

**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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May 20, 2016

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** May 25, 2016 Budget and Finance Committee Meeting

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<b>Items 12 and 13</b> <b>Files 16-0464 and 16-0465</b>	<b>Department:</b> San Francisco Municipal Transportation Agency (SFMTA)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objective</b></p> <p><u>File 16-0464</u>: Ordinance appropriating \$207,000,000 of revenue bond proceeds for transportation projects, equipment, debt service reserve and financing costs.</p> <p><u>File 16-0465</u>: Resolution authorizing the SFMTA to issue not-to-exceed \$207,000,000 in revenue bonds, approving related financing documents and making CEQA determinations.</p> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Proposition A, approved by San Francisco voters in 2007, authorized SFMTA to issue revenue bonds to finance transit, parking and other capital improvement projects, subject to Board of Supervisors' approval. In 2012, SFMTA issued \$37,960,000 to refund outstanding revenue bonds and \$25,835,000 to finance transit and parking projects.</li> <li>• The SFMTA's second issuance of bonds in 2013 and 2014 for \$162,636,058 included \$150,000,000 to fund capital projects for (1) pedestrian safety and transit signals, (2) street and bicycle projects, (3) transit system improvements, (4) parking garage and Muni facility improvements, and (5) light rail vehicle procurement.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• On the proposed \$207 million revenue bonds, annual true interest costs would be approximately 4.32%. Estimated total debt service is \$385.4 million, of which \$178.4 million is interest. Assuming two issuances, the requested bonds will add between \$11 million to \$16 million in additional annual debt service. Combining prior debt with the new \$207 million of debt, the annual debt service would range from \$17.8 million to \$26.1 million.</li> <li>• SFMTA will repay the bonds from annual pledged gross revenues of \$626.3 million in FY 2015-16, from passenger fares, traffic and taxis fees, permits, parking meters and parking garages, and other SFMTA operating revenues. However, repayment of the \$35 million for the transportation improvements related to the Warriors project will be reimbursed from the Mission Bay Transportation Improvement Fund.</li> <li>• According to SFMTA's debt policy, aggregate annual debt service on long-term debt should not exceed five percent of SFMTA's annual operating expenses. Based on SFMTA's financial projections, combined annual debt service on the previous and proposed revenue bonds would not exceed 2.8 percent of annual operating expenses over the 30-year term.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution and ordinance.</li> </ul>	

## MANDATE STATEMENT

Charter Section 8A.102(b)(13) authorizes the San Francisco Municipal Transportation Agency (SFMTA) to incur debt and issue bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation and other debt instruments without further voter approval, subject to Board of Supervisors approval. Charter Section 8A.102(b)(13) requires that (1) the Controller must first certify that SFMTA has sufficient unencumbered fund balances available in the appropriate fund to meet all payments on debt obligations as they become due; and (2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the SFMTA.

Charter Section 9.105 requires Board of Supervisors' approval of amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

## BACKGROUND

### SFMTA's Prior Issuance of Debt

In 2007 San Francisco voters approved Proposition A, amending the Charter to add Section 8A.102, authorizing SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval, subject to Board of Supervisors' approval. SFMTA did not request Board of Supervisors approval to issue debt until 2012, instead funding capital projects on a cash basis with available federal, state and local grants, San Francisco County Transportation Authority (SFCTA) sales tax revenues (Proposition K, which authorized a ½ cent sales tax to pay for transportation projects), and SFMTA operating funds.

### 2012 Revenue Bonds

In April 2012 the Board of Supervisors approved (a) an ordinance amending the City's Administrative Code authorizing SFMTA to issue revenue bonds (File 11-1354), (b) a resolution authorizing the first issuance of up to \$80,000,000 in SFMTA revenue bonds (File 11-1341), and (c) an ordinance appropriating \$75,235,000 of the revenue bond proceeds (Files 12-0242 and 12-0243). In July 2012, the SFMTA issued and appropriated \$63,795,000 of the 2012 revenue bonds as summarized in Table 1 below.

**Table 1: 2012 SFMTA Revenue Bonds**

Series 2012	Amount	Purpose
2012 Series A Parking Garage Refunding Revenue Bonds	\$37,960,000	Refunded bonds previously issued by San Francisco Parking Authority and three non-profit parking corps (Ellis-O'Farrell, Downtown, and Uptown).
2012 Series B Revenue Bonds	25,835,000	System wide transit access and reliability projects, Muni Metro projects, light rail facility rehabilitation, radio replacement and parking projects.
<b>Total</b>	<b>\$63,795,000</b>	

Because the difference of \$16,205,000 between the authorized Series 2012 Revenue Bonds of up to \$80,000,000 and the actual bond issuance of \$63,795,000 was due to changes in financing rather than project costs, SFMTA cannot use this previous authorization for future issuances. As of April 2016, SFMTA reports that all of the 2012 Series A and B revenue bond proceeds were expended as budgeted, except for \$57,278 reallocated to SFMTA's radio replacement project and \$7,000 for additional parking garage projects.

### 2013 Commercial Paper

In 2013, the SFMTA Board of Directors approved a five-year \$3.06 billion capital improvement plan for FY 2013-17. In July 2013, the Board of Supervisors approved SFMTA's issuance of \$100,000,000 in commercial paper<sup>1</sup> to provide interim financing for SFMTA's capital program. According to Ms. Sonali Bose, SFMTA Chief Financial Officer, to date, the SFMTA has not issued any commercial paper.

### 2013 and 2014 Revenue Bonds

In September 2013 the Board of Supervisors approved a second issuance of a not to exceed \$165 million SFMTA revenue bonds and appropriated these revenue bond proceeds, including \$150 million for SFMTA project costs (Files 13-0866 and 13-0861). Chapter 43, Article XIII of the City's Administrative Code authorizes the SFMTA Board of Directors to issue authorized revenue bonds in one or more series on one or more dates. The SFMTA split this revenue bond authorization into two sales as summarized in Table 2 below.

**Table 2: 2013 and 2014 Revenue Bond Proceeds**

Projects	2013 Bonds	2014 Bonds	Total
Pedestrian Safety/ Transit Signal Improvements	\$5,437,587	\$11,000,000	\$16,437,587
Street Capital Improvements (Bicycle Projects)	9,000,000	15,227,540	24,227,540
Transit Fixed Guideway Improvements	28,562,413	---	28,562,413
Muni Transit System Safety and Improvements	11,000,000	16,500,000	27,500,000
Facility Improvements	8,500,000	30,000,000	38,500,000
Muni Light Rail Vehicle Procurement	12,500,000	2,272,460	14,772,460
<b>Total SFMTA Project Costs</b>	<b>\$75,000,000</b>	<b>\$75,000,000</b>	<b>\$150,000,000</b>
Debt Service Reserve and Issuance Costs	7,243,319	5,392,739	12,636,058
<b>Total Revenue Bond Issuances</b>	<b>\$82,243,319</b>	<b>\$80,392,739</b>	<b>\$162,636,058</b>

Of the total \$150 million of 2013 and 2014 bond proceeds available for SFMTA project funding, SFMTA reports expending a total of \$52,241,849, leaving a remaining balance of \$97,758,151, as summarized in Table 3 below. Of the remaining balance of approximately \$98 million, the SFMTA anticipates expending approximately \$25 million by December 2016 and the remaining \$73 million by December 2017. SFMTA also advises that \$13.5 million of the funds appropriated for Transit Fixed Guideway Improvements need to be redirected to Islais Creek Phase II Facility Improvements, after SFMTA informs the SFMTA Bond Oversight Committee and SFMTA Board.

<sup>1</sup> Commercial paper is a form of short-term interim financing for capital projects that permits the City to pay project costs on an ongoing basis. Commercial paper has a fixed maturity of up to 270 days and provides for refinancing with subsequent issuances of commercial paper or debt, such as bonds. Commercial paper can reduce overall borrowing costs because commercial paper interest rates are typically lower than long-term interest rates.

**Table 3: Expenditures to Date from \$150 Million 2013 and 2014 Bonds**

Projects	Total Bond Proceeds	Expenditures To Date	Remaining
Pedestrian Safety/ Transit Signal Improvements	\$16,437,587	\$3,414,033	\$13,023,554
Street Capital Improvements (Bicycle Projects)	24,227,540	2,756,898	21,470,642
Transit Fixed Guideway Improvements	28,562,413	10,478,066	18,084,347
Muni Transit System Safety and Improvements	27,500,000	7,357,273	20,142,727
Facility Improvements	38,500,000	19,008,090	19,491,910
Muni Light Rail Vehicle Procurement	14,772,460	9,227,489	5,544,971
<b>Total</b>	<b>\$150,000,000</b>	<b>\$52,241,849</b>	<b>\$97,758,151</b>

**SFMTA Outstanding Debt**

Based on the SFMTA's previous issuances in 2012, 2013 and 2014, the SFMTA has issued a total of \$226.4 million of revenue bonds to refinance debt and finance transportation capital projects. Since each issuance, SFMTA has made annual debt service payments on these bonds. As shown in Table 4 below, SFMTA currently has \$185,835,000 of outstanding revenue bonds, with existing debt extending to 2044.

**Table 4: Outstanding SFMTA Debt**

Bond Series Issuance	Outstanding Debt	Final Maturity of Bonds
2012A	\$24,600,000	2032
2012B	25,835,000	2042
2013	67,725,000	2033
2014	67,675,000	2044
<b>Total</b>	<b>\$185,835,000</b>	

In FY 2016-17, SFMTA anticipates expending \$16.6 million for debt service on the outstanding debt. As SFMTA debt is front loaded such that debt service payments are higher in the earlier years, existing annual debt service costs will decrease to \$13.3 million in FY 2022 -23 and \$7.3 million in FY 2033-34.

**Revenue Bond Oversight Committee**

In 2011, the SFMTA Board of Directors approved a SFMTA Bond Oversight Committee, comprised of seven members, to oversee the spending of bond proceeds and inform the Board of Directors and the public on the status of the projects funded by debt. The SFMTA Bond Oversight Committee has issued annual reports for FY 2012-13, FY 2013-14 and FY 2014-15.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 16-0465):

- (1) Authorizes the issuance of not-to-exceed \$207,000,000 aggregate principal amount of revenue bonds in one or more series on one or more dates by the SFMTA to finance certain transportation related projects, a reserve fund if advisable, and issuance costs.
- (2) Authorizes the revenue bonds to be sold in either competitive or negotiated sale.
- (3) Approves a maximum interest rate of 12% per year on the bonds.
- (4) Approves the fourth supplement to the indenture of trust agreement between SFMTA and U.S. Bank as trustee.
- (5) Approves the form of certain financing documents, including the official notice of sale, notice of intention to sell bonds, the bond purchase contract, official statement in preliminary and final form and continuing disclosure certificate.
- (6) Authorizes modifications to these financial documents as deemed necessary by the SFMTA Director based on advice from SFMTA's financial advisors and the Director, Controller, City Attorney or other City officials to take necessary actions to accomplish the purposes of this resolution, without increasing the City's risk or expenditures.
- (7) Makes specific findings for three projects in compliance with the California Environmental Quality Act (CEQA).

The proposed ordinance (File 16-0464) would appropriate the \$207,000,000 of SFMTA Revenue Bond proceeds to the SFMTA to fund \$190 million of transportation capital projects as well as debt service reserve, bond issuance and auditor costs as shown in Table 5 below.

**Table 5: Sources and Uses**

<b>Sources</b>	<b>Amount</b>
Par Amount	\$207,000,000
<b>Total Sources</b>	<b>\$207,000,000</b>
<b>Uses</b>	
SFMTA Capital Projects	\$190,000,000
Debt Service Reserve Fund	14,620,000
Costs of Issuance	2,000,000
City Services Auditor (0.2% of Capital Projects)	380,000
<b>Total Uses</b>	<b>\$207,000,000</b>

The appropriation ordinance would place the entire \$207 million on Controller's Reserve pending the actual sale of the SFMTA revenue bonds. According to Ms. Bose, she anticipates one or two issuances, depending on the timing of capital project needs for the SFMTA and pending resolution of litigation regarding the Warriors project.

SFMTA's financial advisors will determine whether the proposed bonds can be issued without a debt service reserve fund. If necessary, the debt service reserve would be funded from the bond proceeds, held by the bond trustee and used to pay debt service if SFMTA's revenues

pledged to pay debt service are insufficient. The debt service reserve will be the lesser of (a) maximum annual debt service, (b) 125 percent of average annual debt service, or (c) 10 percent of the outstanding principal amount of the bonds.

Revenue bond issuance costs include the fees for the co-financial advisors, co-bond counsel, disclosure counsel, underwriters and their counsel, rating agency fees, and other expenses related to the issuance of the requested bonds.

SFMTA would allocate \$190,000,000 in bond proceeds to the following three capital projects:

**Table 6: SFMTA Capital Project Fund Allocation**

<b>SFMTA Capital Projects</b>	<b>Allocation</b>
Light Rail Vehicle Procurement	\$107,000,000
Van Ness Bus Rapid Transit Project	48,000,000
Mission Bay Transportation Capital Improvements	35,000,000
<b>Total</b>	<b>\$190,000,000</b>

These three projects are included in the SFMTA's five-year FY 2017-21 capital improvement plan. The bond funds will pay for project development and capital costs for:

- Light Rail Vehicle (LRV) Procurement: In 2014, the Board of Supervisors approved a 15-year contract between SFMTA and Siemens to purchase up to 260 new LRVs to replace and expand the Muni fleet at a cost up to \$1.2 billion (File 14-0882). The funding sources identified to pay for this Siemens LRV contract included approximately \$107 million from the requested SFMTA revenue bonds.
- Van Ness Bus Rapid Transit Project: This dedicated transit-only lane and timed traffic signals on Van Ness Avenue will reduce bus travel times, increase transit reliability and improve safety on this 2-mile corridor. Beginning in 2016 with the replacement of underground sewer, water and electrical systems, this 3-year capital project is estimated to cost \$190 million, including funding sources from the requested \$48 million SFMTA revenue bonds.
- Mission Bay Transportation Capital Improvements, are associated with the Golden State Warriors event center and mixed-use development at Mission Bay Blocks 29-32, including construction of a new center boarding platform for the T-Third Street line with crossover tracks, transit and traffic signals, and other related improvements to increase transit capacity and reduce walking distance to the Warriors arena and UCSF Hospital. These Warriors-related transportation improvements are estimated to cost a total of \$61.9 million, including funding sources of \$35 million from the requested SFMTA revenue bonds.

Total estimated costs for these three projects are \$1.56 billion, which include \$190,000,000 in proposed revenue bonds and \$1.37 billion in other funds.

### **Competitive or Negotiated Sale of Bonds**

The previous 2012, 2013 and 2014 Revenue Bonds were sold by negotiated sale because SFMTA was a new revenue bond issuer, and negotiated sales allowed SFMTA to present its key credit



components directly to investors and focus marketing efforts to specific potential buyers. The proposed \$207 million of SFMTA revenue bonds allow the Director of Transportation to determine whether the bonds would be sold through competitive or negotiated sale. Ms. Bose advises that SFMTA is likely to issue the new revenue bonds through competitive sale.

### **Capital Planning Committee Approval**

The Capital Planning Committee approved the proposed three capital projects, issuance of the associated revenue bonds and appropriation of the bond proceeds to fund these projects on May 9, 2016.

### **California Environmental Quality Act (CEQA)**

The subject resolution makes findings regarding CEQA for the three specified projects, by stating that the (1) Central Subway Project Final Supplemental Environmental Impact Statement/Report (EIS/EIR)<sup>2</sup>, (2) Van Ness Bus Rapid Transit Final Environmental Impact Report and (3) Golden State Warriors Final Supplemental Environmental Impact Report are adequate with no substantial changes in the projects or environmental impacts since issuance of these respective reports. These documents are incorporated in the resolution by reference, to allow decision-making bodies to take action for possible funding of these projects with the subject revenue bonds.

The proposed resolution also notes that issuance of SFMTA revenue bonds is a financing mechanism which is not subject to CEQA, and that SFMTA will not proceed with any project until it is fully compliant with CEQA.

## **FISCAL IMPACT**

The proposed resolution (File 16-0465) would authorize SFMTA to issue not-to-exceed \$207,000,000 of revenue bonds. The proposed ordinance (File 16-0464) would appropriate \$207,000,000 in revenue bond proceeds, including \$190,000,000 for capital project costs and \$17,000,000 for debt reserve, auditor and debt issuance costs.

### **Interest Rates and Costs**

The resolution establishes a maximum interest rate on the proposed revenue bonds not to exceed 12 percent. According to Ms. Bose, the SFMTA anticipates issuing two fixed rate, tax exempt revenue bonds for a 30-year term with a true interest cost of approximately 4.32 percent.<sup>3</sup> Estimated total debt service over 30 years would be approximately \$385.4 million, of which \$178.4 million is interest and \$207 million is principal. Assuming two issuances, SFMTA estimates the requested bonds will add an average of \$11 million to \$16 million in additional annual debt service.

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<sup>2</sup> The Central Subway Project EIS/EIR is determined adequate for the Board's use as the decision-making body for the actions relative to possible funding of the light rail vehicle procurement project with the subject bonds.

<sup>3</sup> The true interest cost includes all ancillary fees and costs, such as finance charges, discount points, and prepaid interest.

As noted above, SFMTA currently pays annual debt service of approximately \$16.6 million on the outstanding 2012, 2013 and 2014 revenue bonds. Combining this existing debt, with the proposed new \$207 million of debt, the combined annual debt service would range from \$17.8 million to \$26.1 million.

### **Pledged Revenues**

SFMTA will repay the bonds from SFMTA gross annual revenues, which totaled approximately \$626,312,000 in FY 2015-16 as summarized in Table 7 below.

**Table 7: SFMTA's Gross Revenues**

<b>Revenue Sources</b>	<b>FY 2015-16 Revenues</b>
Passenger fares	\$214,677,000
Traffic fines, fees, permits and taxis	128,437,000
Parking meters	56,958,000
Parking garages	68,766,000
Other operating revenues	33,056,000
State sales tax	38,811,000
State Transit Assistance	40,508,000
Trans. Development Act Sales Tax	45,099,000
<b>Total</b>	<b>\$626,312,000</b>

SFMTA does not include General Fund Baseline Transfer, General Fund Transfer in Lieu of Parking Tax or restricted grant funds in the revenues pledged to repay these bonds. According to the official statement for the revenue bonds, SFMTA is not obligated to pay principal or interest on the bonds from any source of funds other than pledged revenues, such that the City's General Fund is not liable for payment of the principal or interest on the subject bonds.

However, SFMTA advises that \$35 million Mission Bay Transportation Capital Improvements of the subject \$207 million revenue bonds are directly related to the Warriors project. Based on the Board of Supervisors previous approval of a Mission Bay Transportation Improvement Fund which captures General Fund revenues attributable to the Warriors project, the debt service and related financing costs for the \$35 million would come from the Mission Bay Transportation Improvement Fund revenues. The City would then appropriate the necessary funds to the SFMTA to pay these expenses (see File 16-0466 included in the Budget and Legislative Analyst's May 25, 2016 report to the Budget and Finance Committee).

### **Debt Service as a Percent of Operating Expenses**

SFMTA implemented and updated debt policies in 2011 and 2013 which established SFMTA's process, guidelines, restrictions, and financial criteria for issuing debt to fund capital projects.

According to SFMTA's debt policy, aggregate annual debt service on long-term debt should not exceed 5% of SFMTA's annual operating expenses. Based on financial projections provided by SFMTA, combined annual debt service on the previous Series 2012A, Series 2012B, Series 2013 and Series 2014 Bonds, together with the proposed new \$207 million bonds would not exceed 2.8% of SFMTA's annual operating budget over the 30-year term of the bonds.

**Appropriation Ordinance**

As shown in Table 6 above, the proposed ordinance appropriates (a) \$107,000,000 for light rail vehicle procurements, (b) \$48,000,000 for the Van Ness Bus Rapid Transit Project and (c) \$35,000,000 for Mission Bay capital improvement projects. While Board of Supervisors' approval is required to reallocate funds between the transit capital improvement program and the pedestrian, bicycle and parking capital improvement program, the SFMTA Board of Directors can authorize the reallocation of funds within the transit capital improvement program and within the pedestrian, bicycle and parking capital improvement program without further Board of Supervisors' approval. For example, Board of Supervisors approval is not required for SFMTA to reallocate funds from the Columbus Avenue Streetscape Project to the Masonic Avenue Streetscape Project; however, Board of Supervisors approval would be required to reappropriate funds from the Columbus Avenue Streetscape Project to the Muni Metro Twin Peaks Tunnel Rail Replacement Project.

**Memorandum of Understanding**

A Memorandum of Understanding (MOU) between the SFMTA and the City is anticipated to be executed once litigation is concluded regarding the Warriors arena. Ms. Bose advises that this MOU is being sought by the SFMTA to ensure that SFMTA receives timely and full payments from the City to cover all SFMTA debt service payments and related financing costs for the \$35 million Mission Bay component of the subject bonds related to the Warriors arena project. Ms. Bose notes that the SFMTA would not issue the requested \$35 million of SFMTA revenue bonds for the Mission Bay Transportation Capital Improvements until the City enters into such MOU.

**RECOMMENDATION**

Approve the proposed resolution and ordinance.

<b>Item 14</b> <b>File 16-0466</b>	<b>Department:</b> San Francisco Municipal Transportation Agency (SFMTA)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• Ordinance appropriating \$5,980,000 to the SFMTA including (a) \$3,050,000 General Fund Contribution and \$350,000 SFMTA's operating fund in FY 2016-17; and (b) \$2,310,000 General Fund Contribution and \$270,000 SFMTA's operating fund in FY 2017-18 for planning, design and construction of the transportation capital improvements for the Golden State Warriors Event Center and Mixed Use Development in Mission Bay.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Golden State Warriors Arena, LLC (Warriors) plans to construct a multipurpose event center, with retail and offices at 16<sup>th</sup> and Third Streets in the Mission Bay neighborhood.</li> <li>• On December 15, 2015, the Board of Supervisors approved creation of the Mission Bay Transportation Improvement Fund, setting aside General Funds to pay for improvements provided by SFMTA to the Warriors Project. Revenues from the Warriors project are anticipated to provide the needed funding sources to the General Fund.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The source of the \$3,400,000 funding for FY 2016-17 is one-time transfer taxes revenues received by the City in 2015 from the sale of the Warriors site. The source of the \$2,580,000 funding for FY 2017-18 is projected sales taxes and gross receipts taxes to be generated from construction of the Warriors project.</li> <li>• SFMTA's estimated five year capital costs to purchase four new light rail vehicles, construct a new boarding platform and make other capital transportation improvements for the Warriors project are \$61.9 million. Estimated revenues to be generated by the Warriors project to pay these costs are \$27.4 million, including \$8 million from transfer taxes and construction gross receipts and sales taxes. This \$8 million includes the requested \$5,980,000 supplemental appropriation of funds over the next two years.</li> <li>• Based on the \$61.9 million capital costs and \$27.4 million projected revenues, there is a projected shortfall of \$34.5 million to fund the Warriors transportation improvements. This shortfall will be funded through the sale of SFMTA revenue bonds. SFMTA anticipates annual debt service on these \$35 million bonds would be paid from Transportation Improvement Fund revenues appropriated to SFMTA.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• SFMTA will not issue the \$35 million of revenue bonds unless the Warrior's litigation prevails and SFMTA enters into a MOU with the City for full reimbursement of debt costs. The Warriors will also be responsible for meeting specified transportation performance measures as detailed in the Environmental Impact Report on the Warriors project.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.105 requires Board of Supervisors approval of amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

**BACKGROUND****Golden State Warriors Arena**

The Golden State Warriors Arena, LLC (Warriors)<sup>1</sup> plans to construct a multipurpose event center and retail and office project at 16<sup>th</sup> and Third Streets in the Mission Bay neighborhood (Blocks 29 to 32 in the Mission Bay South Redevelopment Plan Area). In 2015, the Warriors purchased this 11 acre site, previously owned by Salesforce.com. While the Warriors Project is a private development, the City will provide public transportation, including transportation infrastructure, and ongoing public services related to the development.

Litigation<sup>2</sup> is currently pending on the Warriors project, which the City Attorney's Office anticipates will be resolved this fall. The Warriors have not yet determined when they will file for a site permit, but the Warriors would like to commence construction by early 2017. Assuming successful resolution of the litigation, the Warriors current plan is to complete the event center by the summer of 2019, in time for the National Basketball Association (NBA) season which begins in October, 2019.

**Transportation and Other City Services to the Warriors Project**

The Transportation Management Plan, required by the Warriors Project's Environmental Impact Report (EIR), includes the Muni Special Event Transit Service Plan, which commits the San Francisco Municipal Transportation Agency (SFMTA) to provide additional transportation services to the Warriors Project, including increased light rail service on the T-Third line, and special event shuttles. SFMTA would implement the following transportation infrastructure improvements and services for the Warriors Project:

- Purchase four additional light rail vehicles;
- Extend the existing boarding platform at 3<sup>rd</sup> and South Streets;
- Install crossover tracks on Third Street and augment power for idling trains;
- Install signage, signals and closed circuit cameras;
- Run three special event shuttles to regional transit stations;
- Expand service levels on the T-Third light rail line; and

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<sup>1</sup> The Golden State Warriors Arena, LLC are an affiliate of the Golden State Warriors, LLC, who own the Golden State Warriors basketball team.

<sup>2</sup> Petitioners Mission Bay Alliance and Jennifer Wade challenged the adequacy of the Environmental Impact Report (EIR) on the Warriors project under the California Environmental Quality Act (CEQA). On April 30, 2015, under State Assembly Bill 900, the Warriors project was designated an Environmental Leadership Development Project, qualifying the project for expedited judicial review. The trial court's hearing is scheduled for June 17, 2016 and the Judge indicated a decision is expected in July 2016.

- Add parking control officers to control traffic during arena events.

In addition, the San Francisco Police Department (SFPD), and Department of Public Works (DPW) will provide services to the neighborhood surrounding the Warriors Project.

### **Mission Bay Transportation Improvement Fund**

On December 15, 2015, the Board of Supervisors amended the Administrative Code to establish the Mission Bay Transportation Improvement Fund (Transportation Improvement Fund) to set aside General Fund monies to pay for additional improvements and services provided by SFMTA, SFPD, and DPW to the Warriors Project (Ordinance No. 230-15). It is anticipated that future General Fund tax revenues generated by the Warriors Project will provide the needed funding to the City's General Fund to be allocated to the Transportation Improvement Fund to pay for these City improvements and services.

In accordance with this previously approved ordinance, the Mayor and the Board of Supervisors will include sufficient General Fund annual revenues for the Transportation Improvement Fund to meet City departments' annual budgeted expenditures to provide such services to the Warriors Project. If City departments' expenditures exceed available revenues in the Fund, the City is entitled to a credit from the next year's annual deposit to the Transportation Improvement Fund or from a separate reserve fund of \$1,000,000 once the event center opens.

## **DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would appropriate \$5,980,000 to the SFMTA in FY 2016-17 and FY 2017-18, including (a) \$3,400,000 in FY 2016-17; and (b) \$2,580,000 in FY 2017-18 as summarized in Table 1 below to support planning, design and construction of the transportation capital improvements related to the proposed Golden State Warriors Event Center and Mixed Use Development in Mission Bay.

**Table 1: Proposed Supplemental Appropriation Ordinance for FY 2016-17 and FY 2017-18**

	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>Total</b>
<b>Sources</b>			
Transfer from Mission Bay Transportation Improvement Fund	\$3,050,000	\$2,310,000	\$5,360,000
Transfer from SFMTA Operating Fund	<u>350,000</u>	<u>270,000</u>	<u>620,000</u>
Total	\$3,400,000	\$2,380,000	\$5,980,000
<b>Uses</b>			
SFMTA - Warriors Arena Transportation Capital Improvements	\$3,400,000	\$2,580,000	\$5,980,000

**FISCAL IMPACT****Sources of Revenues**

According to Mr. Drew Murrell, in the Controller's Office of Budget and Analysis, when the Warriors purchased the 11 acres from Salesforce in 2015, this sales transaction generated \$3,877,500 of one-time transfer tax revenues for the City. The City has previously approved baseline transfer allocations of General Fund revenues for various purposes<sup>3</sup>. Therefore, this \$3,877,500 one-time 2015 transfer tax to the City resulted in approximately (a) \$3,050,000 net revenue to the City's General Fund, which was subsequently allocated to the Mission Bay Transportation Improvement Fund, and (b) \$350,000 for SFMTA's increased baseline allocation, for a total of \$3,400,000. This one-time transfer tax provides the source of revenues of \$3,400,000 for appropriation for the Warriors Arena Transportation Capital Improvements for FY 2016-17 shown above in Table 1.

Mr. Murrell advises that sales taxes of \$1,024,973 and gross receipts taxes of \$1,285,243 or a total of \$2,310,216 (rounded to \$2,310,000) are projected to be generated from construction of the Warriors Arena in FY 2017-18. \$271,936 (rounded to \$270,000) is projected for baseline allocation to SFMTA in FY 2017-18 from these additional sales and gross receipts taxes. These projections provide the source of revenues for the \$2,580,000 supplemental appropriation in FY 2017-18 shown in Table 1 above. If all of the projected FY 2017-18 revenues in the proposed supplemental are not generated by the Warriors' sales taxes and gross receipts taxes, the City's General Fund would fund any difference.

**SFMTA Capital Expenditures for Warriors Arena**

The SFMTA estimates the five-year costs for the transportation improvements for the Warriors project are \$61.9 million, as summarized in Table 2 below. Estimated revenues over the same five year term that would be generated by the Warriors project are \$27.4 million, which includes an estimated \$19.4 million from Transit Impact Development Fees and approximately \$8 million from transfer taxes and construction gross receipts and sales taxes, as shown in Table 2 below. The proposed supplemental appropriation would provide \$5,980,000 to SFMTA over the next two fiscal years from transfer taxes and construction gross receipts and sales taxes of the total projected \$8 million from this source, leaving a remaining balance of approximately \$2 million to be appropriated to the SFMTA in future years.

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<sup>3</sup> Such baseline transfers of General Fund revenues include allocations to the (1) SFMTA, (2) Public Library, and (3) Public Education Fund.

**Table 2: Estimated Capital Costs and Revenues for Warriors Project**

<b>Uses of Funds</b>	<b>Amount</b>
Four new light rail vehicles	\$21,000,000
Installation of three new cross over tracks <sup>4</sup>	6,450,653
Construction of new center boarding platform	24,871,166
Power augmentation	<u>7,539,282</u>
Subtotal Transit Uses of Funds	\$59,861,101
Traffic signals and engineering	<u>2,037,807</u>
<b>Total Uses of Funds</b>	\$61,898,909
<b>Sources of Funds</b>	
Transit Impact Development Fees	\$19,434,536
Transfer tax and construction gross receipts and sales taxes	<u>7,955,799</u>
<b>Total Sources of Funds</b>	\$27,390,335
<b>Revenue shortfall</b>	<b>\$34,508,573</b>

Source: SFMTA

As shown in Table 2 above, even with the anticipated General Fund contributions through transfer taxes and construction gross receipts and sales taxes, the SFMTA will face an estimated revenue shortfall of \$34,508,573. SFMTA anticipates financing this shortfall through the sale of SFMTA revenue bonds. As shown in Files 16-0464 and 16-0465, included in the Budget and Legislative Analyst's May 25, 2016 report to the Budget and Finance Committee, the SFMTA is requesting approval of a not to exceed \$207 million of SFMTA revenue bonds, which includes \$35 million of funding for Mission Bay transportation capital improvements related to the Warriors project.

As discussed under Files 16-0464 and 16-0465, annual debt service on the \$207 million SFMTA revenue bonds would be pledged to be repaid from SFMTA gross revenues. However, Ms. Sonali Bose, SFMTA Chief Financial Officer, advises that the debt service funding for the \$35 million related to the Warriors project would specifically come from the Transportation Improvement Fund. SFMTA advises that, although they are requesting authorization for issuance of the entire \$207 million revenue bonds at this time, the SFMTA will not issue the \$35 million of revenue bonds related to the Warriors project, (a) unless the City prevails in the Warriors project litigation and (b) the City enters into a Memorandum of Understanding (MOU) with the SFMTA to ensure that the SFMTA is fully repaid the costs of the debt service and related financing costs of these \$35 million revenue bonds by the City.

## **POLICY CONSIDERATION**

According to an October 20, 2015 memorandum from the Director of Transportation to the Office of Community Investment and Infrastructure (OCII) Executive Director, although SFMTA will be able to deliver transit services to the Warriors Project, SFMTA cannot unequivocally guarantee future funding for the transit services to the Warriors Project in

<sup>4</sup> Assumes 70% of the total cost of \$9,215,219 is allocated to Warriors project.



perpetuity. According to the Director of Transportation, the SFMTA supports the Warriors project with the understanding that the City, the Golden State Warriors and SFMTA do not expect the SFMTA operating and capital budgets to experience any adverse impact associated with implementing the proposed transit service plan and the capital investments to support the Warriors project.

Mr. Adam Van de Water, Project Manager in the Office of Economic and Workforce Development, advises that the Warriors have committed to maintaining eight performance standards specified in the Environmental Impact Report (EIR) on the Warriors project<sup>5</sup>, including maximum automobile mode share, transit mode share, vehicle queuing, pedestrian flows, bicycle parking and other good neighbor policies. The EIR also provides that the Warriors will need to explore, at the Warriors own expense, additional strategies, operational improvements or design changes to maintain these eight performance standards. According to Mr. Van de Water, these provisions protect the City and the SFMTA by transferring the financial responsibility to the Warriors if transportation services are not sufficient.

## RECOMMENDATION

Approve the proposed ordinance.

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<sup>5</sup> Draft Subsequent Environmental Impact Report on the Event Center and Mixed-Use Development at Mission Bay Blocks 29-32 prepared by the Office of Community Investment and Infrastructure, 2015.

<b>Items 15, 16 and 17</b> <b>Files 16-0475, 16-0473 &amp; 16-0470</b>	<b>Department:</b> Public Utilities Commission
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<p><b>File 16-0475</b> is a request to release \$2,760,666 in System Impact Mitigation Agreement funds from Budget and Finance Committee reserve.</p>	
<p><b>File 16-0473</b> authorizes SFPUC to issue and sell tax-exempt or taxable Hetch Hetchy Power Bonds in an aggregate principal amount of \$32,483,088.</p>	
<p><b>File 16-0470</b> (a) appropriates \$158,125,530 to Hetch Hetchy Capital Projects in FY 2016-17 and FY 2017-18, including re-appropriation of \$4,222,602 from prior appropriations, and (b) re-appropriates \$11,332,750 in previously appropriated Power Bonds to Mountain Tunnel Power Projects, for a total appropriation of \$169,458,280.</p>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• The Board of Supervisors authorized the SFPUC to sale up to \$112,346,843 in Power Bonds in March 2014 (File 14-0482), which was the first time that SFPUC’s Hetch Hetchy Power Enterprise was authorized to sell bonds. The proposed ordinance would authorize SFPUC to issue an additional \$32,483,088 in Power Bonds, totaling \$144,829,931.</li> <li>• The Hetch Hetchy 10-Year Capital Plan provides for \$1.0 billion in Hetch Hetchy water and power capital project expenditures through FY 2025-26. Hetch Hetchy power capital projects include: (a) power infrastructure improvements, (b) street lighting improvements, (c) development of electricity capacity at Treasure Island and Alice Griffith/Candlestick Point, (d) generation of electricity from renewable sources, and (e) energy efficiency projects. Hetch Hetchy joint water and power projects include improvements to water and power infrastructure at Moccasin.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The Power Bonds are repaid from SFPUC Hetch Hetchy Power Enterprise revenues, which are generated largely from the sale of electricity. Currently, SFPUC charges different electricity rates to different customers. The Airport, Port, and SFPUC pay rates equal to rates set by Pacific, Gas and Electric (PG&amp;E). Other City departments pay the different rates shown in Table 4 below. The SFPUC adopted new rates for the other City departments in FY 2016-17 and FY 2017-18, increasing the rates by 0.50 cents per kilowatt hour (kWh) in each year.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>• The SFPUC’s policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds. However, the proposed ordinance approves the sale of the bonds without further Board of Supervisors approval.</li> </ul>	
<b>Recommendations</b>	
<ul style="list-style-type: none"> <li>• Amend File 16-0473 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related offering and financing documents.</li> <li>• Approve File 16-0473 as amended, File 16-0470, and File 16-0475.</li> </ul>	

## MANDATE STATEMENT

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

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

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

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve, which are then subject to release by the Budget and Finance Committee.

## BACKGROUND

The San Francisco Public Utilities Commission's (SFPUC) Hetch Hetchy Enterprise is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning. The Hetch Hetchy Enterprise is also responsible for all water and power facilities at Hetch Hetchy. Power sales must generate sufficient revenues to fund the Hetch Hetchy Enterprise's operating expenses and capital program.

## DETAILS OF PROPOSED LEGISLATION

**File 16-0473** is an ordinance authorizing SFPUC to issue and sell tax-exempt or taxable Hetch Hetchy Power Bonds in an aggregate principal amount of \$32,483,088.

**File 16-0470** is an ordinance (a) appropriating \$158,125,530 to Hetch Hetchy Capital Projects in FY 2016-17 and FY 2017-18, including re-appropriation of \$4,222,602 from prior appropriations, and (b) re-appropriating \$11,332,750 in previously appropriated Power Bonds to Mountain Tunnel Power Projects, for a total appropriation of \$169,458,280.

**File 16-0475** is a request to release \$2,760,666 in System Impact Mitigation Agreement funds from Budget and Finance Committee reserve.

File 16-0473: Power Bonds

The Board of Supervisors authorized the SFPUC to sale up to \$112,346,843 in Power Bonds in March 2014 (File 14-0482), which was the first time that SFPUC's Hetch Hetchy Power Enterprise was authorized to sell bonds. The Board of Supervisors amended the Administrative Code in March 2015 to specify the procedures for the SFPUC to sell Power Bonds (File 15-0078). The proposed ordinance would authorize SFPUC to issue an additional \$32,483,088 in Power Bonds, for total Power Bond authorization of \$144,829,931.

Approval of the proposed ordinance (File 16-0473) would:

- Authorize SFPUC to sell \$32,483,088 in Power Bonds at a maximum interest rate of 12 percent per year. SFPUC could sell the bonds in series at a time and in an amount and manner (competitive or negotiated sale) determined by SFPUC.
- Authorize SFPUC to sell refunding bonds to refund outstanding Power Bonds or other debt without further Board of Supervisors approval. According to the proposed ordinance, SFPUC could only sell the refunding bonds if they achieved at least 3 percent net present value debt service savings. Authorization to sale refunding bonds would expire on June 30, 2018.
- Provide for SFPUC to reimburse prior capital project expenditures with bond proceeds as allowed by federal income tax principles.
- Ratify actions taken by the SFPUC and other City officials in connection with the issuance of the Power Bonds.

File 16-0470 Appropriation to Support Hetch Hetchy Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2016-17 through FY 2025-26 in January 2016. The 10-Year Capital Plan provides for \$1.0 billion in Hetch Hetchy water and power capital project expenditures through FY 2025-26, funded primarily by Power Bonds, Water Bonds, operating revenue, and Cap and Trade Allowances<sup>1</sup>.

Components of the Hetch Hetchy power capital projects include: (a) power infrastructure improvements, (b) street lighting improvements, (c) development of electricity capacity at Treasure Island and Alice Griffith/Candlestick Point, (d) generation of electricity from renewable sources, and (e) energy efficiency projects. Components of Hetch Hetchy joint water and power projects (funded by 55 percent power sources and 45 percent water sources) include improvements to water and power infrastructure at Moccasin.

The total appropriation to Hetch Hetchy water and power capital projects in FY 2016-17 and FY 2017-18 is \$169,458,280, as shown in Table 1 below.

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<sup>1</sup> The California Cap and Trade Program sets greenhouse gas emission allowances for public and private utilities and other agencies; agencies that do not fully use their greenhouse gas emission allowance can sell the allowance to other agencies.

**Table 1: Capital Appropriation FY 2016-17 and FY 2017-18**

	FY 2016-17	FY 2017-18	Two Year Total
<b>Sources of Funds</b>			
<u>Appropriation</u>			
Water Bonds (File 16-0472) <sup>a</sup>	\$18,717,720	\$25,517,128	\$44,234,848
Power Bonds (File 16-0473) <sup>a</sup>		32,483,088	32,483,088
Capital Project Fund	38,270,000	33,000,000	71,270,000
System Impact Mitigation Fees (see below)	5,937,594	0	5,937,594
Cap and Trade Allowance <sup>a</sup>	2,100,000	2,100,000	4,200,000
Subtotal	65,025,314	93,100,216	158,125,530
De-appropriation Power Bonds	11,332,750	0	11,332,750
<b>Total Sources</b>	<b>\$76,358,064</b>	<b>\$93,100,216</b>	<b>\$169,458,280</b>
<b>Uses of Funds</b>			
Mountain Tunnel Project	\$20,605,000	\$26,607,000	\$47,212,000
Other Joint Water and Power Projects	5,200,000	1,800,000	7,000,000
Subtotal Joint Water and Power Projects	25,805,000	28,407,000	54,212,000
Power Infrastructure	5,800,000	15,800,000	21,600,000
Water Infrastructure	5,100,000	10,000,000	15,100,000
Energy Efficiency	1,000,000	1,000,000	2,000,000
Renewable and Small Hydroelectric	1,100,000	1,100,000	3,422,602
Retail Customers' Distribution Services	20,000,000	20,000,000	40,000,000
Streetlight Improvements	3,510,000 ,	3,510,000	10,020,000
Treasure Island	2,100,000	2,100,000	4,200,000
Alice Griffith/ Candlestick Park	4,000,000	5,000,000	9,000,000
<b>Subtotal Capital Plan Projects</b>	<b>\$68,415,000</b>	<b>\$86,917,000</b>	<b>\$155,332,000</b>
Warnerville Substation Upgrades (Table 4)	5,937,594		5,937,594
Bond Financing and Oversight	2,005,470	6,183,216	8,188,686
<b>Total Uses</b>	<b>\$76,358,064</b>	<b>93,100,216</b>	<b>\$169,458,280</b>

Source: Hetch Hetchy 10-Year Capital Plan, Appropriation Ordinance, Public Utilities Commission Documents

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

\$20,817,720 of the FY 2016-17 appropriation and \$60,100,216 of the FY 2017-18 appropriation are placed on Controller's Reserve pending receipt of the Water and Power Bond proceeds.

Descriptions of the proposed projects are included in the attachment.

#### File 16-0475 System Impact Mitigation Agreement Fees and Warnerville Substation Upgrades

The Board of Supervisors approved an ordinance (File 12-1007) in January 2013 that (1) authorized the San Francisco Public Utilities Commission (SFPUC) to enter into a System Impact Mitigation Agreement with North Star Solar, LLC (North Star), providing for North Star Solar to pay SFPUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of North Star's solar power project to the electric grid; (2) authorized SFPUC to enter into future mitigation agreements with other projects without further Board of Supervisors approval; and (3) appropriated \$2,900,000 in North Star mitigation payments to SFPUC. The Board of Supervisors placed the \$2,900,000 on Budget and Finance Committee Reserve; and required that any future funds in excess of \$100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve.

SFPUC has System Impact Mitigation Agreements with six private energy companies that connect to the electric grid at the SFPUC's Warnerville Substation in Modesto Country. SFPUC has received \$9,073,260 in mitigation fee revenues, shown in Table 2 below, of which the Board of Supervisors previously appropriated \$3,135,666 (File 12-1007) and \$5,937,594 would be appropriated under the proposed ordinance (File 16-0470).

**Table 2: System Impact Mitigation Agreement Fee Revenues**

<b>Developer</b>	<b>Project Name</b>	<b>Mitigation Fees</b>
Enco	Corcoran West	\$557,548
SunEdison	FRV Regulus Solar	470,026
North Star Solar	North Star Solar I	1,693,173
Recurrent	Kent South	414,919
Adera Solar	Chowchilla	2,200,000
Sunpower	Henrietta	<u>3,737,594</u>
Total		\$9,073,260
Previously Appropriated (File 12-0007)		<u>(3,135,666)</u>
Proposed Appropriation (File 16-0470)		\$5,937,594

Of the \$3,135,666 previously appropriated by the Board of Supervisors, \$375,000 was allocated to planning, design and permitting for a project to upgrade the Warnerville Substation and \$2,760,666 was placed on Budget and Finance Committee reserve. File 16-0475 would release the \$2,760,666 from Budget and Finance Committee reserve.

The Warnerville Substation upgrade project budget is \$16,523,601, as shown in Table 3 below.

**Table 3: Warnerville Substation Upgrade Project Budget**

<b>Sources</b>	
System Impact Mitigation Fees (File 12-1007)	\$3,135,666
System Impact Mitigation Fees (File 16-0470)	<u>5,937,594</u>
Subtotal, System Impact Mitigation Fees	9,073,260
Hetch Hetchy Capital Project Fund (Prior Board of Supervisors' Appropriations)	<u>7,450,575</u>
Total Sources	\$16,523,835
<b>Uses</b>	
Design, Permitting, Environmental Documentation, Construction Management, Other	\$4,406,294
Design-Build Contract	11,015,734
Contingency (10% of Design-Build Contract)	<u>1,101,573</u>
Total Uses	\$16,523,601

SFPUC advertised the design-build contract in April 2016, and plans to select a contractor and issue a notice to proceed in July 2016.

## FISCAL IMPACT

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. The Public Utilities Commission adopted the FY 2016-17 to FY 2025-26 Capital Plan and Financial Plan at the February 9, 2016 Commission meeting.

### Electricity Rate Increases in FY 2016-17 and FY 2017-18

The Power Bonds are repaid from SFPUC Hetch Hetchy Power Enterprise revenues, which are generated largely from the sale of electricity. Currently, SFPUC charges different electricity rates to different customers. The Airport, Port, and SFPUC pay rates equal to rates set by Pacific, Gas and Electric (PG&E). Other City departments pay the different rates shown in Table 4 below. The SFPUC adopted new rates for the other City departments in FY 2016-17 and FY 2017-18, increasing the rates by 0.50 cents per kilowatt hour (kWh) in each year, as shown in Table 4 below.

**Table 4: FY 2015-16 Electric Rates Adopted by the SFPUC**

	FY 2015-16 Rates	FY 2016-17 Rates	FY 2017-18 Rates
General Fund Departments	6.75 ¢/kWh	7.25 ¢/kWh	7.75 ¢/kWh
Public Libraries	10.13 ¢/kWh	10.63 ¢/kWh	11.13 ¢/kWh
Moscone Convention Center Facilities	8.70 ¢/kWh	9.20 ¢/kWh	9.70 ¢/kWh
San Francisco General Hospital	3.70 ¢/kWh	4.20 ¢/kWh	4.70 ¢/kWh
Laguna Honda Hospital	4.49 ¢/kWh	4.99 ¢/kWh	5.49 ¢/kWh
Public Buildings & City Street Lights	3.00 ¢/kWh	3.50 ¢/kWh	4.00 ¢/kWh

Source: Public Utilities Commission

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for the sale of electricity. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

## POLICY CONSIDERATION

According to the SFPUC's Chief Financial Officer, the SFPUC's policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the

bonds and associated financing documents. Therefore, SFPUC will submit future legislation to the Board of Supervisors to approve the sale of up to \$32,483,088 in Power Bonds.<sup>2</sup>

However, according to the proposed ordinance (File 16-0473), the “Board hereby authorizes the issuance and sale of Power Bonds and other forms of indebtedness in one or more series from time to time by the Commission pursuant to the Charter...in an aggregate principal amount not to exceed \$32,483,088...” While the proposed ordinance requires Public Utilities Commission approval of the final offering document related to the sale of bonds and related financing documents, the proposed ordinance does not require Board of Supervisors approval. Therefore, the File 16-0473 should be amended to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related offering and financing documents.

## RECOMMENDATIONS

1. Amend File 16-0473 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related offering and financing documents.
2. Approve File 16-0473 as amended, File 16-0470, and File 16-0475.

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



**Attachment**

<b>Project</b>	<b>Description</b>
Mountain Tunnel and Joint Water and Power Projects	<ul style="list-style-type: none"> <li>The Mountain Tunnel conveys water from Kirkwood Powerhouse to Priest Reservoir. The Mountain Tunnel Project consists of (1) access improvements and an emergency restoration plan, (2) inspection and repair, and (3) rehabilitation of the existing tunnel or construction of a new 12-mile bypass tunnel. SFPUC will inspect the tunnel in 2017 to update the 2008 condition assessment, and make short-term repairs to the tunnel in 2017 and 2018.</li> </ul>
Power Infrastructure	<ul style="list-style-type: none"> <li>Renewal and replacement to Hetch Hetchy transmission and clearance mitigation and improvements to Kirkwood Penstock and Powerhouse.</li> </ul>
Water Infrastructure	<ul style="list-style-type: none"> <li>Upgrades for increased capacity and reliability to the Hetch Hetchy Water Infrastructure, including continued rehabilitation of the San Joaquin Pipeline.</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>Planning, design and construction of building system improvements in developing the green Civic Center Sustainable District in accordance with the partnership MOU with the Clinton Global Initiative. This effort will employ new technologies in building management and energy efficiency, and obtain LEED certification for upgraded buildings from US Green Building Council.</li> <li>Energy efficiency investments in facilities of Power Enterprise's General Fund-rate customers. Funds cover the planning, design and construction of energy efficiency projects for "direct install" projects, as well as technical assistance and project assistance for departments with their own capital funds.</li> </ul>
Renewable and Small Hydroelectric	<ul style="list-style-type: none"> <li>Municipal renewable energy projects: site identification, site development, RFQ qualification process, RFP preparation, bidding process, contract negotiation, award of contracts, and management of construction and commissioning.</li> <li>Ongoing development support for the Calaveras Small Hydroelectric Plant (1MW, 7,000 MWH annually) to be constructed at the Sunol Filter Plant.</li> </ul>
Retail Customers' Distribution Services	<ul style="list-style-type: none"> <li>Design and construction of transmission and distribution facilities to serve new retail customers.</li> </ul>
Streetlight Improvements	<ul style="list-style-type: none"> <li>Various street lighting improvements, replacement &amp; repairs, engineering and construction costs.</li> </ul>
Treasure Island	<ul style="list-style-type: none"> <li>The future development of Treasure Island (TI) will have a brand new underground 12-kV electrical distribution system on-island replacing the existing overhead 12-kV system.</li> </ul>
Alice Griffith/ Candlestick Park	<ul style="list-style-type: none"> <li>This project provides for the second phase of development at Hunters Point Shipyard, Candlestick Point, and the Alice Griffith Housing Complex. The project will require the installation of new underground 12- kilovolt (kV) electrical distribution system in all three areas.</li> </ul>

<b>Items 18 and 19</b> <b>Files 16-0468 and 16-0472</b>	<b>Department:</b> Public Utilities Commission
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p><b>File 16-0468</b> (a) appropriates \$272,233,620 in Water Capital Projects in FY 2016-17 and FY 2017-18, (b) re-appropriates \$56,750,500 in previously appropriated Water Revenue Bonds to Water Capital Projects in FY 2016-17, and (c) re-appropriates \$27,000,000 to Water Capital Projects in FY 2017-18, totaling \$355,984,120.</p> <p><b>File 16-0472</b> authorizes SFPUC to issue and sell tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness in an amount not to exceed \$264,997,468.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. The Board of Supervisors has previously authorized the SFPUC to sell up to \$3.5 billion in Water Revenue Bonds under Proposition.</li> <li>• The Water Enterprise 10-Year Capital Plan provides for \$1.4 billion in Water Enterprise capital projects through FY 2025-26, of which \$633 million are regional water projects, \$658 million are local water projects, and \$110 million is for the Auxiliary Water Supply System supporting fire suppression.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Water rates set by SFPUC fund the Water Enterprise’s operations, maintenance and capital investment activities. The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 is \$86, of which \$40 is water and \$46 is sewer. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC plans a 10 percent increase in water rates in FY 2016-17 and 7 percent increase in water rates in FY 2017-18 to cover the Water Enterprise’s operating and capital costs. The SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2016-17, from \$40 in FY 2015-16 to \$44 in FY 2016-17; and by \$3 in FY 2017-18, from \$44 in FY 2016-17 to \$47 in FY 2017-18.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The SFPUC’s policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds. However, the proposed ordinance approves the sale of the bonds without further Board of Supervisors approval.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend File 16-0472 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.</li> <li>• Approve File 16-0472 as amended and File 16-0468.</li> </ul>	

## MANDATE STATEMENT

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

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

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

## BACKGROUND

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

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

## DETAILS OF PROPOSED LEGISLATION

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

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

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

File 16-0472: Water Revenue Bonds

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

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

- Authorize SFPUC to sell \$264,997,468 in Water Revenue Bonds at a maximum interest rate of 12 percent per year. SFPUC could sell the bonds in series at a time and in an amount and manner (competitive or negotiated sale) determined by SFPUC.
- Authorize SFPUC to sell refunding bonds to refund outstanding Water Revenue Bonds without further Board of Supervisors approval. According to the proposed ordinance, SFPUC could only sell the refunding bonds if they achieved at least 3 percent net present value debt service savings. Authorization to sell refunding bonds would expire on June 30, 2018.
- Authorize SFPUC to enter into future agreements with the State Water Resources Control Board to obtain State Revolving Fund Loans in lieu of selling Water Revenue Bonds
- Provide for SFPUC to reimburse prior capital project expenditures with bond proceeds as allowed by federal income tax principles.
- Ratifies actions taken by the SFPUC and other City officials in connection with the issuance of the Water Revenue Bonds.

File 16-0468 Appropriation to Water Capital Improvement Program

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

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

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

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

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

\$131,569,090 of the FY 2016-17 appropriation and \$94,493,530 of the FY 2017-18 appropriation are placed on Controller's Reserve pending receipt of the Water Revenue Bond proceeds.

Descriptions of the proposed projects are included in the attachment.

## FISCAL IMPACT

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

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

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

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

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

### **POLICY CONSIDERATION**

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

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

### **RECOMMENDATIONS**

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

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

**Attachment**

<b>Project</b>	<b>Description</b>
Local Water Conveyance	<ul style="list-style-type: none"> <li>The long term program funds management of all linear assets in the local water distribution system between transmission or storage and customer connection. Funding is approved for 15 miles per year pipe line replaced or upgraded.</li> </ul>
Water Transmission	<ul style="list-style-type: none"> <li>Upgrades to the Transmission System including pipeline improvements and replacements, valve replacements, metering upgrades, cathodic protection, pump station upgrades and vault upgrades.</li> </ul>
Calaveras Dam	<ul style="list-style-type: none"> <li>Replacement of original dam; project budget increased by more than 200% from the baseline budget of \$265.2 million in 2004 to the total projected budget of \$810 million due to unanticipated subsurface conditions. Construction is now 76% complete.</li> </ul>
Westside and Local Recycled Water	<ul style="list-style-type: none"> <li>Funding request due to additional pipeline costs, engineering and environmental review for recommendation of a new alternative site.</li> </ul>
Alameda Creek Projects	<ul style="list-style-type: none"> <li>Diversion of water from Alameda Creek to Calaveras Reservoir and restoration of watershed</li> </ul>
Regional Building and Grounds	<ul style="list-style-type: none"> <li>Project replaces existing facilities with LEED facilities, adds storage and reconfigures the yard. Upgrades and functional restoration at Millbrae Headquarters including administrative offices, shops and laboratory facilities.</li> </ul>
Supply and Storage	<ul style="list-style-type: none"> <li>Upgrades to structures to meet State Division of Safety of Dams requirements. Includes Potable Reuse project to identify opportunities for direct and indirect potable water reuse and the Daly City Recycled Water Expansion Project providing 3.4 mgd recycled water to customers of the Regional Water System.</li> </ul>
Long Term Monitoring	<ul style="list-style-type: none"> <li>Meeting monitoring and permitting requirements of the water supply system and watershed</li> </ul>
Regional Water Treatment	<ul style="list-style-type: none"> <li>Major upgrades to Sunol Valley and Harry Tracy Water Treatment Plants to achieve higher level of performance and reliability.</li> </ul>
Bioregional Habitat Restoration	<ul style="list-style-type: none"> <li>Mitigation of habitat impact</li> </ul>
New Irvington Tunnel	<ul style="list-style-type: none"> <li>New seismically safe tunnel adding redundancy to water system. Construction was substantially complete in 2015. Remaining work is contractor's puc list, site restoration and final in-service training.</li> </ul>
Local Groundwater Supply	<ul style="list-style-type: none"> <li>Additional funding for continuation of project duration due to updated schedule forecast and associated changes in estimated costs.</li> </ul>
Pump Station Upgrades	<ul style="list-style-type: none"> <li>Provides long term funding for renewal and rehabilitation of major water pump stations and hydroneumatic tanks that boost pressure within the San Francisco distribution system.</li> </ul>
Watershed and Land Management	<ul style="list-style-type: none"> <li>Program supports projects that improve and/or protect the water quality and/or ecological resources affected by the operation of the SFPUC. Project includes the repair, replacement, maintenance, and construction of road, fences, trails, and other ecosystem restoration.</li> </ul>

**Attachment**

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



<b>Items 20 and 21</b> <b>Files 16-0469 and 16-0471</b>	<b>Department:</b> Public Utilities Commission
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<p><b>File 16-0469</b> (a) appropriates \$1,215,201,280 to Wastewater Capital Projects in FY 2016-17 and FY 2017-18, which includes re-appropriation of \$10,750,000 in previously appropriated Capital Project Funds, and (b) re-appropriates \$7,000,000 in previously appropriated Wastewater Revenue Bonds to Sewer System Improvement Program (SSIP) program-wide projects, totaling \$1,222,201,280. s</p>	
<p><b>File 16-0471</b> authorizes SFPUC to issue and sell tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness in an amount not to exceed \$1,112,601,280.</p>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• The Board of Supervisors has previously authorized the SFPUC to sell up to \$1,922,002,176 in Wastewater Revenue Bonds. The proposed ordinance would authorize SFPUC to sell an additional \$1,112,601,280, totaling \$3,034,603,456 in Wastewater Revenue Bond authorization.</li> <li>• The Wastewater Enterprise 10-Year Capital Plan provides for \$5.5 billion in Wastewater Enterprise projects through FY 2025-26 of which \$4.2 billion are Sewer System Improvement Program (SSIP) projects and \$1.3 billion are other capital projects.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• Wastewater rates set by SFPUC fund the Wastewater Enterprise's operations, maintenance, and capital investment activities. The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 is \$86, of which \$40 is water and \$46 is sewer. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC plans a 7 percent increase in sewer rates in FY 2016-17 and 11 percent increase in sewer rates in FY 2017-18 to cover the Wastewater Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential sewer bill will increase by \$4 in FY 2016-17, from \$46 in FY 2015-16 to \$50; and by \$7 in FY 2017-18, from \$50 in FY 2016-17 to \$57.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>• The SFPUC's policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds. However, the proposed ordinance approves the sale of the bonds without further Board of Supervisors approval.</li> </ul>	
<b>Recommendations</b>	
<ul style="list-style-type: none"> <li>• Amend File 16-0471 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.</li> <li>• Approve File 16-0471 as amended and File 16-0469.</li> </ul>	

## MANDATE STATEMENT

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

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

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

## BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise provides wastewater treatment, sewer, and storm water collection to residents in the City as well as residents of north San Mateo County. The service area encompasses 29,773 acres and provides a level of service that can accommodate approximately 990,449 people using approximately 40 billion gallons of water per year.

## DETAILS OF PROPOSED LEGISLATION

**File 16-0471** is an ordinance authorizing SFPUC to issue and sell tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness (such as commercial paper<sup>1</sup> or State Revolving Fund loans) in an aggregate principal amount not to exceed \$1,112,601,280.

**File 16-0469** is an ordinance (a) appropriating \$1,215,201,280 to Wastewater Capital Projects in FY 2016-17 and FY 2017-18, which includes re-appropriation of \$10,750,000 in previously appropriated Capital Project Funds, and (b) re-appropriating \$7,000,000 in previously appropriated Wastewater Revenue Bonds to Sewer System Improvement Program (SSIP) program-wide projects, totaling \$1,222,201,280.

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

File 16-0471: Wastewater Revenue Bonds

The Board of Supervisors has previously authorized the SFPUC to sell up to \$1,922,002,176 in Wastewater Revenue Bonds. The proposed ordinance would authorize SFPUC to sell an additional \$1,112,601,280, totaling \$3,034,603,456 in Wastewater Revenue Bond authorization.

Approval of the proposed ordinance (File 16-0471) would:

- Authorize SFPUC to sell \$1,112,601,280 in Wastewater Revenue Bonds at a maximum interest rate of 12 percent per year. SFPUC could sell the bonds in series at a time and in an amount and manner (competitive or negotiated sale) determined by SFPUC.
- Authorize SFPUC to sell refunding bonds to refund outstanding Wastewater Revenue Bonds without further Board of Supervisors approval. According to the proposed ordinance, SFPUC could only sell the refunding bonds if they achieved at least 3 percent net present value debt service savings. Authorization to sell refunding bonds would expire on June 30, 2018.
- Authorize SFPUC to enter into future agreements with the State Water Resources Control Board to obtain State Revolving Fund Loans in lieu of selling Wastewater Revenue Bonds
- Provide for SFPUC to reimburse prior capital project expenditures with bond proceeds as allowed by federal income tax principles.
- Ratifies actions taken by the SFPUC and other City officials in connection with the issuance of the Wastewater Revenue Bonds.

File 16-0469 Appropriation to Wastewater Capital Improvement Program

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2016-17 through FY 2025-26 in January 2016. The 10-Year Capital Plan provides for \$5.5 billion in Wastewater Enterprise projects, of which \$4.2 billion are Sewer System Improvement Program (SSIP) projects and \$1.3 billion are other Wastewater Enterprise capital projects.

The total appropriation to Wastewater Enterprise capital projects in FY 2016-17 and FY 2017-18 is \$1,222,201,280, as shown in Table 1 below.

**Table 1: Capital Appropriation FY 2016-17 and FY 2017-18**

	FY 2016-17	FY 2017-18	Total
<b>Source of Funds</b>			
<u>Appropriation</u>			
2017A Bond Proceeds <sup>a</sup>	\$257,752,320	854,848,960	1,112,601,280
Renewal and Replacement Fund	43,000,000	45,000,000	88,000,000
Capacity Fees <sup>a</sup>	12,100,000	2,500,000	14,600,000
<b>Subtotal</b>	<b>312,852,320</b>	<b>902,348,960</b>	<b>1,215,201,280</b>
<u>De-appropriation</u>			
Biosolids Digester Project	7,000,000		7,000,000
<b>Total Sources</b>	<b>\$319,852,320</b>	<b>\$902,348,960</b>	<b>\$1,222,201,280</b>
<b>Uses of Funds</b>			
<u>Sewer System Improvement Program</u>			
SSIP Program Wide Management	\$6,000,000	\$6,000,000	\$12,000,000
SSIP Land Reuse	28,108,000		28,108,000
Biosolids Digester Project	89,976,000	257,552,000	347,528,000
Southeast Treatment Plant	40,079,000	171,860,000	211,939,000
Northpoint Treatment Plant	0	57,287,000	57,287,000
Oceanside Treatment Plant	0	86,309,000	86,309,000
Central Bayside Improvements	0	38,069,000	38,069,000
Collection System Improvements	0	4,407,000	4,407,000
Reliability Program	0	7,738,000	7,738,000
Pump Station and Force Main	0	20,105,000	20,105,000
Flood Resilience	10,438,000	18,776,000	29,214,000
Advanced Rainfall	0	1,299,000	1,299,000
Green Infrastructure Projects	1,320,000	1,158,000	2,478,000
<b>SSIP Subtotal</b>	<b>175,921,000</b>	<b>670,560,000</b>	<b>846,481,000</b>
Collection System Renewal and Replacement	83,600,000	86,333,000	169,933,000
Treatment Facilities Renewal and Replacement	13,715,000	14,402,000	28,117,000
Southeast Community Center	5,000,000	5,000,000	10,000,000
Ocean Beach Protection	2,000,000	4,000,000	6,000,000
Islais Creek Outlet	5,000,000	10,000,000	15,000,000
Treasure Island	0	20,463,000	20,463,000
<b>Capital Plan Total</b>	<b>285,236,000</b>	<b>810,758,000</b>	<b>1,095,994,000</b>
Bond Issuance and Oversight	27,616,320	91,590,960	119,207,280
Other Program Wide Projects	7,000,000		7,000,000
<b>Total Uses</b>	<b>\$319,852,320</b>	<b>\$902,348,960</b>	<b>\$1,222,201,280</b>

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

\$269,852,320 of the FY 2016-17 appropriation and \$857,348,960 of the FY 2017-18 appropriation are placed on Controller's Reserve pending receipt of the Wastewater Revenue Bond proceeds.

Descriptions of the proposed projects are included in the attachment.

## FISCAL IMPACT

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. The Public Utilities Commission adopted the FY 2016-17 to FY 2025-26 Capital Plan and Financial Plan at the February 9, 2016 Commission meeting.

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

The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 is \$86, of which \$40 is water and \$46 is sewer. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC plans a 7 percent increase in sewer rates in FY 2016-17 and 11 percent increase in sewer rates in FY 2017-18 to cover the Wastewater Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential sewer bill will increase by \$4 in FY 2016-17, from \$46 in FY 2015-16 to \$50 in FY 2016-17; and by \$7 in FY 2017-18, from \$50 in FY 2016-17 to \$57 in FY 2017-18.

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

## POLICY CONSIDERATION

According to the SFPUC's Chief Financial Officer, the SFPUC's policy is to seek bond authorization and capital program appropriation approval from the Board of Supervisors, and subsequently submit legislation to the Board of Supervisors to approve the actual sale of the bonds and associated financing documents. Therefore, SFPUC will submit future legislation to the Board of Supervisors to approve the sale of up to \$1,112,601,280 in Wastewater Revenue Bonds.<sup>2</sup>

However, according to the proposed ordinance (File 16-0471), the "Board hereby authorizes the issuance and sale of Water Revenue Bonds in one or more series from time to time by the Commission pursuant to Proposition E...in an aggregate principal amount not to exceed \$1,112,601,280..." While the proposed ordinance requires Public Utilities Commission approval of the final offering document related to the sale of bonds and related financing documents, the proposed ordinance does not require Board of Supervisors approval. The proposed ordinance only requires that these documents "be filed with the Clerk of the Board". Therefore, the File 16-0471 should be amended to specify that SFPUC will submit future legislation to the

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

Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related offering and financing documents.

## **RECOMMENDATIONS**

1. Amend File 16-0471 to specify that SFPUC will submit future legislation to the Board of Supervisors to approve the sale of bonds authorized by the subject ordinance (other than refunding bonds), and the related financing documents.
2. Approve File 16-0471 as amended and File 16-0469.

**Attachment**

<b>Project</b>	<b>Description</b>
SSIP Program Wide Management	<ul style="list-style-type: none"> <li>Series of capital improvement projects focused on improving the wastewater system to meet present and future needs of the city.</li> </ul>
SSIP Land Reuse	<ul style="list-style-type: none"> <li>Addresses long-term planning and ongoing needs for physical space to support SSIP Projects.</li> </ul>
Biosolids Digester Project	<ul style="list-style-type: none"> <li>Provide a new digester/solids handling facility, replacing the existing facility at the Southeast Plant.</li> </ul>
Southeast Treatment Plant	<ul style="list-style-type: none"> <li>Address the liquid treatment portion of the improvements at SEP with upgrades to the existing digester facilities, until the new biosolids facility is constructed.</li> <li>Construction of a new all-weather 250 MGD Headworks facility, with new pumping, screening, grit removal and odor control.</li> </ul>
Northpoint Treatment Plant	<ul style="list-style-type: none"> <li>Includes improvements and upgrades to North Shore pump Station, NPF Clarifier &amp; Maintenance Facilities Relocation.</li> </ul>
Oceanside Treatment Plant	<ul style="list-style-type: none"> <li>Improvements are focused on increasing reliability by replacing equipment and improving treatment process efficiency.</li> </ul>
Central Bayside Improvements	<ul style="list-style-type: none"> <li>Provide system enhancement to the Channel &amp; Islais Creek urban watersheds, infrastructure improvements to sewers/pump stations, and storm water management.</li> </ul>
Collection System	<ul style="list-style-type: none"> <li>Improvements/replacements of sewer interceptors and tunnels.</li> </ul>
Reliability Program	<ul style="list-style-type: none"> <li>Address structural and corrosion protection improvements to Combined Sewer Discharge and Transport Storage structures.</li> </ul>
Pump Station and Force Main	<ul style="list-style-type: none"> <li>Rehabilitation/Replacement of existing pump station and inspection and repair of force mains.</li> </ul>
Flood Resilience	<ul style="list-style-type: none"> <li>Address combined sewer flooding caused by heavy rain. Includes construction of green infrastructure to use permeable surfaces and engineered subsurface systems to manage storm water.</li> </ul>
Advanced Rainfall	<ul style="list-style-type: none"> <li>Provide better rainfall forecasting capabilities, through improving the spatial and temporal, while providing new radar stations and rainfall prediction models.</li> </ul>
Green Infrastructure Projects	<ul style="list-style-type: none"> <li>Construction of green infrastructure to use permeable surfaces and engineered subsurface systems to manage storm water.</li> </ul>
Collection System Renewal/ Replacement	<ul style="list-style-type: none"> <li>Address long-term planning and immediate/ongoing needs to support the sewer collection system.</li> </ul>
Southeast Community Center	<ul style="list-style-type: none"> <li>Improvements to functionality and operational reliability of the facility. Also, infrastructure improvements will be provided.</li> </ul>
Ocean Beach Protection	<ul style="list-style-type: none"> <li>Facilitate the development of a comprehensive shoreline management and protection plan.</li> </ul>
Islais Creek Outlet	<ul style="list-style-type: none"> <li>Improvements to pipelines and modifications to the Booster Pump Station at Islais Creek.</li> </ul>
Treasure Island	<ul style="list-style-type: none"> <li>Replacement of the wastewater treatment facility at Treasure Island/Yerba Buena Island.</li> </ul>

<b>Item 22</b> <b>File 16-0467</b>	<b>Department:</b> Public Library (LIB)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance (File 16-0467) would authorize the transfer of \$7,566,391 of currently appropriated funds from the General Reserve for payment of debt service. The Public Library requests \$7,566,391 be de-appropriated from General Reserve to debt service payment to refund the City and County San Francisco Finance Corporation Lease Revenue Bonds, Series 2009A that was used to partially finance the Branch Library Improvement Program.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Public Library is requesting authority to transfer \$7,566,391 from General Reserve to debt service payment in order to pay a portion of the outstanding principal on the lease revenue bonds, together with the refunding (i.e. refinancing) of the Branch Library Improvement Program lease revenue bonds, which has a current outstanding total of approximately \$28 million.</li> <li>• The intent of the legislation is to reduce the current debt incurred as a result of the lease revenue bonds that had an original par amount of approximately \$34.3 million.</li> <li>• The Department anticipates being able to obtain a lower interest rate as compared to the original sale as a result of the lease revenue bond refunding and shortening the term of the outstanding debt service.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• This request has no new impact on the General Fund as all funds are currently appropriated to various accounts.</li> <li>• The Department anticipates long term savings of between \$14,984,937 and \$16,725,248 over the next 18 years due to this legislation and a refunding of the lease revenue bonds.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	



## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

Charter Section 16.109 established the Library Preservation Fund and the annual property tax set-aside to be deposited into the Fund. The property tax set-aside is in addition to the General Fund baseline amounts allocated to the Library in the annual budget. Charter Section 16.109 also authorizes the issuance of revenue bonds, subject to Board of Supervisors approval, to pay for construction and renovation of library facilities.

### Background

In November 2007, the voters passed Proposition D, which amended and restated Section 16.109 of the City Charter to authorize the use of Library Preservation Fund monies to provide library services and to construct, maintain, and operate library facilities.

The City issued \$34,265,000 in lease revenue bonds in 2009 (Series 2009A Lease Revenue Bonds) to partially fund the Branch Library Improvement Program with a term of 25 years. The current outstanding amount of these lease revenue bonds is \$28,045,000 at an interest rate of 5.384 percent.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Annual Appropriation Ordinance for FY 2015-16 to de-appropriate \$7,566,391 from the Library's General Reserve<sup>1</sup> and re-appropriate \$7,566,391 to debt service payment (loan principal repayment) to pay a portion of the outstanding principal together with the refunding of the Series 2009A Lease Revenue Bonds (Branch Library Improvement Program).

The Library and the Controller's Office of Public Finance determined that there would be a savings to refund the Series 2009 A Lease Revenue Bonds. The Department and Controller's Office of Public Finance anticipate that the re-appropriated funds of \$7,566,391 would enable the City to pay a portion of the principal amount outstanding on the Series 2009A Lease Revenue Bonds and shorten the bond term by up to three years as part of a refunding (i.e. refinancing). The Department and the Controller's Office of Public Finance also anticipate that the refunded lease revenue bonds are expected achieve a lower interest rate (between 2.699 percent and 3.479 percent) compared to the original 2009 sale (5.384 percent) as a result of improved market conditions.

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<sup>1</sup> The Library Preservation Fund consists of the annual property tax set-aside and the General Fund baseline allocation. When budgeted Library Preservation Fund revenues are in excess of planned expenditures in a given fiscal year, those excess revenue dollars are allocated to the Library's General Reserve. The General Reserve is specific to a fiscal year, unlike the Library Preservation Fund balance, which is an accumulation of unspent property tax set-aside monies over time.

According to Ms. Nadia Sesay, Controller's Office Director of Public Finance, the Library has not yet submitted legislation to the Board of Supervisors to authorize the refunding bonds to refund the outstanding Series 2009A Lease Revenue Bonds. Ms. Sesay noted that additional legislation will be brought to the Board of Supervisors separately in the months preceding the proposed refunding transaction.

## FISCAL IMPACT

As shown in Table 1 below, the Department and the Controller's Office of Public Finance anticipate savings of between \$14,984,937 and \$16,725,248 as a result of the proposed legislation to re-appropriate funds and the pending legislation for the refunding of the Series 2009A Lease Revenue Bonds. The Department anticipates that these savings would result from: (1) use of the re-appropriated \$7,566,391 for advanced principal reduction; (2) a subsequent reduction in the term of the bonds by three years; and, (3) a refunding of the lease revenue bonds, which could result in an estimated lower interest rate of between 2.699 percent to 3.479 percent as compared to the current interest rate of 5.384 percent.

**Table 1: Refunding 2009A Lease Revenue Bonds Cost Savings Estimates**

	<b>Original Debt Service (No Action Taken)</b>	<b>Refunded Debt Service at Current Rates</b>	<b>Refunded Debt Service at Potentially Higher Rate</b>
<b>Debt Service Timeframe</b>	April 2009 to June 2034	April 2009 to June 2031	April 2009 to June 2031
<b>Total Number of Payments<sup>2</sup></b>	25	22	22
<b>Interest Rate</b>	5.384%	2.699%	3.479%
<b>Total of Remaining Payments</b>	\$46,180,883	\$29,455,634 <sup>3</sup>	\$31,195,945 <sup>4</sup>
<b>Total Potential Savings</b>	N/A	\$16,725,248 <sup>5</sup>	\$14,984,937 <sup>6</sup>

## RECOMMENDATION

Approve the proposed ordinance.

<sup>2</sup> Includes past and future payments. Does not include the proposed re-appropriation of \$7,566,391 for advanced principal repayment.

<sup>3</sup> Assumes refunding at current rates and the proposed re-appropriation of \$7,566,391 for advanced principal repayment.

<sup>4</sup> Ibid

<sup>5</sup> Includes an estimated cost of issuance of \$350,000 for refunding transaction and the \$7,566,391 proposed re-appropriation for advanced principal repayment.

<sup>6</sup> Ibid