation between the second and third floors. Depending on final inspections, United plans to complete construction in December 2026 and no portion of the lounge has been open to the public during construction. Because these base building improvements are integrated into the overall lounge design, Airport staff determined that it would not be practical for the Airport to perform the work separately. United incorporated the base building improvements into its broader construction scope to ensure alignment and efficiency.

Rent Abatement

To compensate United for completing the base building improvements on the Airport's behalf, staff propose a rental abatement of up to $7,175,000. This amount is based on preliminary cost estimates submitted by United and independently reviewed by Airport staff. The abatement will apply only to actual, eligible costs directly associated with constructing the base building improvements, subject to staff review and verification of United's payments.

Tenant Responsibilities

Under the proposed amendment, United Airlines will be responsible for fully funding and executing all design, permitting, and construction work required to build out the Terminal 2 lounge space as a complete, operational facility. This includes the construction of both the tenant improvement elements and the associated base building improvements that support the Airport's long-term property needs.

FISCAL IMPACT

The proposed resolution includes a rental abatement of up to $7,175,000. The agreed-upon not to exceed abatement amount is based on cost estimates presented in Exhibit 1 below.

Exhibit 1: Not to Exceed Abatement Amount Breakdown

Description	Rooftop	Lobby	Stairwell	Total
Construction	$4,280,000	$770,000	$250,000	$5,300,000
Design & Engineering	$700,000	$150,000	$25,000	$875,000
Subtotal Construction, Design and Engineering:				$6,175,000
General Conditions (GCs)[1]:				$1,000,000
Total:				**$7,175,000**

Source: AIR

[1] General conditions cover the contractor's project-related costs required to run and manage the jobsite.

The Airport estimates that the additional 4,568 square feet incorporated into the lounge improvements will generate approximately $1.2 million in incremental annual revenue in FY 2026-27, resulting in a total incremental projected revenue of $19.1 million over the remaining seven years of the lease term. Incremental revenue to the airport for the additional premises will exceed the rent abatement amount of $7,175,000 within four years, and total incremental revenue over the seven-year term exceeds the rent abatement amount by $11.9 million. These figures are presented in Exhibit 2 below.

Exhibit 2: Projected Incremental Revenue of Lounge, Additional 4,568 Square Feet

Fiscal Year	Category II Rate (per square foot)	Total Revenue of T2 Lounge (25,787 sf)	Incremental Revenue of Additional Premises (4,568 sf)
FY 2026-27	$384	$9,325,754	$1,170,443*
FY 2027-28	446	11,508,738	2,038,698
FY 2028-29	514	13,255,292	2,348,089
FY 2029-30	609	15,710,472	2,783,008
FY 2030-31	677	17,465,019	3,093,815
FY 2031-32	780	20,122,628	3,564,593
FY 2032-33	899	23,184,576	4,106,997
Total Revenue		**$110,572,479**	**$19,105,643**

Source: AIR

*Rent would commence on November 1, 2026 for the new premises. Therefore, incremental revenue reflects rent paid for eight months in FY 2026-27.

Through the end of the lease term in 2033, the Airport estimates that the additional 4,568 square feet associated with the improvements will generate approximately $19.1 million in incremental revenue and a total revenue of $110.6 million for the full lounge premises. This reflects just a portion of United's rent obligations under the lease and use agreement, which includes other premises at the Airport. According to the Airport, the Category II Rate is the designated rental rate applicable to airline lounge space under the SFO Rates and Charges schedule, which is updated annually. This rate reflects the Airport's prescribed charges for the specific category of space occupied by airline lounges. The rate used for revenue forecasting is developed by the Airport's Finance Department and is updated each year based on projected year-over-year changes.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 26-0947	**Department:** Department of Public Health (DPH), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the execution of a first amendment to the lease of 555 Polk Street between the City as tenant and Mattison Family Trust as landlord, extending the lease five years from August 1, 2026 to July 31, 2031, with one option to extend an additional three years through July 2034.

Key Points

- 555-575 Polk is used as the Community Justice Center. The ground floor is subleased to the Judicial Council of California (JCC) to operate courtrooms, public programs, and related office uses. The Department of Public Health (DPH) provides court authorized alternatives to incarceration substance use and mental health treatment on the second floor. The current lease term began in August 2011 and expired July 2026.
- The current base rent for the second floor is $27.80 per square foot. Under the proposed lease extension, the City would pay $22.50 per square foot for the second floor, 19 percent less than the current rate, with an annual increase of three percent. The first two months' rent is abated in Year 1 and the first month's rent is abated in Years 2 and 3. Following the termination of the current lease, JCC will enter into their own lease agreement with the Mattison Family Trust for the ground floor.

Fiscal Impact

- Under the proposed lease extension, The City will pay $1,006,067 in rent over five years and $659,843 in utilities and operating costs, for a total of $1,665,909. If the City exercises the option to extend for an additional three years, we estimate it will cost an additional $1,206,062 in rent, utilities and operating costs, for an eight-year total of $2,871,971. Funding for rent and utilities will be annually appropriated from the General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of $15,000 or more per month and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The City originally leased 555-575 Polk Street in 1991 for use by the San Francisco Superior Court. In 2002, the State passed the Trial Court Facilities Act, which required California cities and counties to transfer court facilities to the Administrative Office of the Courts (now, Judicial Council of California). The Act and subsequent agreements required counties to continue to pay for operations of court facilities based on historic operating costs, and the City continued to lease 555-575 Polk Street on behalf of the San Francisco Superior Court.

In February 2012, the Board of Supervisors approved a lease between the City and Mattison Family Trust for the ground floor of 555-575 Polk Street through July 2021, with an option to extend through July 2026, and an option to expand the leased premises to include the second floor (File 12-0039 and 12-0040). The City entered into a sublease with the Administrative Office of the Courts (AOC) for AOC's use of the ground floor. In March 2013, the City exercised the option to expand the leased premises to rent the second floor of the building for use by the Department of Public Health (DPH).

The building, which is called the Community Justice Center (CJC), includes courtrooms and a social services center. DPH provides court authorized alternatives to incarceration on the second floor. DPH onsite programs include (1) Drug Court Treatment Program, (2) Family Treatment Program, (3) Juvenile Re-entry Program, (4) Veterans Justice Program, (5) Behavioral Health Program, and (6) CARE Court. These programs provide substance use and mental health treatment for justice-involved clients. DPH also coordinates conservatorship support from the building. The ground floor, which is subleased to the Judicial Council of California (JCC), the new name for the AOC, is used for operation of courtrooms, public programs, and related office uses.

Following the termination of the current lease, JCC will enter into their own lease agreement with the Mattison Family Trust for the ground floor. DPH is requesting an extension to the existing lease for continued use of the second floor.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution of a first amendment to the lease of 555 Polk Street between the City, as tenant, and Mattison Family Trust, as landlord, extending the lease five years from August 1, 2026 to July 31, 2031, with one option to extend an additional three years through July 2034. The annual base rent starts at $202,500 and increases by three percent annually, and the landlord will abate rent for two months in the first year and one month

each in the second and third years. Exhibit 1 below summarizes the terms and conditions of the lease amendment.

Exhibit 1: Summary of Proposed Amendment

Provision	Current Lease	Proposed Lease Amendment
Premises	18,000 square feet located at 555-575 Polk Street, including both the first and second floors	9,000 square feet located at 555 Polk Street, the second floor of the 555-575 Polk Street Building
Site Usage	The Community Justice Center houses collaborative programs administered by DPH, other City departments and the Superior Court which provides court authorized alternatives to incarceration. The City subleases the ground floor (575 Polk St.) to the Judicial Council (f.k.a. the Administrative Office of the Courts) for use by the San Francisco Superior Court. DPH offices for the CJC and other City programs and services are on the second floor (555 Polk St.).	DPH operates the Community Justice Center on the second floor, which provides court authorized alternatives to incarceration, and City programs, including drug treatment, mental health programs, support groups, counseling, career development and job training.
Term	August 1, 2011 through July 31, 2021 (10 years)	August 1, 2011 through July 31, 2031 (15 years)
Options to extend	One five-year option to extend through July 31, 2026 (exercised)	One three-year option to extend until July 31, 2034
Total Base Rent (annual)	$250,200 for the second floor ($27.80 per square foot)	$202,500 ($22.50 per square foot) The first two months' rent is abated in Year 1 and the first month's rent is abated in Years 2 and 3
Annual Adjustment to Rent	No annual increases	3% annual increases
Extended Term Base Rent	95% of fair market rent	95% of fair market rent

Provision	Current Lease	Proposed Lease Amendment
Utilities, Maintenance and Repair	The City pays for its own utilities, refuse removal and security costs. The lessor provides janitorial, pest control, heating, ventilation and air conditioning (HVAC), and property management services, as well as annual Property Taxes and insurance expenses, which the City would reimburse the lessor for one-half of all such costs, based on 50 percent occupancy of the building	No change
Leasehold Improvements	Landlord to perform improvements, as requested by the City up to the leasehold allowance of $108,000	Installation of new HVAC system, recarpeting, repainting at landlord's expense (valued at approximately $100,000).
City option to terminate	Right to terminate **without penalty** on June 30 2016 if notice is given before June 20, 2015; no right to terminate after 2016.	Anytime after December 31, 2029 with 12 months' notice with payment of the unamortized portion of the abated rent and the cost of improvements.

Source: Current lease and proposed lease amendment

Rent

Annual base rent under the existing lease is $27.80 per square foot. Because the proposed rent is less than $45 per square foot, an appraisal was not required. The proposed amendment reduces base rent to $22.50 per square foot—a 19 percent reduction from the existing lease. As noted above, the landlord will abate rent for two months in the first year and one month each in the second and third years, for an effective rent reduction of 24.5%.

Staffing

There are currently 35 DPH employees located at 555 Polk Street. Previously, the District Attorney's Office, the Adult Probation Department, and the Sheriff's Department had staff located at 555 Polk Street, however these offices now use a smaller number of "hotel desks" for staff that do not have individually dedicated desks or offices but can use desks assigned to their department as needed.

Terminating the 575 Sublease

The proposed resolution would not extend the lease for the first floor of the building, 575 Polk Street. Instead of subleasing to the Judicial Council of California (JCC), the JCC would enter into

their own lease agreement with the Mattison Family Trust. According to Real Estate Division staff, terminating the sublease agreement would reduce City liability and administrative burden. Further, if staffing decreases, the City negotiated an early termination option so that DPH can relocate to a smaller premises; there are currently no plans in place to relocate. Ending the sublease agreement allows each organization to respond independently to changing demands and priorities.

FISCAL IMPACT

Under the proposed amendment, the City would pay an annual rent starting at $202,500, increasing three percent annually, with the first two months abated in the first year and the first month abated in both the second and third years. Over the five-year term, the City would pay a total rent of $1,006,066. The city would also pay $659,843 in utilities and operating costs. The total rent and operating expenses paid over the five-year term is $1665,909, as shown in Exhibit 2 below. If the lease is extended, the total cost of the eight-year lease would be approximately $2.87 million.

Exhibit 2: Rent and Operating Costs under Proposed Lease Amendment

Year	Monthly Rent	Abatement	Annual Rent	Annual Utility and Operating Costs	Total Cost
1	$16,875	Months 1 and 2	$168,750	$119,415	$288,165
2	17,381	Month 1	191,194	$125,386	$316,580
3	17,903	Month 1	196,930	$131,655	$328,585
4	18,440	None	221,277	$138,238	$359,515
5	18,992	None	227,916	$145,150	$373,065
Total (5 Years)			**$1,006,067**	**$659,843**	**$1,665,909**
Option to Extend (3 Years)			725,600	480,464	1,206,061
Total Potential Cost (8 Years)			**$1,731,667**	**$1,140,307**	**$2,871,971**

Source: Proposed Lease and RED staff

Note: We assume utility and operating costs increase by 5% as advised by RED staff. We also assume 3% annual increases to rent in the extension term, but rent will be adjusted to 95% of market rate if the option to extend is exercised.

According to Real Estate Division staff, on average utilities cost $7,920 per year, operating costs are $79,095 per year, and janitorial expenses are $32,400 per year. The janitorial expenses—which come out to $3.60 per square foot—are higher than market average because it is paid to a rehabilitative program that trains parolees for reintegration into the job market.

The proposed annual base rent of $202,500 is $47,700, or 19 percent, less than the current annual base rent of $250,200. Funding for rent and utilities will be annually appropriated from the General Fund.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 26-0945	Department: Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 4 to the City's contract with Polydyne, Inc. for wastewater treatment polymers used at the San Francisco Public Utilities Commission's Southeast and Oceanside treatment plants. The amendment increases the contract's not to exceed amount by $2,160,000, bringing the total to $12,060,000, with no change to the existing term ending January 31, 2028.

Key Points

- The Office of Contract Administration issued an Invitation for Bids in 2020 to procure polymers needed for solids thickening and dewatering processes. Suppliers were required to pass a prequalification performance test to ensure their products met treatment thresholds at the lowest effective dosage. Two firms—Polydyne, Inc. and Solenis, LLC—passed testing and submitted bids. Polydyne received a contract award for five of the six items due to meeting performance criteria and submitting the lowest bids for the items. Solenis was awarded a contract for the remaining item.
- Polydyne supplies pre-qualified polymers required for solids thickening and dewatering at both treatment facilities. Prices remain unchanged under this amendment, ranging from $1.99 per pound for a dry dewatering polymer to $4.75 per pound for thickening and liquid polymers.

Fiscal Impact

- The amendment increases the agreement's not to exceed amount to $12,060,000. Spending to date totals $8.5 million, with an estimated $2.7 million in spending projected through January 2028 based on historical spending. The total amount includes a 35 percent contingency to cover potential price increases and higher usage anticipated during startup of the Southeast Plant's Biosolids Digester Facilities Project beginning November 2027. Funding will continue to come from the SFPUC's Wastewater Enterprise operating budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In November 2020, the Office of Contract Administration (OCA) issued an Invitation for Bids (IFB) to procure wastewater treatment polymers for use at the San Francisco Public Utilities Commission's (SFPUC) wastewater treatment facilities. Wastewater treatment polymers are chemicals used in solids thickening and dewatering processes, supporting operations at both the Southeast and Oceanside treatment plants.

The IFB included a prequalification process requiring suppliers to submit polymers for performance testing. The SFPUC evaluated each product's ability to meet specified treatment thresholds and achieve target sludge thickening at the lowest effective dosage. Only products that passed this testing were eligible to advance to the bidding phase. Two firms—Polydyne, Inc. and Solenis, LLC—submitted bids.

Following evaluation, Polydyne, Inc. was awarded an agreement for five of the six wastewater treatment polymers based on meeting the prequalification criteria and submitting the lowest bid for the required treatment processes across multiple facilities, including Southeast Plant Gravity Belt Thickening (GBT); Southeast Plant Centrifuge Dewatering – Liquid Polymer; Southeast Plant Centrifuge Dewatering – Dry Polymer; Oceanside Plant GBT Thickening – Liquid Polymer; and Oceanside Plant Screw Press – Dry Polymer. Solensis submitted the lowest bid for one of the polymers and was awarded a contract for that item.

On February 1, 2021, the City and Polydyne entered into an agreement for the supply of wastewater treatment polymers, with a term from February 1, 2021, through January 31, 2024, and a not to exceed amount of $5,200,000.

Amendments

In 2022, OCA executed amendment no. 1 to the agreement to revise certain contract terms, update the price adjustment methodology, and increase the prices based on the new methodology. The original contract allowed for price increases based on changes in the cost of raw materials since the bid due date, and the new methodology allowed for additional increases based on changes in the cost of labor and transportation. According to OCA staff, OCA negotiated these changes with the contractor in light of rising costs in transportation and labor during the pandemic. In 2023, OCA executed amendment no. 2 to extend the agreement by two years through January 31, 2026 and increase the not to exceed amount to $7,015,000. In 2025, OCA executed amendment no. 3 to extend the agreement through January 31, 2028 and increase the not to exceed amount to $9,900,000. The Office of Contract Administration now seeks approval

of amendment no. 4, which would increase the not to exceed amount to $12,060,000, with no change to the contract term or conditions. Exhibit 1 below summarizes the contract history.

Exhibit 1: Contract History

Modification	Description	Not to Exceed Amount
Original Agreement	Term: Feb 1, 2021- Jan 31, 2024	$5,200,000
Amendment No. 1	Update terms and pricing	5,200,000
Amendment No. 2	Extend term through January 31, 2026, increase amount	7,015,000
Amendment No. 3	Extend term through January 31, 2028, increase amount	9,900,000
Amendment No. 4	Increase amount to $12M	$12,060,000

Source: OCA memo

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve amendment no. 4 to the agreement between OCA and Polydyne, Inc. to exceed amount by $2,160,000 to $12,060,000, with no change to the current contract term ending January 31, 2028. The agreement provides polymers required for solids thickening and dewatering processes at the SFPUC's Southeast Treatment Plant and for GBT thickening and screw press operations at the Oceanside Treatment Plant.

The amendment maintains the current prices, which range from $1.99 per pound for a dewatering dry polymer to $4.75 per pound for thickening polymers and a dewatering liquid polymer. The prices are based on Polydyne's bid, which were increased under the first amendment.

FISCAL IMPACT

The proposed amendment increases the not to exceed amount by $2,160,000 to a total of $12,060,000 with no change to the contract duration. Exhibit 2 below summarizes the spending to date and projected funding required to support the contract through the end of the term. Funding is provided through the SFPUC Wastewater Enterprise (WWE) operating budget.

Exhibit 2: Not to Exceed Amount

Item	Amount
Total Encumbrances as of May 2026 (64 months)	8,448,606
Estimated Additional Funds Needed through Jan 31, 2028 (20 months)	2,678,295
Contingency (35%)	937,403
Total Projected Expenditures and Contingency	**$12,064,305**
Proposed Not to Exceed (Rounded)	**$12,060,000**

Source: OCA

The not to exceed amount is based on historic monthly spend of $132,478, or approximately $1.6 million annually. According to OCA, the additional funding supports continued procurement of polymers required for solids thickening and dewatering processes at SFPUC's Southeast and Oceanside wastewater treatment plants, based on current processing volumes and operational needs. SFPUC opens annual purchase orders each July, which will fully consume the remaining contract balance of approximately $1.5 million. The not to exceed amount includes a 35 percent contingency because it accounts for potential price increases permitted under the contract and covers the additional polymer usage expected during startup of the Southeast Treatment Plant's Biosolids Digester Facilities Project beginning November 2027.

RECOMMENDATION

Approve the proposed resolution.

Item 6 File 26-0809	Department: Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would authorize the issuance and sale of up to $492,820,000 of Water Revenue Bonds, up to $224,570,000 of Wastewater Revenue Bonds, and up to $12,610,000 of Power Revenue Bonds to prepay or refund previously issued debt. In addition to revenue bonds, the ordinance authorizes the issuance of other forms of indebtedness, including commercial paper.

Key Points

- The federal Build America Bonds (BABs) program was created following the 2008 financial crisis to help public agencies obtain financing through the taxable bond market when the traditional tax-exempt municipal market had limited liquidity. It allowed state and local governments to issue taxable bonds while receiving a federal subsidy initially equal to 35 percent of the interest paid. Beginning in 2013, federal sequestration reduced the subsidy, SFPUC is concerned that future federal action could further reduce or eliminate the subsidy.
- The proposed debt authorization would allow the SFPUC to prepay or refund previously issued taxable debt under the BAB program to achieve debt service savings, including $115.25 million in outstanding Series 2009D Certificates of Participation (COPs) to finance a portion of the SFPUC headquarters at 525 Golden Gate Avenue and $351.47 million in outstanding Series 2010G Water Revenue Bonds.

Fiscal Impact

- The new headquarters debt would have a true interest cost of 3.86 percent and total debt service payments of approximately $140.3 million. The Water refunding debt is estimated to have a true interest cost of 4.51 percent and total debt service payments of approximately $626.1 million.
- The SFPUC only plans to proceed with the proposed transactions if they produce cash flow savings. The headquarters transaction is estimated to generate cash flow savings of approximately $11.0 million, but the Water refunding currently produces an estimated $26.8 million cash flow loss based on current market conditions.

Policy Consideration

- Neither proposed transaction currently meets SFPUC's debt policy requirement that a refunding produces net present value savings of at least three percent. The SFPUC Commission waived this requirement to reduce the risk to the SFPUC that the federal subsidy is further reduced or eliminated.

Recommendations

- Amend the ordinance to reduce the issuance and sale authorization for Wastewater Enterprise debt from $224,570,000 to $24,570,000 and approve the ordinance as amended.

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.

BACKGROUND

Build America Bonds and Federal Subsidy Risk

The federal Build America Bonds (BABs) program allowed state and local governments to issue taxable bonds while receiving a federal subsidy initially equal to 35 percent of the interest paid.[1] The program was created during the financial crisis to help public agencies obtain financing through the broader taxable bond market when the traditional tax-exempt municipal market had limited liquidity.[2] Beginning in 2013, federal sequestration[3] reduced these payments. The current 5.7 percent reduction lowers the effective subsidy from 35 percent to approximately 33 percent. SFPUC is concerned that future federal action could further reduce or eliminate the subsidy. As described below, SFPUC's Series 2009D headquarters Certificates of Participation (COPs) and the Water Series 2010G revenue bonds were both issued under the BAB program and are therefore subject to the risk of reduced or eliminated federal subsidy payments.

525 Golden Gate Avenue Headquarters Financing

In 2009, the City issued $167.67 million of Series 2009C and Series 2009D Certificates of Participation (COPs) to finance a portion of the SFPUC headquarters at 525 Golden Gate Avenue (File 08-0166). The Series 2009C COPs have been fully paid. The Series 2009D COPs were issued as federally taxable Build America Bonds with an original principal amount of $129.55 million, of which $115.245 million remained outstanding as of March 1, 2026.

Under the existing financing structure, the General Fund makes Base Rental Payments under the headquarters Project Lease, and SFPUC reimburses the General Fund through payments under a Memorandum of Understanding. The costs are allocated based on the headquarters space originally used by each enterprise: 71.4 percent to Water, 18.9 percent to Wastewater, and 9.7 percent to Power. According to SFPUC, the City used the COP structure because not all three enterprises had independent bond ratings in 2009. Because the enterprises can now issue highly rated debt directly and to mitigate federal subsidy risk, SFPUC proposes to replace the lease-payment structure with Water, Wastewater, and Power Enterprise debt. This would allow the Series 2009D COPs to be discharged and the related leases terminated. The transaction would

[1] The subsidy was intended to offset the higher interest rates generally associated with taxable debt.

[2] Limited liquidity means that fewer investors were willing or able to purchase municipal bonds, making it more difficult for public agencies to sell bonds without offering higher interest rates. Higher interest rates increase the amount the agency must repay and therefore increase the total cost of borrowing.

[3] Federal sequestration is a federal budget-control process that automatically reduces certain federal payments when statutory spending limits are triggered.

not produce General Fund budgetary savings because the enterprises already fund the payments, but it would remove the obligation from the General Fund and simplify administration.

Water Series 2010G Build America Bonds

In 2010, SFPUC issued $351.47 million of federally taxable Water Revenue Bonds, Series 2010G, under the BAB program. Because scheduled principal repayments do not begin until 2031, the full original principal amount of $351.47 million remained outstanding as of March 1, 2026. SFPUC is also seeking authority to refund these bonds if market conditions produce positive cash flow savings or if a further reduction in the federal subsidy appears imminent. Unlike the headquarters transaction, the Water refunding is not currently expected to proceed because the analysis prepared by SFPUC's Municipal Advisor shows cash flow losses under current market conditions (as further discussed below). If the transaction becomes financially favorable, SFPUC will replace the existing BABs with new Water Enterprise debt.

SFPUC Commission Approval

On June 9, 2026, the SFPUC Commission approved three resolutions authorizing up to $730 million of enterprise debt: $12.61 million for Power, $492.82 million for Water, and $224.57 million for Wastewater. The authorized debt would finance the prepayment of the enterprises' respective shares of the Series 2009D headquarters obligation and the refunding of the Water Series 2010G and Wastewater Series 2010B BABs. On July 28, 2026, the Commission separately approved the Wastewater Series 2010B BAB refunding under existing authority previously granted by the Board of Supervisors.[4] Therefore, additional Board approval was not required for that transaction.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would authorize the issuance and sale by the SFPUC of up to $130 million of Water, Wastewater, and Power Enterprise debt to finance the prepayment of the enterprises' respective shares of the 525 Golden Gate Avenue headquarters Base Rental Payments, consisting of up to $92.82 million for Water, $24.57 million for Wastewater, and $12.61 million for Power. It would separately authorize up to $400 million of Water Enterprise debt to refund the Water Series 2010G Build America Bonds, for a total maximum authorization of $530 million. The tax-exempt or taxable debt could be issued in one or more series as revenue bonds, commercial paper, notes, or other forms of indebtedness.

The introduced ordinance reflects the prior authorization amounts approved by the Commission and includes authorization to refund the Wastewater Series 2010B BABs, a transaction that has

[4] Board of Supervisors Ordinance Nos. 181-23 and 125-24 authorize SFPUC to issue Wastewater Enterprise refunding bonds if the transaction produces net-present-value debt-service savings of at least three percent or if the Commission makes specified findings supporting a waiver. For the Wastewater Enterprise Series 2010B BAB refunding, the Commission waived the three-percent savings requirement and certain other refunding conditions based on the risk that the federal BAB subsidy could be further reduced or eliminated.

since been completed separately. The ordinance should therefore be amended to remove the Wastewater BAB refunding and reflect the revised $530 million maximum authorization, while retaining the $24.57 million of Wastewater Enterprise debt for the headquarters prepayment.

Prepayment refers to using proceeds from new Water, Wastewater, and Power Enterprise debt, which may initially consist of commercial paper, to pay the remaining Base Rental Payments supporting the Series 2009D Certificates before their scheduled payment dates. The prepayment would allow the Certificates to be discharged and the related headquarters leases to be terminated.

SFPUC states that it expects to proceed with the Series 2009D headquarters prepayment only if analyses continue to show positive cash flow savings at execution. The Water Series 2010G refunding does not currently produce cash flow savings (as further discussed below), and SFPUC does not intend to proceed under current conditions. However, SFPUC may execute the Water refunding if changes in taxable and tax-exempt interest rates produce savings or if a reduction or elimination of the federal BAB subsidy appears imminent.

Existing Obligations

As shown in Exhibit 1 below, the obligations proposed for prepayment or refunding have approximately $466.7 million outstanding principal, consisting of $115.2 million of Series 2009D headquarters COPs allocated among the three enterprises and $351.5 million of Water Series 2010G BABs, with final maturities extending to 2050.

Exhibit 1. Outstanding Debt Proposed for Prepayment or Refunding

Obligation	Estimated Outstanding Principal[5]	Final Maturity	Proposed Maximum Authorization
Series 2009D headquarters COPs—Water share	$82,285,000	2041	$92,820,000
Series 2009D headquarters COPs—Wastewater share	21,781,000	2041	24,570,000
Series 2009D headquarters COPs—Power share	11,179,000	2041	12,610,000
Subtotal: Series 2009D headquarters COPs	*$115,245,000*		*$130,000,000*
Water Series 2010G BABs	351,470,000	2050	400,000,000
Total	**$466,715,000**		**$530,000,000**

Source: SFPUC

According to SFPUC, the proposed authorization exceeds both the outstanding principal and the currently estimated amount of new debt because the transactions propose to use tax exempt debt to refinance taxable bonds. Tax exempt bonds are sold at a premium while the yields on the bonds are much less. The premium is dependent on market conditions at the time of sale. The authorization amounts also include redemption and financing costs (as further discussed

[5] The outstanding enterprise shares are estimated calculations based on the $115.245 million total outstanding Series 2009D principal and SFPUC's allocation of 71.4 percent to Water, 18.9 percent to Wastewater, and 9.7 percent to Power. Figures are rounded.

below). SFPUC states that the authorization is limited to refinancing existing obligations, not funding new projects, and that it would issue only the amount needed to complete the transactions at the lowest available cost to ratepayers.

Barclays Selection and Financing Terms

To identify a financial institution to provide the new financing, SFPUC issued a Request for Proposals on May 19, 2025, to firms in the Controller's Office of Public Finance Underwriter Pool and the Airport's Credit Facility Pool. Eight firms submitted proposals. SFPUC's municipal advisors and Capital Finance staff evaluated the proposals based on deal terms (50 percent) and cost (50 percent) and selected Barclays. SFPUC did not assign numerical scores or formally rank the proposals. Barclays would serve as the purchaser of the debt. This means Barclays would provide money to SFPUC by buying the new bonds or other debt obligations and agreed to purchase the bonds without having the bonds rated or an offering document (known as a Preliminary Official Statement) prepared for marketing to investors. SFPUC would repay bond investors over time from the revenues of the applicable enterprise. The proposed transactions would be structured as negotiated direct purchases or private placements, meaning SFPUC and Barclays would negotiate the financing terms and sell the debt directly to Barclays rather than offering it broadly to investors through a public bond sale.

According to SFPUC, this approach would allow it to complete the transactions more quickly, avoid the more extensive disclosure and credit-rating process associated with a public bond offering, and provide greater flexibility to proceed when market conditions are favorable. Barclays' compensation, including reimbursed expenses, may not exceed 0.33 percent of the principal amount sold to Barclays.

Under the proposed ordinance, SFPUC could issue the authorized debt on a taxable or tax-exempt basis at an interest rate not to exceed 12 percent. The 12 percent rate and the authorized maturity periods are legal limits and do not represent the financing terms SFPUC currently expects to obtain. SFPUC states that the new long-term debt would not extend beyond the final maturity of the obligation being replaced: 2041 for the Series 2009D headquarters financing and 2050 for the Water Series 2010G BABs. The term of the replacement debt would not exceed the term of the debt being replaced for each enterprise (2041 for the COPs and 2050 for the water bonds) according to SFPUC staff. The proposed ordinance would also permit SFPUC to use commercial paper as interim financing and later replace it with long-term enterprise debt.

Consulting Engineer Certificate

City Charter Section 8B.124 requires an independent consulting engineer's certificate for debt authorized under Proposition E. Because the original 2009C and 2009D COPs were not issued under Proposition E, a consulting engineer's certificate had not previously been prepared for the 525 Golden Gate Avenue headquarters project. Based on its review of City documents and information provided by SFPUC, AECOM Technical Services, Inc. (AECOM) certified that the completed 525 Golden Gate Avenue headquarters project appears to meet generally accepted utility standards. By contrast, Parsons Water & Infrastructure, Inc. provided the required consulting engineer's certificate when the Water Revenue Bonds, 2010 Series F and G, were

originally issued according to SFPUC staff. Therefore, an additional consulting engineer's certificate is not required for the proposed refunding of the Series 2010G BABs.

Post-Closing Reporting

Under the proposed ordinance, SFPUC would be required to file the form of any disclosure document prepared for the transaction, if applicable, and a Bond Report with the Clerk of the Board of Supervisors within 30 days after the closing of each series of bonds or other debt issued under the ordinance. The Bond Report must identify the principal amount sold, method of sale, true interest cost, final maturity, Series 2009D COPs and/or SFPUC Build America Bonds refinanced and their principal amounts, and the authorization remaining under the ordinance. However, failure to file the disclosure document or Bond Report would not affect the validity of the debt.

FISCAL IMPACT

Estimated Redemption and Financing Costs

Based on current market conditions, paying off the Series 2009D headquarters COPs and Water Series 2010G BABs before maturity would require payments above the principal being retired. These additional payments compensate investors for receiving their principal earlier than originally scheduled and are calculated according to the redemption provisions in the original financing documents.[6] SFPUC intends to use the Extraordinary Optional Redemption provisions rather than the more costly make-whole provisions. Under the Extraordinary Optional Redemption provisions, the amount needed to pay off the obligations early is calculated using current U.S. Treasury rates plus one percentage point. This percentage is a discount rate used to convert the remaining future payments into an amount payable today; it is not an additional interest charge paid by SFPUC. A higher discount rate assigns a lower current value to future payments and therefore produces a lower payoff amount. The standard make-whole provisions use lower discount rates (Treasury rates plus 0.25 percentage points for the Water bonds and 0.35 percentage points for the headquarters COPs) and consequently produce higher payoff amounts. These payments are factored into the savings analysis (shown below), and the SFPUC does not expect to proceed with the transactions without cash flow savings, unless reduction or elimination of the federal subsidy becomes a more imminent threat.

Based on market rates as of September 2, 2026, the analysis prepared by SFPUC's Municipal Advisor, PFM Financial Advisors, LLC, estimated that paying off the obligations early under the Extraordinary Optional Redemption provisions would cost approximately $5.1 million more than the principal owed on the headquarters COPs and $32.0 million more than the principal owed on

[6] Under the redemption provisions summarized in the original Official Statements, the City and SFPUC cannot pay less than the outstanding principal when paying off the obligations early. If the calculated current value of the remaining principal and interest payments exceeds the outstanding principal, they must pay the higher amount, together with interest accrued through the redemption date.

the Water BABs.[7] These additional amounts are referred to as redemption premiums in Exhibit 2 below.

Exhibit 2: Estimated Prepayment and Refunding Escrow Deposits

Escrow requirement	Headquarters COPs	Water Series 2010G BABs
Principal redeemed	$110,070,000	$351,470,000
Redemption premium	5,052,722	32,014,635
Accrued interest	217,530	135,706
Total escrow deposit	**$115,340,252**	**$383,620,341**

Source: PFM Financial Advisors, estimates based on market conditions as of September 2, 2026.

The $110.1 million of headquarters principal expected to be redeemed is lower than the $115.2 million outstanding as of March 1, 2026 because the Municipal Advisor's analysis assumes that a scheduled principal payment will occur before the transaction closes.[8] The full $351.5 million of Water BAB principal remains outstanding because principal payments on those bonds do not begin until 2031.

Estimated Sources and Uses

Exhibit 3 below summarizes the estimated sources and uses for the headquarters prepayment and Water Series 2010G BAB refunding.

Exhibit 3: Preliminary Sources and Uses of Funds

	Headquarters COPs	Water Series 2010G BABs
Sources		
Principal amount of new debt	$97,235,000	$351,665,000
New bond premium	8,005,370	18,495,525
Release of existing reserve fund	10,237,334	13,927,849
Accrued interest	217,530	135,706
Total sources	**$115,695,234**	**$384,224,080**
Uses		
Deposit to prepayment or refunding escrow	$115,340,252	$383,620,341
Issuance costs	354,983	603,739
Total Uses	**$115,695,234**	**$384,224,080**

Source: PFM Financial Advisors, estimates based on market conditions as of September 2, 2026. Totals may not add due to rounding.

[7] The redemption premiums would be paid from the funds deposited into the respective prepayment or refunding escrows, including proceeds of the new enterprise debt and released debt-service reserves. The Water, Wastewater, and Power Enterprises would bear the cost of the headquarters redemption premium based on their allocated shares of that obligation, while the Water Enterprise would bear the Water Series 2010G redemption premium. Ultimately, these costs would be repaid from the applicable enterprises' revenues.

[8] The Municipal Advisor's analysis assumes that a scheduled $5.175 million principal payment will be made on November 1, 2026

The principal amount of new debt is less than the total sources available for each transaction. Under the Municipal Advisor's estimates, Barclays would purchase the new debt for more than its principal amount, generating a new bond premium that would help fund the transactions.[9] Existing debt service reserves would also be released and applied to the respective escrow deposits. SFPUC states that the full $10.2 million headquarters reserve release and $13.9 million Water reserve release would be used for these transactions and would not be available for other enterprise purposes.

Based on market conditions as of September 2, 2026, the Municipal Advisor estimates that SFPUC would issue approximately $448.9 million of new debt: $97.2 million for the headquarters prepayment and $351.7 million for the Water refunding. This is approximately $81.1 million less than the requested $530 million maximum authorization. According to SFPUC, the additional authorization provides flexibility because changing taxable and tax-exempt interest rates and the final debt structure could affect the amount of new bond premium received and the amount SFPUC must borrow.

Good Faith Estimates

State law requires a public agency to obtain and disclose good faith estimates of certain financing costs before authorizing debt with a term exceeding 13 months.[10] Exhibit 4 summarizes the Municipal Advisor's estimates based on market conditions as of September 2, 2026.

Exhibit 4: Good Faith Estimates (as of September 2, 2026)

Estimate	Headquarters Prepayment	Water Series 2010G BABs Refunding
True interest cost	3.86%	4.51%
Estimated financing fees	$354,983	$603,739
Net proceeds from new debt[11]	$104,885,388	$369,556,786
Total debt service	$140,287,197	$626,133,440
Average annual debt service	$9,371,570	$26,650,276

Source: PFM Financial Advisors, estimates based on market conditions as of September 2, 2026.
Note: Amounts may not sum precisely due to rounding

[9] A new bond premium is the amount Barclays would pay above the principal amount of the debt because the debt's interest payments are higher than current market rates. The premium provides additional funding at closing but is not free money because SFPUC would make the associated interest payments over the life of the debt.

[10] California Government Code Section 5852.1 requires the governing body of a public agency, before authorizing bonds with a term exceeding 13 months, to publicly disclose good faith estimates of the bonds' true interest cost, finance charges, net proceeds, and total payments through final maturity.

[11] Net proceeds represent the amount generated by the new debt after deducting financing fees; they do not include the existing reserve funds or accrued interest shown as additional sources in Exhibit 3.

The analysis prepared by SFPUC's Municipal Advisor estimates that the new headquarters debt would have a true interest cost[12] of 3.86 percent, average annual debt service of approximately $9.4 million, and total debt service (principal and interest) payments of approximately $140.3 million through final maturity. The Water refunding debt is estimated to have a true interest cost of 4.51 percent, average annual debt service of approximately $26.7 million, and total debt service payments of approximately $626.1 million. Estimated financing fees total approximately $355,000 for the headquarters transaction and $604,000 for the Water transaction.

These estimates are preliminary and may change with market conditions. They assume that SFPUC would issue long-term debt through direct purchases with Barclays without first using commercial paper. SFPUC states that it would use commercial paper only if financially beneficial or if doing so would allow the transaction to be coordinated with another debt issuance. If commercial paper is used, the timing, interest costs, and issuance costs could differ from the estimates above.[13]

Estimated Savings

Exhibit 5 below shows the estimated cash flow and net present value savings or losses from replacing the existing headquarters COPs and Water BABs with new debt, based on market conditions as of September 2, 2026. Cash flow savings compare the total payments under the existing and proposed debt. Net present value (NPV) savings also account for when those payments occur and any existing funds used to complete the transaction.

Exhibit 5: Estimated Savings

Savings measure	Headquarters COPs	Water BABs
Cash flow savings/(loss)	$10,968,000	($26,784,000)
NPV savings/(loss)	($1,953,000)	($30,555,000)
NPV savings/(loss) as a percentage of principal	(1.77%)	(8.69%)

Source: PFM Financial Advisors, estimates based on market conditions as of September 2, 2026.

As shown in Exhibit 5, the headquarters transaction is estimated to reduce future payments by approximately $11.0 million, which is 7.3 percent of future payments. However, it produces an estimated NPV loss of approximately $2.0 million, in part because the calculation accounts for the $10.2 million reserve fund that would be used at closing. Consequently, SFPUC would reduce future payments but would also use money that it already has set aside. Because the reserve release is not savings created by the transaction, it reduces the calculated NPV savings. SFPUC states that it expects to proceed with the headquarters transaction only if it continues to produce cash flow savings. The savings shown above assume ongoing 33 percent interest subsidy of

[12] True interest cost is an estimate of the overall borrowing rate that accounts for the timing of principal and interest payments and the price paid for the new debt, including any new bond premium.

[13] According to SFPUC, commercial paper interest rates are generally expected to be lower than long-term borrowing rates. Commercial paper could therefore reduce near-term interest costs and allow SFPUC to complete a transaction quickly when market conditions become favorable. SFPUC would later replace the commercial paper with long-term enterprise debt.

existing BAB debt. If the interest rate were no longer subsidized, both transactions would provide present value savings because the outstanding debt would be more expensive.

The Water refunding currently produces an estimated $26.8 million cash flow loss (which is 4.5 percent of future payments) and $30.6 million NPV loss. SFPUC therefore does not intend to complete the transaction under market conditions (as of September 2, 2026).

The analyses assume that the current 5.7 percent federal sequestration reduction continues through 2031[14] and that the BAB subsidy returns to the full 35 percent thereafter. SFPUC describes this as a conservative assumption because it makes retaining the existing BABs appear more favorable. If the subsidy remains reduced or is further reduced or eliminated, the relative financial benefit of replacing the BABs would increase.

Debt Policy Requirement Waiver

SFPUC's debt policy generally requires a refunding to produce NPV savings of at least three percent. Neither transaction currently meets that standard. As discussed above, the SFPUC Commission waived the requirement based on other anticipated benefits, including reducing federal subsidy risk, simplifying the headquarters financing, and replacing the existing obligations with debt containing standard ten-year par-call provisions that could make future refinancing less costly.[15]

Enterprise Financial Condition and Ratepayer Impact

SFPUC's Water, Wastewater, and Power Enterprises primarily generate revenue from the rates and charges paid by their respective retail and wholesale customers. The ten-year financial projections prepared by Bartle Wells Associates incorporate the proposed refinancing of each enterprise's share of the Series 2009D headquarters COPs along with each enterprises' broader capital plans, operating costs, future borrowing, and assumed rate increases. The projections do not separately identify the headquarters transaction's effect on utility rates or customer bills and do not indicate that the proposed Water Series 2010G refunding is included. The SFPUC does not include refunding savings into its planning until the refundings have closed and the savings are assured according to SFPUC staff.

Debt service coverage measures the revenue available to make debt payments. The projections show that all three enterprises will maintain current-basis debt service coverage of at least 1.25 through FY 2034-35, exceeding SFPUC's policy minimum of 1.10. The projected Indenture Coverage ratios also remain above the applicable 1.35 policy minimum throughout the period.

According to SFPUC, as the SFPUC only plans to proceed with the proposed transactions if they produce cash flow savings and reduce ratepayer costs, neither transaction is currently expected

[14] Federal law currently schedules sequestration reductions to BAB subsidy payments through FY 2031.

[15] Because the BABs were sold to taxable bond investors, they were issued without the ten-year par-call provisions commonly included in tax-exempt municipal bonds. Instead, paying them off early generally requires the City and SFPUC to compensate investors for the loss of future interest payments. The proposed replacement debt would allow SFPUC, after ten years, to repay the outstanding principal without an early-redemption premium, making a future refinancing easier and potentially less costly if interest rates decline.

to independently require a rate increase, although the proposed debt would be repaid from enterprise revenues funded primarily by customer rates and charges, just like the debt it is replacing is.

POLICY CONSIDERATION

As discussed above, neither proposed transaction currently meets SFPUC's debt policy requirement that a refunding produce NPV savings of at least three percent. Although the SFPUC Commission waived this requirement based on anticipated risk management and administrative benefits, the proposed ordinance would authorize SFPUC to execute the transactions without returning to the Board of Supervisors for approval if market conditions or federal subsidy expectations change. SFPUC has not identified a minimum cash flow savings threshold or stated that either transaction must produce positive NPV savings.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the issuance and sale authorization for Wastewater Enterprise debt from $224,570,000 to $24,570,000.
2. Approve the proposed ordinance as amended.

Items 7-10 Files 29-0950, 29-0951, 29-0952, 29-0953	Department: Public Utilities Commission

• EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve four as-needed professional services contracts to provide technical support for SFPUC's Hetch Hetchy Water and Power operations and capital programs. Each contract would have a not-to-exceed amount of $20 million, and an initial five-year term estimated to begin in January 2027 and end in December 2031, with an option to extend for two additional years. The four contractors are Stantec Consulting Services, Inc. (File 26-0950), AECOM Technical Services, Inc. (File 26-0951), Jacobs Engineering Group, Inc. (File 26-0952), and LEE, Inc. (File 26-0953).

Key Points

- SFPUC conducted a competitive solicitation process in December 2025 to select up to four firms to provide as-needed professional services contracts for the Hetch Hetchy Water and Power Division The four highest-ranked proposers — Stantec Consulting, AECOM Technical Services, Jacobs Engineering Group, and LEE, Inc — were selected for contract awards.
- The contracts would provide technical support for Hetch Hetchy Water and Power operations and capital programs. All four have generally the same scope, but SFPUC would assign task orders based on contractor expertise, availability, Local Business Enterprise (LBE) participation goals, and remaining capacity. No contractor is guaranteed a minimum amount of work.
- Staff will monitor contractor performance through monthly meetings; review of task-order deliverables, schedules, costs, staffing, administrative performance, and LBE participation; and formal evaluations at the completion of each task order and contract.

Fiscal Impact

- The four contracts have a combined not-to-exceed amount of $80 million, equivalent to an average annual contract capacity of $16 million over the five-year term. Funding will be encumbered through individual task orders as project needs arise. The contracts will be funded by Hetch Hetchy Water and Power capital and operating funds.

Recommendations

- Amend the proposed resolutions to correct the anticipated contract end date from December 2032 to December 2031 and disclose SFPUC's option to extend each contract by up to two years and approve the resolutions, as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In December 2025, the San Francisco Public Utilities Commission (SFPUC) issued a Request for Proposals (RFP) to select up to four firms to provide as-needed professional services contracts for the Hetch Hetchy Water and Power Division. Services include asset management and capital planning engineering services, including condition assessments, needs assessments, and capital plan development for Water Enterprise assets extending from O'Shaughnessy Reservoir in Yosemite National Park to Newark and Sunol in the San Francisco Bay Area.

SFPUC received six proposals. An evaluation panel of four members[1] reviewed and scored each submission based on a technical written proposal (up to 995 points), Diversity, Equity, and Inclusion (DEI) Submittal Evaluation Scores (up to 5 points), and Social Impact Partnership (SIP) Proposal Evaluation Scores (up to 49.75 bonus points), for a maximum possible score of 1,049.75 before any applicable CMD rating bonus. Eligible proposers could receive an additional rating bonus applied to their combined technical and DEI scores if the Contract Monitoring Division determines that prime contractors are Local Business Enterprises per Administrative Code Chapter 14B. Following the scoring process, the SFPUC selected the four highest ranked proposers to receive contract awards: (1) Stantec Consulting Services, Inc., (2) Jacobs Engineering Group, Inc. (3) AECOM Technical Services, Inc. (AECOM), and (4) LEE Inc. Exhibit 1 below shows the score and ranking of each proposer.

[1] The evaluation panel included two SFPUC managers with expertise in utility vegetation management and water, groundwater, civil, and environmental engineering; the CEO of the Tuolumne County Sonora Area Foundation, with expertise in community relations; and the Recreation Department Manager and Agency Director for the Turlock Irrigation District and Don Pedro Recreation Agency, with expertise in public administration, budgeting, and recreation management.

Exhibit 1: Request For Proposals Score Summary

Evaluation Phase	Stantec Consulting Services, Inc.	Jacobs Engineering Group, Inc.	AECOM Technical Services, Inc.	LEE, Inc.	Mott MacDonald Group, Inc.	GFT Infrastructure, Inc.
Technical Written	882	868	881	851	861	822
DEI Submittal	5	5	5	5	5	5
CMD Bonus Points	0	0	0	17	0	0
SIP Bonus Points	42	50	33	31	28	35
Total	**929**	**922**	**919**	**904**	**895**	**863**
Rank	**1**	**2**	**3**	**4**	**5**	**6**

Source: SFPUC
Note: Totals may not add due to rounding.

On July 14, 2026, the SFPUC Commission awarded four as-needed specialized and technical services contracts, subject to Board of Supervisors approval under Charter Section 9.118. The contracts were awarded to Stantec Consulting Services, Inc. (PRO.0336.A), Jacobs Engineering Group, Inc. (PRO.0336.B), AECOM Technical Services, Inc. (PRO.0336.C), and LEE, Inc. (PRO.0336.D). Each contract has a not-to-exceed amount of $20 million and an initial term of five years, estimated to begin in January 2027 and end in December 2031, with an option to extend for two additional years. These contract terms are consistent with the RFP used to procure these vendors.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve four as-needed professional services contracts to provide specialized and technical support for SFPUC's Hetch Hetchy Water and Power operations and capital programs. Each contract would have a not-to-exceed amount of $20 million, and an initial five-year term estimated to begin in January 2027 and end in December 2031, with an option to extend for two additional years. The four contractors are Stantec Consulting Services, Inc. (File 26-0950), AECOM Technical Services, Inc. (File 26-0951), Jacobs Engineering Group, Inc. (File 26-0952), and LEE, Inc. (File 26-0953).

The proposed resolutions should be amended to state that each contract has an initial five-year term anticipated to end in December 2031, rather than December 2032, and to disclose SFPUC's option to extend each contract for up to two additional years.

SFPUC currently has four as-needed professional services contracts providing similar services, with a combined not-to-exceed amount of $52 million. The prime contractors are Stantec, AECOM, Mott MacDonald, and LEE Inc. These contracts began in August 2023 and expire in August 2028. SFPUC is proposing the four new contracts to ensure the continued availability of specialized and technical services for Hetch Hetchy Water and Power operations, maintenance, regulatory compliance, asset management, and capital programs.

Scope of Work

The four proposed contracts contain generally the same as-needed scope of services as the four existing PRO.0231 contracts. Services include water and power engineering services, operations and maintenance support, asset and land management, environmental and regulatory compliance, hazardous materials and waste management, health and safety services, condition and needs assessments, project prioritization, and capital plan development.

SFPUC would assign individual task orders based on each contractor's qualifications and relevant technical experience, staff availability, Local Business Enterprise (LBE) participation goals, and remaining contract capacity. Work may therefore not be distributed evenly among the four contractors, and no contractor is guaranteed a minimum amount of work.

Subcontractors & Local Business Enterprise Participation

Each prime contractor is proposing to subcontract work to other firms, including certified Local Business Enterprises. The subcontractors and the scope of work are listed as Appendix I to this report.

The Contract Monitoring Division established a 20 percent Local Business Enterprise (LBE) subcontracting requirement for each of the four proposed contracts. All four selected contractors committed to meeting or exceeding this requirement. As shown in Exhibit 2, the proposed LBE participation commitments range from 20 to 27 percent.

Exhibit 2: Proposed Local Business Enterprise Commitments

Contract	LBE Requirement	Contractor Commitment
Stantec Consulting Services, Inc.	20%	20%
Jacobs Engineering Group, Inc.	20%	21%
AECOM Technical Services, Inc.	20%	27%
LEE, Inc.	20%	20%

Source: SFPUC

LBE Performance Under Existing Contracts

SFPUC also provided LBE utilization data for the four existing PRO.0231 contracts as of August 25, 2026. As of August 25, 2026, AECOM was the only consultant team that had achieved the full contract-level LBE goal based on invoiced expenditures. Mott MacDonald/Dabri and LEE had authorized and pending LBE participation sufficient to exceed their proportionate goals for work authorized to date, but their invoiced LBE expenditures remained below their full contract-level goals. Stantec/JH had not yet met its proportionate LBE goal based on either authorized and pending participation or invoiced expenditures.

Social Impact Partnership Commitments

Social Impact Partnership (SIP) commitments require each contractor to provide financial contributions and/or volunteer hours over the contract term, as shown in Exhibit 3 below. All four contractors committed to direct financial contributions, and Stantec, Jacobs, and LEE also committed to volunteer hours[2]. The commitments were proposed by the contractors in response to the RFP and incorporated into the proposed agreements. Contractors must submit annual SIP Work Plans and biannual SIP performance reports to SFPUC.

Exhibit 3: Social Impact Partnership Commitments Table, by SIP Program Area

Contractor	Job Exposure, Training, and Internships	Small Business Support	Public Education	Environment and Community Health	Total Commitment
Stantec Consulting Services, Inc.	$150,000	$0	$110,000	$40,000	$300,000
Jacobs Engineering Group, Inc.	157,500	55,250	112,750	75,000	400,500
AECOM Technical Services, Inc.	65,000	0	65,000	70,000	200,000
LEE, Inc.	0	0	200,000	0	200,000
Total Contribution	**$372,500**	**$55,250**	**$487,750**	**$185,000**	**$1,100,500**

Source: Proposed contracts

Performance Monitoring

Hetch Hetchy Water and Power staff monitor consultant performance at the task-order level by reviewing the quality of services and deliverables, schedule and cost management, scope management, staffing and resources, value of services, administrative performance, and LBE participation. Staff also meet monthly with each prime contractor to review contract and task-order metrics, the status of major deliverables, upcoming work, and performance concerns. SFPUC recently implemented formal evaluations at the completion of each task order and plans to complete an overall evaluation at the close of each contract. SFPUC intends to use the same performance-monitoring process for the four proposed contracts.

SFPUC provided eight task-order performance evaluations for the existing PRO.0231 contracts: three for PRO.0231.B (Mott MacDonald/Dabri joint venture), two for PRO.0231.C (AECOM Technical Services/Water Resources Engineering joint venture), and three for PRO.0231.D (LEE, Inc.). Seven of the eight evaluations rated overall performance as excellent or good. One evaluation for LEE's Task Order 03 rated overall performance as fair. The evaluator reported that

[2] Volunteer hours are calculated at $150 per hour.

LEE performed well on equipment installations and projects using in-house labor but that deliverables for more complicated projects fell behind schedule or did not meet quality standards. The evaluation also cited missed deadlines, cost and schedule overruns, inconsistent communication and direction, invoicing disputes, and the need for additional supervision. LEE's other two task-order evaluations rated its overall performance as excellent and good. SFPUC did not provide an evaluation for PRO.0231.A (Stantec/Joe Hill Consulting Engineers joint venture).

FISCAL IMPACT

The proposed resolutions would approve four new as-needed professional services contracts with a not-to-exceed amount of $20 million each, for a combined authorization of $80 million over five years. As previously mentioned, the proposed contracts would replace the four existing five-year contracts, which have a combined authorization of $52 million. The proposed aggregate authorization is therefore $28 million, or approximately 54 percent, greater than the authorization for the existing contracts.

Existing Contract Expenditures and Basis for Proposed Authorization

As of September 10, 2026, SFPUC had authorized approximately $32.5 million in task orders under the four existing contracts. Over approximately three years, this represents an average task-order authorization rate of approximately $10.8 million annually, which SFPUC rounded to $11 million and used as the historical annual burn rate. SFPUC also identified approximately $6.4 million in pending task orders, which would bring total authorized and pending work to approximately $38.9 million. If those pending requests are approved, approximately $13.1 million of the existing contracts' combined $52 million authorization would remain available for additional work.

SFPUC used the approximately $11 million historical annual burn rate as the basis for estimating the proposed contract amounts and adjusted it for projected growth in the capital program. SFPUC's five-year capital budget increased by 76.9 percent, from approximately $575.9 million to $1.02 billion. According to SFPUC, the increase reflects inflation, capital program growth, and other anticipated work. Because approximately 55 percent of expenditures under the existing contracts were funded by capital sources, SFPUC applied the 76.9 percent growth rate only to the capital-funded portion of the $11 million historical annual burn rate. This calculation produces approximately $4.65 million in additional estimated annual expenditures.[3] Adding this amount to the historical annual burn rate results in projected expenditures of approximately $15.65 million annually. Over five years, projected expenditures total approximately $78.3 million, which SFPUC rounded to the proposed $80 million aggregate authorization.

At the projected annual expenditure rate, the $80 million authorization would provide approximately 61 months of spending capacity, generally corresponding to the proposed five-year contract terms. However, SFPUC anticipates substantially using the proposed contracts beginning in mid to late 2028, approximately 18 to 21 months after their anticipated January

[3] The calculation is $11 million × 76.9 percent × 55 percent = approximately $4.65 million.

2027 start and near the existing contracts' August 2028 expiration.[4] If exercised, the two-year extension option could provide additional time to use any remaining contract capacity because a portion of the initial terms may elapse before substantial work shifts to the proposed contracts.

The contract amounts establish maximum spending authority and do not obligate SFPUC to expend the full $80 million. The agreements are structured as time and materials contracts, and funding would be encumbered as project needs arise through individual task orders.

Estimated Contract Allocation by Service Category

SFPUC developed the following estimated allocation to establish the $20 million not-to-exceed amount for each proposed contract, as shown in Exhibit 4 below. The allocation is based on the Engineer's Estimate, historical utilization under the existing contracts, and anticipated work.

Exhibit 4: Estimated Service Category Allocation

Category	Amount	Percent
Mechanical Engineering	$600,000	3%
Surveying (Land & Aerial)	600,000	3%
Water Resources Engineering	600,000	3%
Civil Engineering	800,000	4%
Electrical Engineering	800,000	4%
Records/Information Management Services	800,000	4%
Regulatory Compliance Assistance	1,000,000	5%
Regulatory Compliance	1,000,000	5%
Financial Services	6,000,000	30%
Construction Management	7,800,000	39%
Total	**$20,000,000**	**100%**

Source: SFPUC

According to SFPUC, these amounts are planning estimates and do not represent the work that each contractor is guaranteed to receive.

Billing Rates

The billing rates listed in Appendix B-1 (Fee Schedule) vary by contractor, firm, employee, and staff classification and range from $70.43 to $300 per hour (including overhead and profit) across the four proposed contracts. The initial billing rates may not exceed $300 per hour or the lowest rate charged to another governmental entity within the geographic area where the services are performed. Rates may be adjusted annually, but increases are limited to the applicable annual

[4] SFPUC states that staff initiated the replacement procurement early to avoid a service gap because contract processing is typically lengthy, but the procurement proceeded faster than anticipated. SFPUC states that monthly contractor meetings and task-order funding records will be used to prevent duplicate assignments. SFPUC generally intends to exhaust the existing contracts before using the proposed contracts, except when specialized expertise is unavailable under an existing contract.

percentage change in the San Francisco Bay Area Consumer Price Index. According to SFPUC, the proposed rates reflect the experience and hourly rates of each contractor's proposed team.

For staff added to a firm already listed in Appendix B-1, the billing rate would be calculated using that firm's existing overhead and profit multiplier. If a new subcontractor is added after contract execution, its multiplier may not exceed the agreement's Effective Overhead and Profit Rate (EOPR). The EOPR is the weighted average of the overhead and profit multipliers proposed by the firms on the contractor's original team, taking into account each firm's anticipated share of contract work. The approved multiplier is applied to an employee's base hourly wage to account for expenses such as employee benefits, administrative costs, and profit when calculating the hourly billing rate. All personnel additions and resulting billing rates require prior SFPUC approval and remain subject to the applicable hourly-rate cap.

Sources of Funding

The proposed contracts would be funded by Hetch Hetchy Water and capital and operating budgets, which are funded by water revenue bonds, power revenue bonds, state and federal grants and loans, and customer revenues. Based on expenditures under the existing contracts, SFPUC anticipates that approximately 55 percent would be supported by capital funds, 33 percent by operating funds, and 12 percent by programmatic funds. These percentages are estimates, and the actual funding mix will depend on the task orders issued under the proposed contracts.

RECOMMENDATIONS

1. Amend the proposed resolutions to correct the anticipated contract end date from December 2032 to December 2031 and disclose SFPUC's option to extend each contract by up to two years.
2. Approve the resolutions, as amended.

Appendix 1: Subcontractors for Proposed Contracts
Exhibit 5: Subcontractors for Stantec Consulting Services

Subcontractor	Scope of Work
AEW Engineering	Env Advisory Services, Haz Waste & Remediation
AAES, Inc.	Electrical Engineering
BioMaAS Inc.	Habitat Advisory Services
Climate Adaptive	Water Resources Engineering
Joe Hill Consulting Engineers	Civil Engineering, Water Resources, Records Management, Construction Management
McGovern McDonald Engineers	Civil & Water Resources Engineering
Aurora Environmental Services, Inc.	Environmental Advisory Services
Q&A Consulting LLC	Health & Safety Testing Services, Regulatory Compliance
SRT Consultants	Civil Engineering, Water Resources Engineering
Tuan & Robinson Structural Engineers	Structural Engineering
WIN Structural Consulting	Structural Engineering
Data Sciences Group	Urban & Regional Planning
Davis-King & Associates	Environmental Advisory Services
Galem-CM Inc	Construction Management
Gravity Engineering	Financial Services, Construction Management
Mach 8 Biological Consulting	Tree Service
Sierra Consultants	Surveying
Archer Energy Solutions	Regulatory Compliance, Grid Management

Subcontractor	Scope of Work
Grid Subject Matter Experts	Compliance, Systems Operations
Power Pros	Electrical Testing & Operations
Tanner Pacific	Owner's Advisor Services
Tuolumne Band of Me-Wuk Indians	Tribal Monitoring

Source: SFPUC Memo

Exhibit 6: Subcontractors for Jacobs Engineering Group

Subcontractor	Scope of Work
AVILA & ASSOC CONSULTING ENGINEERS INC	Water - Water Supply, Storage, Delivery, and Transport Services, Engineering planning services O&M - Asset Management Services
Galen-CM INC	O&M - Management Improvement Services, Asset Management
Gravity Engineering Inc	Water - Water Supply, Storage, Delivery, and Transport Services, Engineering planning services O&M - Management Improvement Services, Asset
HRA CONSULTING ENGINEERS	Water: Engineering planning services Power Services: Powerhouse power system equipment; controls/communications equipment; transmission

Subcontractor	Scope of Work
INFRATERRA INC	Water - Water Supply, Storage, Delivery, and Transport Services, Engineering planning services O&M - Asset Management Services
JOE HILL CONSULTING ENGINEERS	Water - Water Supply, Storage, Delivery, and Transport Services, Engineering planning services Power - Engineering planning services
MCGOVERN MCDONALD ENGINEERS	Water - Water Quality Services, Water Treatment and Wastewater Treatment Services, Engineering planning Services
Sutro Consultants	O&M – Asset Management Services
Two Rivers Corp	O&M – Management Improvement Services
Auriga Corp	Power - Powerhouse Power System Equipment, Transmission and Distribution System Equipment, Engineering maintenance support of power assets
Kennedy/Jenks Consultants, Inc.	Water - Water Quality Services, Water Treatment and Wastewater Treatment Services, Engineering planning

Source: SFPUC Memo

Exhibit 7: Subcontractors for AECOM Technical Services

Subcontractor	Scope of Work
AGS Inc.	Civil Engineering Planning

Subcontractor	Scope of Work
Bay Area Coating Consultants Inc.	Corrosion Eng - Corrosion Control Svcs; Lab
Climate Adaptive Systems, LLC	Water Resources - Receiving Water Quality
Data Sciences Group	Regional Asset Management Planning
Divis Consulting, Inc. Geotechnical Assessments	Geotechnical Assessments
Effective Management Services, LLC	Construction Management - Safety Management
Galen-CM Inc.	Maintenance, Repair, Replacement
Gravity Engineering Inc.	Civil Engineering - Asset Management,
M. Lee Corporation	Construction Management - Cost Estimating
Pathways Climate Institute, LLC	Environmental Advisory-Climate Change Analyses
SCA Environmental, Inc	Hazardous Materials and Waste Services
WRE	Water Supply Planning
Archery Energy Solutions	Power Regulatory Compliance
V&A Consulting Engineers, Inc.	Water Storage and Conveyance (Concrete and Steel) Inspections

Source: SFPUC Memo

Exhibit 8: Subcontractors for LEE, Inc.

Subcontractor	Scope of Work
ATS	Environmental, CM, Operations and Maintenance Services
Avila and Associates	Water Resources Engineering; Civil Engineering; Environmental Advisory Services
BioMaAS Inc.	Environmental Assessment and Monitoring Services
Chaves & Associates	Document Control, Records Storage, Project Admin, Training
Dabri	Technical As Needed Services, Special Inspection, Staff Augmentation, CM, Closeout
Galen	Construction Management
Gravity Engineering	Financial Services, Civil Engineering
McGovern McDonald Engineers	CM, Financial Services, Regulatory Compliance Assistance, Water Resources and Civil Engineering

Subcontractor	**Scope of Work**
Black and Veatch	Water/Wastewater, Power and O&M Services
Delve Underground	Task 1.A.X, Task 1.A.XVI, Task 3.B.III and Task 3.B.V
GEI	Water Services, Water quality Services, Power Services, and Operations and Management Services
Hazen and Sawyer	Task 1
Tanner	Owner's Advisory and CM Services

Source: SFPUC Memo

Item 11 File 26-0954	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a program management consulting services contract between the San Francisco Public Utilities Commission (SFPUC) and Deloitte to support the Power Enterprise Capital Improvement Programs. The contract would have a not-to-exceed amount of $30 million and an initial 10-year term estimated to begin November 16, 2026, through November 15, 2036. The draft contract and RFP provide SFPUC with an option to extend the contract by up to five additional years, through November 15, 2041.

Key Points

- SFPUC conducted a competitive solicitation process in October 2025 for a program management consulting contract to support the Hetch Hetchy Power and CleanPowerSF 10-year capital plans. SFPUC received one proposal, which staff determined was nonresponsive. SFPUC revised and re-advertised the solicitation in April 2026, and Deloitte submitted the only responsive proposal. Staff reviewed Deloitte's qualifications, work approach, and compliance with other solicitation requirements but did not score the proposal.
- Task areas include program administration, strategic capital planning, program delivery, and project technical support. Work would be authorized through individual task orders, and the contract does not guarantee Deloitte a minimum amount of work or compensation.
- Deloitte committed to subcontract 20 percent of the work to three Local Business Enterprise firms. Deloitte also committed to providing 4,000 volunteer hours, valued at $600,000, through the Social Impact Partnership program.

Fiscal Impact

- The proposed contract would have a total amount not to exceed $30 million over the 10-year contract term. The amount is based on the anticipated need for consulting services over the contract term based on the size of the Power Enterprise capital plan but is not tied to a predetermined set of task orders, staffing levels, or labor hours. SFPUC projects lower expenditures while the program management framework is established during the initial years of the contract and higher expenditures as major capital projects advance.
- The Hetch Hetchy Power and CleanPowerSF capital programs would fund the contract.

Recommendations

- Amend the resolution to disclose the option to extend the contract by up to five additional years and approve the resolution, as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or {3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) Power Enterprise consists of Hetch Hetchy Power, which supplies electricity to municipal facilities and certain retail and wholesale customers, and CleanPowerSF, the City's community choice electricity program. Their 10-year capital plans, covering FY 2026-27 through FY 2035-36, total approximately $2.28 billion, consisting of approximately $2.24 billion for Hetch Hetchy Power and $37.2 million for CleanPowerSF. The plans include investments in renewable energy, transmission and distribution infrastructure, electrification and decarbonization, power reliability, grid expansion, streetlight repair and replacement, and related projects and upgrades.

Procurement

In October 2025, SFPUC issued a Request for Proposals (RFP) for a program management consulting contract to support implementation of the Hetch Hetchy Power and CleanPowerSF 10-year capital plans. SFPUC received one proposal, which staff determined was nonresponsive because the proposer did not meet minimum qualifications. SFPUC revised[1] and re-advertised the RFP in April 2026. Deloitte Transactions and Business Analytics LLP (Deloitte) submitted the only responsive proposal. According to SFPUC, the revised solicitation received only one responsive proposal because the specialized qualifications required substantially limit the number of firms nationwide with both the power-sector technical expertise and program management capabilities needed to support large-scale power capital programs. SFPUC states that approximately 110 firms were notified of the original solicitation, and staff contacted 102 additional firms during the re-advertised procurement.

Because Deloitte was the only responsive proposer, SFPUC did not conduct competitive scoring. Staff instead reviewed Deloitte for compliance with minimum qualifications and evaluated its work approach and other solicitation requirements. The procurement therefore established that Deloitte submitted a responsive proposal and met minimum qualifications but did not provide a scored technical or price comparison with another proposer.

On July 28, 2026, the SFPUC Commission awarded Contract No. PRO.0339(R) to Deloitte, subject to Board of Supervisors approval. The proposed contract has a not-to-exceed amount of $30 million and a 10-year term estimated to begin November 16, 2026, through November 15, 2036. These contract terms are consistent with the RFP used to procure this vendor.

[1] Before re-advertising the contract, SFPUC reduced the required value of prior program management experience, removed a minimum qualification concerning power-sector and California-specific knowledge, reduced certain qualifications for key and lead personnel, and eliminated one required key or lead position. SFPUC determined that the revisions were necessary based on feedback received from firms during its outreach efforts.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a program management consulting services contract between SFPUC and Deloitte to support the Power Enterprise Capital Improvement Programs. The contract would have a not-to-exceed amount of $30 million and an initial 10-year term estimated to begin November 16, 2026, through November 15, 2036. The draft contract and RFP provide SFPUC with an option to extend the contract by up to five additional years, through November 15, 2041. The proposed resolution should be amended to disclose the option to extend the contract by up to five additional years.

According to SFPUC, the proposed contract would be the first program management consulting contract dedicated to the Power Enterprise. The Water and Wastewater Enterprises currently have similar contracts. SFPUC states that the 10-year term aligns with the duration of the capital plan and would provide continuity throughout the delivery of capital projects while allowing processes and expertise developed under the proposed contract to be transferred to SFPUC staff over time.

Scope of Work

Under the proposed contract, Deloitte would provide services in four task areas:

- **Program administration**, including contract administration, program planning, document management, and quality management;
- **Strategic capital planning**, including capital program review, long-range capital planning, project prioritization, and integration of capital planning with asset management;
- **Program delivery**, including pre-construction safety, performance and risk management, cost estimating, quality control, operational coordination, design standards, regulatory compliance, and program deliverability reviews; and
- **Project technical support**, including project planning and review, grid modernization and decarbonization, review of emerging technologies (e.g., microgrids[2], battery storage[3]), power-system modeling, grid connection support, technical training, and operational transition support of individual projects and power systems.

SFPUC would authorize work through individual task orders. Deloitte would propose the scope, schedule, staffing plan, deliverables, Local Business Enterprise (LBE) utilization, and budget for each assignment. SFPUC staff would negotiate and approve each task order before work begins. The contract does not guarantee Deloitte a minimum amount of work or compensation.

Subcontractors & Local Business Enterprise Participation

Each prime contractor is proposing to subcontract work to other firms, including certified Local Business Enterprises. The subcontractors and the scope of work are listed below in Exhibit 1.

[2] A microgrid is a localized energy system that can operate while connected to the larger electric grid or independently during a grid disruption.

[3] Battery energy storage systems store electricity for later use to help balance electricity supply and demand and improve grid reliability and resilience.

The Contract Monitoring Division established a 20 percent Local Business Enterprise subcontracting requirement for the proposed contract. Deloitte committed to meeting this requirement through three LBE subcontractors, as shown in Exhibit 1 below.

Exhibit 1: Proposed Subcontractors

Subcontractor	LBE Commitment	Scope
InnoActive Group LLC	10%	Program administration and program management or delivery
Civic Edge Consulting LLC	2.5%	Communications and reporting support
Coor Strategies	7.5%	Strategic capital planning and program deliverability review
Total LBE	**20%**	
HDR, Inc.		Program Administration, Strategic Capital Planning, Program Delivery, Project Technical Support
Sargent & Lundry Engineers		Project Technical Support, Power Modeling, and Electrical Design

Source: SFPUC

Social Impact Partnership Commitments

Social Impact Partnership (SIP) commitments require contractors to provide financial contributions and/or volunteer hours over the contract term. Deloitte committed to provide 4,000 volunteer hours over the 10-year contract term. The commitment consists of 1,000 volunteer hours in each of four program areas: (1) job exposure, training, and internships (2) small business support (3) public education; and (4) environmental and community health. Based on the RFP's valuation of $150 per volunteer hour, the total commitment is valued at $600,000. Deloitte did not commit to a direct financial contribution.

Deloitte proposed the commitments in response to the RFP, and they are incorporated into the proposed agreement as contractual obligations to be provided at no cost to SFPUC. Specific beneficiaries and activities would be identified in annual SIP Work Plans following contract award. Deloitte will also submit biannual performance reports and must complete the commitments by the end of the contract term.

Performance Monitoring

SFPUC Power Enterprise staff would monitor Deloitte's performance through task-order approvals, monthly and quarterly progress reports, review of deliverables and performance metrics, and annual consultant performance evaluations beginning in the quarter following the notice to proceed. If an evaluation identifies deficient performance, SFPUC would require a corrective action plan and conduct quarterly evaluations until the deficiency is resolved. Deloitte would also be required to track staffing, subcontractor participation, hours, scope, schedules, and budgets and to maintain program and quality management systems.

FISCAL IMPACT

The proposed contract would have a total amount not to exceed $30 million over the 10-year contract term. The projected contract expenditures by task area are shown in Exhibit 2 below.

Exhibit 2: Projected Contract Expenditures by Task Area (Dollars in Millions)

Task Area	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032–2037	Total	Percentage
Program Administration	$0.60	$0.60	$0.55	$0.55	$0.50	$2.45	$5.25	17.5%
Strategic Capital Planning	0.75	0.75	0.75	0.75	0.75	3.75	7.5	25.0%
Program Delivery	0.5	0.6	0.8	0.9	0.9	3.8	7.5	25.0%
Project Technical Support	0.4	0.5	0.6	0.7	1	4.3	7.5	25.0%
Management and Emerging Needs	0	0	0.1	0.2	0.35	1.6	2.25	7.5%
Total	**$2.25**	**$2.45**	**$2.80**	**$3.10**	**$3.50**	**$15.90**	**$30.00**	**100.0%**

Source: SFPUC

According to SFPUC, the $30 million not to exceed amount, which reflects the amount in the RFP, was based on the anticipated need for consulting services over the 10-year contract term but is not tied to a predetermined set of task orders, staffing levels, or labor hours. The amount is intended to provide sufficient flexibility to support the Power Enterprise Capital Improvement Programs throughout the contract term. These programs include a large portfolio of transmission, substation, distribution, grid-expansion, decarbonization, and other power infrastructure projects which may involve complex planning, regulatory, operational, and delivery requirements.

In developing the contract amount, SFPUC evaluated the anticipated need for program management support across the capital program and major projects. As shown in Exhibit 2 above, for planning purposes, SFPUC expects approximately 25 percent of the contract amount to support each of three task areas (strategic capital planning, program delivery, and project technical support) and 17.5 percent to support program administration. The remaining 7.5 percent would be reserved for management and emerging needs.

SFPUC projects expenditures to be lower during the early years of the contract while the program management framework is established and to increase as major capital projects advance and require additional program delivery and technical support. SFPUC anticipates fully expending the contract amount. However, as previously mentioned, the contract does not guarantee Deloitte a minimum amount of work or compensation, and expenditures would be authorized through individual task orders based on demonstrated program needs. The not-to-exceed amount of $30 million represents approximately 1.3 percent of the combined $2.28 billion Hetch Hetchy Power and CleanPowerSF 10-year capital budgets, which is similar to the program management consultant costs for the Water and Sewer Enterprises (1.7 percent and 1.5 percent, respectively).

Billing Rates

Appendix B-1 (Fee Schedule) lists hourly billing rates for Deloitte and its subcontractors ranging from $104.89 to $300, inclusive of overhead and profit. Billing rates are capped at $300 per hour for key and lead staff and $270 per hour for all other staff. The rates may not exceed the lowest

rate charged to another governmental entity in the geographic area where the services are performed. Rates may be adjusted annually, but increases are limited to the annual percentage change in the San Francisco Bay Area Consumer Price Index.

Sources of Funding

Contract expenditures would be funded through the Hetch Hetchy Power and CleanPowerSF capital improvement programs. SFPUC has not identified a predetermined allocation of the $30 million contract amount between the two programs. Instead, expenditures would be charged to the applicable capital program or project through individual task orders based on the services provided and the program benefiting from the work.

Hetch Hetchy Power capital projects are funded through a combination of enterprise revenues and debt proceeds, while the CleanPowerSF capital plan is funded by CleanPowerSF revenues.

RECOMMENDATIONS

1. Amend the resolution to disclose the option to extend the contract by up to five additional years.
2. Approve the resolution, as amended.