

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

August 19, 2020

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: August 21, 2020 Budget and Appropriations Committee Meeting

TABLE OF CONTENTS

Item	File	Page
3 & 7	20-0834 Appropriation - Proceeds from Revenue Bonds, Hetch Hetchy Revenue, Low Carbon Fuel Standard, Cap and Trade Allowance - \$260,351,806; De- and Re-Appropriation - Capital Projects - Hetch Hetchy Water/Power Capital Improvements - \$341,001 - FYs 2020-2022	
	20-0836 San Francisco Public Utilities Commission Power Revenue Bond Issuance - Various Capital Projects Benefitting the Power Enterprise - Not to Exceed \$142,970,073.....	1
4	20-0835 Appropriation - Proceeds from CleanPowerSF Revenue - CleanPowerSF Capital Improvements - \$4,331,326 - FY2020-2021 and FY2021-2022	9
5 & 8	20-0832 Appropriation - Proceeds from Revenue Bonds, State Loans/Grants, Wastewater Revenues/Capacity Fees - \$579,185,142; De-Appropriation and Re-Appropriation - Wastewater Capital Improvements - SFPUC - \$391,415,748 - FY2020-2021 and FY2021-2022	
	20-0837 San Francisco Public Utilities Commission Wastewater Revenue Bond Issuance - Various Capital Wastewater Projects Benefitting the Wastewater Enterprise - Not to Exceed \$349,919,252.....	12

- 6 & 9 20-0833 Appropriation - Proceeds from Revenue Bonds, State Loan/Grant Funds, Water Revenues/Capacity Fees - \$344,846,164; De- and Re-Appropriation - Capital Improvement Projects - \$14,413,167; De-appropriation - Capital Projects - \$3,528,113 - FYs 2020-2022
- 20-0838 San Francisco Public Utilities Commission Water Revenue Bond and Other Forms of Indebtedness Issuance - Various Capital Water Projects Benefitting the Water Enterprise - Not to Exceed \$347,141,218.....25

Items 3 & 7 Files 20-0834 & 20-0836	Department: Public Utilities Commission
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • <u>File 20-0834</u> would appropriate \$260,351,806 Hetch Hetchy revenue, Low Carbon Fuel Standard, Cap and Trade Revenue and Power and Water Revenue Bonds for the SFPUC's Hetch Hetchy Capital Improvement Program for FY 2020-21 and FY 2021-22. Bond proceeds would be placed on Controller's Reserve pending receipt of revenues and the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects • <u>File 20-0836</u> would authorize the issuance of \$142,970,073 in taxable or tax-exempt Power Revenue Bonds and other forms of indebtedness authorized by the SFPUC. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Hetch Hetchy enterprise includes Hetchy Water, which is responsible for the water system in and around the Hetch Hetchy reservoir, Hetchy Power, which is responsible for power generation, and CleanPowerSF. A description of the projects proposed to be funded by File 20-0834 is included in Attachment I of this report. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The SFPUC anticipates issuing the proposed \$143 million in Power Bonds in 1 or 2 series beginning in FY 2020-21 and FY 2021-22. The expected annual debt service on the proposed new debt would be \$9.6 million. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • As of July 2020, the Board of Supervisors previously authorized the issuance and sale of \$280.4 million in Power Revenue Bonds and other debt, of which \$103.1 million of Power Revenue Bonds and commercial paper have been sold with \$177.2 million in authorized and unsold bonds. The proposed ordinance (File 20-0836) authorizes an additional \$143 million in Power Revenue Bonds and other forms of debt. The SFPUC's policy is to request authorization for bonds and other forms of debt to fund new capital appropriations, even if it has unused bond authority. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinances 	

MANDATE STATEMENT

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds 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 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 F1.113 states that 0.2 percent of the City's budget, excluding bond debt, must be set-aside for the Controller's audit fund.

Charter Section 5A.31(d) states that one-twentieth of one percent (0.05%) 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 SFPUC maintains three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Hetch Hetchy enterprise includes Hetchy Water, which is responsible for the water system in and around the Hetch Hetchy reservoir, Hetchy Power, which is responsible for power generation, and CleanPowerSF. Because power is generated hydroelectrically, certain capital projects benefit both the Hetchy Water and Hetchy Power operations. Hetchy Power primarily provides electricity to City agencies and other government entities.

Hetch Hetchy Capital Improvement Program

According to the San Francisco Public Utilities Commission's (SFPUC) 10-Year Financial Plan, the Hetch Hetchy Enterprise Capital Improvement Program for FY 2020-21 through FY 2029-30 is \$1.56 billion, of which \$1.02 billion is for the Hetchy Water Capital Program and \$542.45 million is for the Power Enterprise. Major funding sources include power revenues, power revenue bonds, and water revenue bonds.

DETAILS OF PROPOSED LEGISLATION

File 20-0834 is a proposed ordinance that would appropriate \$260,351,806 Hetch Hetchy revenue, Low Carbon Fuel Standard, Cap and Trade Revenue and Power and Water Revenue Bonds for the SFPUC's Hetch Hetchy Capital Improvement Program for FY 2020-21 and FY 2021-22. The detailed sources and uses of these funds are shown below in Table 1.

Table 1: Sources of Uses for Hetch Hetchy Capital Improvement Program

	FY 2020-21	FY 2021-22	Total
Sources			
Hetch Hetchy Power Bond Proceeds (see File 20-0836)	56,937,158	86,032,915	142,970,073
Water Bond Proceeds (see File 20-0838)	33,374,293	75,252,440	108,626,733
Low Carbon Fuel Standard Funds	2,500,000	2,000,000	4,500,000
Hetch Hetchy Revenue	569,000	1,686,000	2,255,000
Cap & Trade Auction Revenue	1,000,000	1,000,000	2,000,000
Total Sources	94,380,451	165,971,355	260,351,806
Uses			
Retail Customer Program - Power	2,069,000	2,686,000	4,755,000
Retail Distribution Services	23,327,415	21,285,526	44,612,941
Bay Corridor Project	10,353,000		10,353,000
Small Renewable Generation	1,000,000	1,000,000	2,000,000
Energy Efficiency	1,000,000	1,000,000	2,000,000
Treasure Island Capital Improvements	4,582,543	4,332,543	8,915,086
Hetch Hetchy Water Infrastructure	20,077,000	33,733,000	53,810,000
Hetch Hetchy Power Infrastructure	0	10,560,207	10,560,207
Joint Water Projects	694,249	21,756,724	22,450,973
Joint Power Projects	848,526	26,591,552	27,440,078
Mountain Tunnel Project - Water	7,596,900	8,474,850	16,071,750
Mountain Tunnel Project - Power	9,285,100	10,358,150	19,643,250
Subtotal, Project Uses	80,833,733	141,778,552	222,612,285
Water Financing Costs	4,989,457	11,250,240	16,239,697
Power Financing Costs	8,503,967	12,852,549	21,356,516
Revenue Bond Oversight Committee (0.05%)	45,156	80,642	125,798
Controller's Audit Fund (0.2%)	8,138	9,372	17,510
Subtotal, Other Uses	13,546,718	24,192,803	37,739,521
Total Uses	94,380,451	165,971,355	260,351,806

Source: File 20-0834

A description of these projects is included in Attachment I.

The proposed ordinance would also transfer \$341,001 of surplus funds among existing capital projects in FY 2020-21, as shown in Table 2 below.

Table 2: Transfer of Previously Appropriated Funds

	FY 2020-21
Sources	
Transmission Distribution Systems	9,999
Underground Assessment Fund	331,002
Total Sources	341,001
Uses	
Electric Distribution System	21,246
Distribution System Assessment	319,755
Total Uses	341,001

Source: File 20-0834

The following funds would be place on Controller’s Reserve pending receipt of bond revenues:

- \$90,311,451 of the \$94,380,451 in new sources in FY 2020-21
- \$161,285,355 of the \$165,971,355 in new sources in FY 2021-22

Use of the appropriated funds is also subject to the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects, following review and consideration of completed project related environmental analysis.

File 20-0836 is a proposed ordinance authorizing the issuance of \$142,970,073 in taxable or tax-exempt Power Revenue Bonds and other forms of indebtedness authorized by the SFPUC, including New Clean Renewable Energy Bonds and Qualified Energy Conservation Bonds, commercial paper, revolving credit notes, and bond anticipation notes to finance the Hetch Hetchy Capital Improvement Program.

The ordinance would authorize the Controller, Treasurer, and City Attorney to take necessary actions to facilitate the issuance of the debt. Finally, the SFPUC would be required to provide a report to the Board of Supervisors that includes the amount of Power Revenue Bonds issued under the proposed and prior authorizations, total amount sold, the remaining authorized but unissued amount, and the bond authorization no longer necessary due to changes in projects and project financing.

FISCAL IMPACT

Bond Authorization

File 20-0836 would authorize the issuance of \$142,970,073 of Power Revenue Bonds and other forms of indebtedness authorized by the SFPUC. That ordinance would also authorize issuance of Refunding Bonds to refinance outstanding debt held by the Hetch Hetchy Enterprise.

Commercial Paper

The SFPUC currently has \$63,585,000 in outstanding commercial paper which could be retired by the issuance of new Power Revenue Bonds under the proposed ordinance.

Refunding Bonds

The proposed ordinance does not specify the amount of Refunding Bonds that could be issued to refinance outstanding Hetch Hetchy Enterprise Bond debt. According to the SFPUC, the Power Enterprise anticipates issuing refunding bonds if market conditions result in savings exceeding the minimum 3 percent debt service savings threshold and not extend the maturity date of the bonds that would be refinanced. This provision would end on June 30, 2025 unless extended by resolution of the Board of Supervisors. If the SFPUC issues refunding bonds, a Refunding Savings Report and copy of the final Official Statement would be submitted to the Board of Supervisors.

The proposed ordinance also provides for the SFPUC to issue refunding bonds for non-economic reasons, but issuance of refunding bonds for non-economic reasons would need to be approved by the Board of Supervisors by resolution. According to the SFPUC, the Commission has never issued refunding bonds for non-economic reasons.

SFPUC Debt Management Policy

SFPUC's Debt Policy provides for issuance of short-term debt, such as commercial paper, and refunding bonds.

The SFPUC's financial policies requires that each Enterprise generate net revenues of at least 1.35 times of annual debt service to remain compliant with the Department's Bond Indenture Agreement and that annual revenues are at least 1.10 times of annual debt service.

The SFPUC is expected to remain complaint with these debt service coverage ratios. According to the SFPUC's 10 Year Financial Plan, estimated Hetch Hetchy Enterprise annual debt service coverage ratio in FY 2020-21 would be 4.15 times annual revenues and 5.14 times annual revenues in FY 2021-22. Net revenues are expected to be 23.85 times debt service in FY 2020-21- and 29.94-times debt service in FY 2021-22.

Bond Issuance and Debt Service

The SFPUC anticipates issuing the proposed \$143 million in Power Bonds in 1 or 2 series in FY 2020-21 and FY 2021-22.

The debt service for the proposed \$143 Power bonds is expected to be \$9.6 million annually. According to the SFPUC's 10 Year Financial Plan from FY 2020-21 to FY 2029-30, total estimated Hetch Hetchy Enterprise annual debt service in FY 2020-21 would be \$4.1 million, increasing to \$49.4 million in FY 2029-30.

Power Rate Increases

In order to meet operating, capital, and debt expenses, the SFPUC adopted annual rate increases of 1 cent per year for Municipal customers¹ and 3 percent annually for other customers in FY 2020-21 and in FY 2021-2.

¹ The proposed electricity rates for Municipal customers are \$8.88 c/kWh in FY 2020-21 and \$9.88 c/kWh in FY 2021-22.

POLICY CONSIDERATION**Status of Authorized and Issued Power Enterprise Debt**

The Board of Supervisors previously authorized the issuance and sale of \$280.4 million in Power Revenue Bonds and other debt, of which \$103.1 million of Power Revenue Bonds and commercial paper have been sold with \$177.2 million in authorized and unsold bonds. The proposed ordinance (File 20-0836) authorizes an additional \$143 million in Power Revenue Bonds and other forms of debt. The SFPUC's policy is to request authorization for bonds and other forms of debt to fund new capital appropriations, even if it has unused bond authority.

RECOMMENDATION

Approve the proposed ordinances.

Retail Customer Program – Hetchy Power (increase of \$4.7 million)

The proposed ordinance appropriates \$4.7 million over two years to fund Hetch Hetchy Power customer programs. These programs include retrofit electrification programs, electric vehicle charging and storage infrastructure, and support for residential energy efficiency and renewable projects in the retrofit of existing and construction of new affordable residential housing developments, as well as market rate existing buildings.

The total expected cost through FY 2029-30 is \$32.8 million.

Retail Distribution Services (increase of \$44.6 million)

This project funds enhancements to the electric distribution system for various major development projects in San Francisco, including Port projects and Redevelopment projects. The SFPUC, as the electric utility provider, will install the conductors in the conduits, transformers, switches, and metering equipment required for the electric distribution system.

The total expected cost through FY 2029-30 is \$224.9 million.

Bay Corridor Project (increase of \$10.4 million)

This project funds distribution infrastructure from the Potrero substation and a new substation facility at proposed to be located at Quinn Street. The scope of work includes underground ductbank work, cable pulls, transformer substation and transmission connections to PG&E Potrero and related customer interface equipment and cables. Work will extend initially from Southeast Plant to the Mission Rock.

The total expected cost through FY 2029-30 is \$10.4 million.

Small Renewable Generation (increase of \$2 million)

This project funds planning and procurement costs for municipal renewable energy projects. Costs include site identification, site development, RFQ qualification process, RFP preparation, bidding process, contract negotiation, award of contracts, and management of construction and commissioning.

The total expected cost through FY 2029-30 is \$10 million.

Energy Efficiency (increase of \$2 million)

Funded by California Cap and Trade auction revenue, this project funds planning, design and construction for energy efficiency projects for City Departments, including Police, Fire, SFUSD, Real Estate, Recreation & Parks, Public Health, Fine Arts Departments, and others.

The total expected cost through FY 2029-30 is \$10 million.

Treasure Island Capital Improvements (increase of \$8.9 million)

This project funds the installation of the wires in conduits, transformers, switches, and metering equipment and connecting the existing electrical distribution system with the new system being developed on Treasure Island.

The total expected cost through FY 2029-30 is \$13.7 million.

Hetch Hetchy Water Infrastructure (increase of 53.8 million)

This program funds improvements to Hetchy Water infrastructure and assets that are 100% funded by the Water Enterprise. Projects includes continued rehabilitation to the San Joaquin Pipeline, including evaluation and assessment of structural integrity, structural upgrade of the pipeline and other projects

including pipeline cathodic protection, coating, valve replacement projects and the portion of improvements to Mountain Tunnel that are funded 100% by the Water Enterprise.

The total expected cost though FY 2029-30 is \$277.9M.

Hetch Hetchy Power Infrastructure (increase of \$10.6 million)

This program funds improvements to Hetchy Power infrastructure and assets that are 100% funded by the Power Enterprise. Many Power Infrastructure facilities and equipment have reached their life expectancy and power generation will become less reliable if upgrades are not performed. Projects include improvements to the Moccasin Powerhouse and transmission line upgrades, clearance and mitigation. All the \$10.6M funding is in FY 2021-22.

The total expected cost over though FY 2029-30 is \$152.3M.

Joint Power Hetchy Water and Hetchy Power Projects (increase of \$49.9 million)

This program funds improvements to Hetchy Joint Water/Power infrastructure and assets that are funded 55% by the Water Enterprise and 45% by the Power Enterprise. Project include improvements to Hetchy up-country facilities, condition assessments and rehabilitation of various dam in the Hetchy watershed, improvements to roads and bridges and security and communication projects.

The total expected cost though FY 2029-30 is \$523.2M.

Mountain Tunnel Project – Hetchy Water & Hetchy Power (increase of \$35.7 million)

This project funds repairs to the Mountain Tunnel, which conveys SFPUC water from Kirkwood Powerhouse to Priest Reservoir.

The total expected cost though FY 2029-30 is \$71 million.

<p>Item 4 File 20-0835</p>	<p>Department: Public Utilities Commission</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$4,331,326 of CleanPowerSF’s revenues for two capital programs: the Local Renewable Energy Program and the Customer Program. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Local Renewable Energy Program funds the development of new solar energy generation and storage facilities, which will help CleanPowerSF’s meet its renewable energy mix targets. • CleanPowerSF’s Customer Program funds incentive programs for residents and businesses to investment in clean energy, such as solar power installations, electric vehicles, and solar water heating. • According to the San Francisco Public Utilities Commission’s (SFPUC) 10-Year Financial Plan, CleanPowerSF does not expect to rely on debt to fund its Capital Improvement Program between FY 2020-21 and FY 2029-30. To pay for operations and capital investments, CleanPowerSF expects to increase rates 3 percent annually. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Local Renewable Energy Program would receive \$946,000 and the Customer Program would receive \$3.4 million in FY 2020-21 & FY 2021-22. As required by the Charter, the Controller’s Office would receive \$8,663 for its audit program. These programs will be paid for by CleanPowerSF’s power sales to customers. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance 	

MANDATE STATEMENT

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.

Charter Section F1.113 states that 0.2 percent of the City's budget, excluding bond debt, must be set-aside for the Controller's audit fund.

BACKGROUND

State law allows local governments to form Community Choice Aggregators (CCA) which are government owned retail electricity providers that purchase electricity for their customers and rely on investor owned utility distribution infrastructure. The SFPUC's CleanPowerSF enterprise is a CCA that provides electricity to residents and businesses in San Francisco and relies on PG&E distribution infrastructure to connect to its customers.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$4,331,326 of CleanPowerSF's revenues for the Local Renewable Energy Program and the Customer Program, described below.

CleanPowerSF Capital Plan

According to the San Francisco Public Utilities Commission's (SFPUC) 10-Year Financial Plan, the CleanPowerSF Capital Improvement Program for FY 2020-21 through FY 2029-30 is \$75.8 million, all of which is funded by power revenues. CleanPowerSF does not expect to rely on debt to fund its Capital Improvement Program between FY 2020-21 and FY 2029-30. To pay for operations and capital investments, CleanPowerSF expects to increase rates 3 percent annually.

Local Renewable Energy Program

This program funds the development of new solar energy generation and storage facilities, which will help CleanPowerSF's meet its renewable energy mix targets. Funding in FY 2020-21 and FY 2021-22 would go towards planning and design. The facilities will be initially operated by third-parties but may be purchased by the CleanPowerSF in later years.

Customer Program

This program funds the development and implementation of programs that incentivize customers to invest in clean energy technology and decarbonization tools. Incentives are available for residences investing in solar power installations, electrical vehicles and solar water heating. Both residents and business can receive incentives from installing new, clean and efficient equipment for generating and storing energy.

FISCAL IMPACT

Table 1 below shows the sources and uses of the proposed appropriation in FY 2020-21 and FY 2021-22.

Table 1: Sources and Uses of Proposed Appropriation

	FY 2020-21	FY 2021-22	Total
Sources			
Capital Revenue	1,898,497	2,432,829	4,331,326
Total Sources	1,898,497	2,432,829	4,331,326
Uses			
Local Renewable Energy Program	437,500	508,500	946,000
Customer Program	1,457,200	1,919,463	3,376,663
Controller's Audit Fund	3,797	4,866	8,663
Total Uses	1,898,497	2,432,829	4,331,326

Source: File 20-0835

As shown above, the Local Renewable Energy Program would receive \$946,000 and the Customer Program would receive \$3.4 million in FY 2020-21 & FY 2021-22. As required by the Charter, the Controller's Office would receive \$8,663 for its audit program. These programs will be paid for by CleanPowerSF's power sales to customers.

RECOMMENDATION

Approve the proposed ordinance.

<p>Items 5 and 8 Files 20-0832 and 20-0837</p>	<p>Department: San Francisco Public Utilities Commission (SFPUC)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • <u>File 20-0832</u> is an ordinance appropriating \$579,185,142 of proceeds from Wastewater Revenue Bonds, State of California Water Resources Control Board’s revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), and Wastewater revenue and capacity fees. • <u>File 20-0837</u> is an ordinance authorizing the issuance of \$349,919,252 in taxable or tax-exempt Wastewater Revenue Bonds to finance the proposed capital projects <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise has three main capital and repair and replacement programs: the Sewer System Improvement Program (SSIP), the Facilities and Infrastructure Program, and the Renewal and Replacement Program. The appropriation of \$579.2 million would fund SSIP projects, Facilities and Infrastructure projects, Renewal and Replacement projects, and bond related expenditures over the two-year period from FY 2020-21 to FY 2021-22. • Projects would be funded by Wastewater Revenue Bonds, Capacity Fees, and Wastewater Revenues. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Board of Supervisors has previously authorized \$3.5 billion in Wastewater Revenue Bonds. The issuance of an additional \$349.9 million increases the total bond authorization to \$3.8 billion. Issuance of the bonds conforms to the SFPUC’s debt management policies. SFPUC anticipates issuing \$349.9 million in one or two series beginning in FY2021-22. According to the SFPUC’s 10 Year Financial Plan from FY 2020-21 to FY 2029-30, estimated Wastewater Enterprise annual debt service in FY 2020-21 would be \$84.3 million, increasing to \$339.2 million in FY 2029-30. • In order to meet operating, capital, and debt expenses, the SFPUC estimates annual sewer rate increases of 7.5 percent. The adopted annual rate increase in FY 2020-21 and in FY 2021-22 is 8 percent. Therefore, the SFPUC estimates that the average monthly residential sewer bill will increase by \$5 in FY 2020-21, from \$67in FY 2019-20 to \$72; and by \$6 in FY 2021-22 to \$78. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinances. 	

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

Capital Programs

The San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise has three main capital and repair and replacement programs:

- The Sewer System Improvement Program (SSIP) includes multiple projects to improve the existing sewer collection and wastewater treatment facilities. SSIP provides for improvements to the (a) Southeast Treatment Plant Biosolids Digester and Headworks facilities; (b) the three treatment plants – Southeast, Oceanside, and Northpoint; (c) pump stations, force main, transport/storage/collection, odor control, and other components of the sewer transport, collection, storage, and treatment system; (d) stormwater mater management and flood resilience; and (e) land reuse. Phase I of the SSIP is \$3.4 billion and is anticipated to be completed in 2025. The overall SSIP is \$7.0 billion, funded by Wastewater Enterprise Revenue Bonds.
- The Wastewater Facilities and Infrastructure Program encompasses those capital improvements that fall outside of the Sewer System Improvement and Renewal and Replacement Programs. The Wastewater Facilities and Infrastructure Program addresses the following issues: maintaining SFPUC Wastewater Enterprise Levels of Service (LOS); maintaining the structural integrity of critical City infrastructure; streamlining core operational functions and processes; and employing energy efficiency components, stormwater management enhancements, seismic upgrades, spatial improvements, safety and security improvements, and other essential improvements to modernize existing facilities to current standards. The Wastewater Facilities and Infrastructure Program has seven projects totaling \$660 million, funded by Wastewater Enterprise Revenue Bonds.

- The Renewal and Replacement Program is an ongoing program, funded by revenues, capacity fees and revenue bonds. The program provides for periodic repair and replacement of the collection and treatment systems.

DETAILS OF PROPOSED LEGISLATION

File 20-0832 is an ordinance appropriating \$579,185,142 of proceeds from Wastewater Revenue Bonds, State of California Water Resources Control Board's revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), and Wastewater revenue and capacity fees, as shown in Exhibit 1 below and detailed in Attachments I and II.

Exhibit 1: Appropriation Uses

	FY 2020-21	FY 2021-22	Two Year Total
Biosolid Digester		\$81,744,663	\$81,744,663
Southeast Treatment Plant	4,356,803	14,033,381	18,390,184
North Point Treatment Plant	885,007	10,209,884	11,094,891
Oceanside Treatment Plant	1,650,000	13,363,824	15,013,824
Collection System	423,216	12,710,141	13,133,357
Pump Stations	1,366,676	2,337,536	3,704,212
Flood Resilience		45,000,000	45,000,000
Green Infrastructure Projects	772,000	1,544,368	2,316,368
Sewer System Improvement Program Subtotal	\$9,453,702	\$180,943,797	\$190,397,499
Collection System	107,135,000	115,703,000	222,838,000
Treatment Facilities	25,357,500	26,625,375	51,982,875
Repair and Replacement Subtotal	\$132,492,500	\$142,328,375	\$274,820,875
Treasure Island		35,000,000	35,000,000
Ocean Beach		2,416,702	2,416,702
Southeast Community Center	4,500,000	0	4,500,000
Islais Creek Outlet	15,846,679	3,715,499	19,562,178
Other Projects	\$20,346,679	\$3,715,499	\$24,062,178
Financing, Oversight, Audits	\$8,576,185	\$43,911,703	\$52,487,888
Total Uses	\$170,869,066	\$408,316,076	\$579,185,142

Source: File 20-0832

The proposed ordinance also de-appropriates and re-appropriates \$391,415,748 in previously appropriated funds, as shown in Exhibit 2 below.

Exhibit 2: De-appropriation and Re-appropriation of Funds

	Total
De-Appropriation	
Central Bayside System Improvement	\$72,895,788
Biosolid Digester Project	219,802,453
Drainage Basin/ Early Implement	34,011,490
North Point Treatment Plant	64,706,017
Total De-Appropriation	\$391,415,748
Re-Appropriation	
Collection System	\$55,580,148
Flood Resilience/ Hydraulic Improvements	78,525,385
Sewer System Improvement Program - Program Management	7,893,744
Southeast Treatment Plan	249,416,471
Total Re-Appropriation	\$391,415,748

Source: File 20-0832

The following funds would be placed on Controller's Reserve pending receipt of revenues:

- \$57,174,566 of the \$170,869,066 in new sources in FY 2020-21
- \$292,744,686 of the \$408,316,076 in new sources in FY 2021-22
- \$349,919,522 of \$391,415,748 of re-appropriated sources

Use of the appropriated funds is also subject to the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects, following review and consideration of completed project related environmental analysis.

File 20-0837 is an ordinance authorizing the issuance of \$349,919,252 in taxable or tax-exempt Wastewater Revenue Bonds to finance the proposed capital projects.

Exhibit 3: Bond Financing

	FY 2020-21	FY 2021-22	Two Year Total
Sewer System Improvement Program	\$9,453,702	\$180,943,797	\$190,397,499
Repair and Replacement	18,798,000	26,756,985	45,554,985
Other Projects	20,346,679	41,132,201	61,478,880
Subtotal Projects	\$48,598,381	\$248,832,983	\$297,431,364
Financing Costs	8,320,209	43,534,187	51,854,396
Revenue Bond Oversight Committee, City Services			
Auditor	255,976	377,516	633,492
Subtotal Financing, Oversight, Audit	\$8,576,185	\$43,911,703	\$52,487,888
Total	\$57,174,566	\$292,744,686	\$349,919,252

Source: File 20-0832

FISCAL IMPACT**Total Wastewater Revenue Bond Authorization**

The total SSIP is approximately \$7.0 billion in three phases, funded by Wastewater Revenue Bonds, and the current approved budget for Phase I and other projects is \$3.4 billion.¹ The Board of Supervisors has previously authorized \$3.5 billion in Wastewater Revenue Bonds, of which SFPUC has issued \$3.2 billion and \$272 million is authorized but not yet issued. The SFPUC's policy is to request authorization for bonds and other forms of debt to fund new capital appropriations, even if it has unused bond authority.

File 20-0837 would authorize issuance of \$349.9 million in new Wastewater Revenue Bonds, for total authorized Wastewater Revenue Bond debt of \$3.8 billion. The proposed ordinance also authorizes the issuance of refunding bonds to refinance outstanding Wastewater Revenue Bond commercial paper debt.

SFPUC Debt Management Policy

SFPUC's Debt Policy provides for issuance of short term debt, such as commercial paper, and refunding bonds.

Commercial Paper

The Board of Supervisors previously authorized the SFPUC Wastewater Enterprise to issue up to \$750 million in short term commercial paper (File 17-1740). The SFPUC currently has \$208 million in outstanding commercial paper which could be retired by the issuance of new Wastewater Revenue Bonds under the proposed ordinance.

Refunding Bonds

The proposed ordinance does not specify the amount of Wastewater Refunding Bonds that could be issued to refinance outstanding Wastewater Revenue Bond debt. SFPUC anticipates issuing refunding bonds if market conditions result in savings exceeding the minimum 3 percent debt service savings threshold and would not extend the maturity date of the bonds. This provision would end on June 30, 2025 unless extended by resolution of the Board of Supervisors. If the SFPUC issues refunding bonds, a Refunding Savings Report and copy of the final Official Statement would be submitted to the Board of Supervisors.

The proposed ordinance also provides for the SFPUC to issue refunding bonds for non-economic reasons, but issuance of refunding bonds for non-economic reasons would need to be approved by the Board of Supervisors by resolution. According to the SFPUC, the Commission has never issued refunding bonds for non-economic reasons

Bond Issuance and Debt Service

SFPUC anticipates issuing \$349.9 million in one or two series beginning in FY2021-22. According to the SFPUC's 10 Year Financial Plan from FY 2020-21 to FY 2029-30, estimated Wastewater

¹ 3rd Quarter Report, page 3.

Enterprise annual debt service in FY 2020-21 would be \$84.3 million, increasing to \$339.2 million in FY 2029-30. According to Charter Section 8B.124, SFPUC must obtain certification by a qualified third party that the debt service coverage ratio will be 1.35x (i.e., earnings before interest, taxes, and amortization – EBITA – are 1.35 times the annual principal and interest payments on the debt). According to the SFPUC's 10 Year Financial Plan, estimated Wastewater Enterprise annual debt service coverage ratio in FY 2020-21 would be 2.31x, decreasing to 1.38x in FY 2029-30.

Sewer Rate Increases

In order to meet operating, capital, and debt expenses, the SFPUC estimates annual sewer rate increases of 7.5 percent. The adopted annual rate increase in FY 2020-21 and in FY 2021-22 is 8 percent. Therefore, the SFPUC estimates that the average monthly residential sewer bill will increase by \$5 in FY 2020-21, from \$67 in FY 2019-20 to \$72; and by \$6 in FY 2021-22 to \$78.

POLICY CONSIDERATION

Reporting on Bond Issuance to Board of Supervisors

According to Ordinance 111-16, which previously authorized issuance of \$1.1 billion in Wastewater Revenue Bonds, the SFPUC would file with the Clerk of the Board within 30 days of the issuance of the bonds, a report summarizing principal and interest costs, bond maturity, facilities to be funded, and remaining unissued balance. The SFPUC submitted such reports on July 14, 2020. File 20-0837 provides for the continued submission of such reports to the Clerk of the Board.

Wastewater Enterprise Capital Plan and Reserves

SFPUC's fund balance reserve policy requires a fund balance of 90 days or 25 percent of operating expenses. According to the 10 Year Financial Plan, the Wastewater Enterprise fund balance exceeds this level because the Wastewater Enterprise had lower capital expenditures than projected in recent years due to delays in SSIP projects. The 10 Year Financial Plan shows negative net operating revenues in seven of the next ten years (i.e., operating revenues are less than expenses) which will draw down on the fund balance. However, despite the draw down on fund balance each year, the Wastewater Enterprise fund balance will continue to increase through FY 2026-27, in large part due to the estimated 8 percent per year increase in sewer rates.

RECOMMENDATION

- Approve the proposed ordinances

	FY 2020-21				FY 2021-22			
	Wastewater Revenue Bonds	Wastewater Enterprise Revenue	Wastewater Enterprise Capacity Fee	Total	Wastewater Revenue Bonds	Wastewater Enterprise Revenue	Wastewater Enterprise Capacity Fee	Total
Biosolid Digester					81,744,633			81,744,663
Southeast Treatment Plant	4,356,803			4,356,803	14,033,381			14,033,381
North Point Treatment Plant	885,007			885,007	10,209,884			10,209,884
Oceanside Treatment Plant	1,650,000			1,650,000	13,363,824			13,363,824
Collection System	423,216			423,216	12,710,141			12,710,141
Pump Stations	1,366,676			1,366,676	2,337,536			2,337,536
Flood Resilience					45,000,000			45,000,000
Green Infrastructure Projects	772,000			772,000	1,544,368			1,544,368
SSIP *	\$9,453,702	0	0	\$9,453,702	\$180,943,767	0	0	\$180,943,797
Collection System	18,798,000	82,537,000	5,800,000	107,135,000	26,756,985	83,627,015	5,319,000	115,703,000
Treatment Facilities		25,357,500		25,357,500		26,625,375		26,625,375
Repair and Replacement	\$18,798,000	\$107,894,500	\$5,800,000	\$132,492,500	\$26,756,985	\$110,252,390	\$5,319,000	\$142,328,375
Treasure Island					35,000,000			35,000,000
Ocean Beach					2,416,702			2,416,702
Southeast Community Center	4,500,000			4,500,000				0
Islais Creek Outlet	15,846,679			15,846,679	3,715,499			3,715,499
Other Projects	\$20,346,679	0	0	\$20,346,679	\$41,132,201	0	0	\$41,132,201
Financing Costs	8,320,209			8,320,209	43,534,187			43,534,187
RBOC, CSA **	255,976	0	0	255,976	377,516	0	0	377,516
Financing, Oversight, Audits	\$8,576,185	0	0	\$8,576,185	\$43,911,703	0	0	\$43,911,703
Total Uses	\$57,174,566	\$107,894,500	\$5,800,000	\$170,869,066	\$292,744,656	\$110,252,390	\$5,319,000	\$408,316,076

* Sewer System Improvement Program

** Revenue Bond Oversight Committee, City Services Auditor

	Wastewater Revenue Bonds	Wastewater Enterprise Revenue	Total
De-Appropriation			
Central Bayside System Improvement	\$72,895,788		\$72,895,788
Biosolid Digester Project	219,802,453		219,802,453
Drainage Basin/ Early Implement	34,011,490		34,011,490
North Point Treatment Plant	64,706,017		64,706,017
Subtotal De-Appropriation	\$391,415,748	0	\$391,415,748
Re-Appropriation			
Collection System	\$55,580,148		\$55,580,148
Flood Resilience/ Hydraulic Improvements	78,525,385		78,525,385
SSIP Program Management	7,893,744		7,893,744
Southeast Treatment Plan	249,416,471		249,416,471
Subtotal Re-Appropriation	\$391,415,748	0	\$391,415,748

Project Funding

	Proposed New Funding	Proposed De- Appropriation	Proposed Re- Appropriation	Total
Biosolid Digester	81,744,663	(219,802,453)		(138,057,790)
Treatment Facilities	96,481,774	(64,706,017)	249,416,471	281,192,228
Pump Stations - Force Main	3,704,212			3,704,212
Collection System	235,971,357		55,580,148	291,551,505
Flood Resilience	45,000,000		78,525,385	123,525,385
Central Bayside and Early Implementation	0	(72,895,788)		(72,895,788)
Green Infrastructure Projects	2,316,368	(34,011,490)		(31,695,122)
Program Management	0		7,893,744	7,893,744
Treasure Island	35,000,000			35,000,000
Ocean Beach	2,416,702			2,416,702
Southeast Community Center	4,500,000			4,500,000
Islais Creek Outlet	19,562,178			19,562,178
Total Uses	526,697,254	(391,415,748)	391,415,748	526,697,254

Biosolid Digester (net reduction of \$138.0 million)

The proposed ordinance de-appropriates 2016 and 2017 Wastewater Revenue Bond appropriations to the Biosolid Digester Facilities Project and appropriates new Wastewater Revenue Bond proceeds in FY 2021-22, for a net reduction in project revenues of \$138.0 million.

The Biosolid Digester Facilities Project demolishes the existing facility at the Southeast Treatment Plant, and reconstructs these facilities at an adjacent site. The initial demolition and relocation is underway. According to the Wastewater Enterprise 3rd Quarter Report for FY 2019-20 (published on June 2, 2020), construction cost estimates and timelines for reconstruction of the Biosolid Digester Facilities Project were much higher than anticipated. The SFPUC made project changes to reduce some costs. The current approved project budget is \$1.3 billion and the forecasted budget is \$1.7 billion, an increase of \$400 million.

Treatment Plant Project (net increase of \$281.2 million)

The proposed ordinance appropriates new Wastewater Revenue Bonds to Southeast, Oceanside, and Northpoint Treatment Plants, and re-appropriates prior Wastewater Revenue Bond appropriations to the Southeast Treatment Plant, offset by the de-appropriation of prior Wastewater Enterprise revenue bond appropriation to the North Point Treatment Plant. The net increase of \$281.2 million is for Sewer System Improvement Program (SSIP) and Capital Improvement Program (CIP) Treatment Plant projects.

The Southeast Treatment Plant projects include disinfection, odor control, distributed control system, seismic reliability, and power improvements. These budgets do not include the Biosolid Digester, noted above, or the Headworks Facility. The Northpoint Treatment Plant projects include improvements to the North Shore Pump Station wet weather facility. The Oceanside Treatment Plant improvements include pump station reliability, digester gas utilization, and general assessment repairs.

According to the 3rd Quarter Report, the Oceanside Treatment Plant project is over budget due to increases in project timelines and costs largely due to rescoping and redesign of the Westside Pump Station Reliability project and construction cost increases for the digester gas utilization project. The current approved SSIP budget for the Southeast, Oceanside, and North Point Treatment Plants \$556.4 million and the forecasted budget is \$570.9 million, an increase of \$14.5 million.

Pump Station and Collection System

Force Main (new funds of \$3.7 million)

The Sewer System Improvement Program has three force main projects¹ - Embarcadero and Jackson Streets, Mariposa Pump Station, and Griffith Pump Station. According to the 3rd Quarter Report, extended contract bidding timelines and higher than expected construction bids for the Mariposa Pump Station project contributed to increases in the project budget. The current budget for pump station and force main projects is \$77.6 million and the forecasted budget is \$81.0 million, an increase of \$3.4 million.

Collection System (new and re-appropriated funds of \$291.6 million)

The Collection System is the City's network of sewers that collect and transport sanitary flow and stormwater runoff. The proposed ordinance appropriates new Wastewater Revenue Bond and Wastewater Enterprise revenues, and re-appropriates prior Wastewater Revenue Bond appropriations to SSIP and Repair & Replacement projects. SSIP projects include the interdepartmental collection system projects which provide for improvements to the sewer systems along Geary Avenue, Van Ness Avenue, Better Market Street, Mission Bay, and Taraval. According to the 3rd Quarter Report, the Van Ness Avenue project is expected to be over budget due to delays and differing site conditions; and the Better Market Street project is expected to be over budget due to cost sharing variances among participating departments and project delays. The current SSIP budget for interdepartmental collection system projects is \$87.7 million and the forecasted budget is \$96.6 million, an increase of \$8.9 million.

Repair and Replacement projects include annual repair and replacement of 15 miles of sewer lines. According to the 3rd Quarter Report, the current approved and forecasted budget for Collection System repair and replacement is \$686.54 million.

Flood Resilience (new and re-appropriated funds of \$123.5 million)

The proposed ordinance appropriates new Wastewater Revenue Bonds to flood resilience projects to decrease flooding and property damage during rainstorms. Projects include 17th and Folsom Streets, Cayuga Avenue, Lower Alemany other neighborhoods' hydraulic and drainage improvements. According to the 3rd Quarter Report, the approved and forecasted budget is \$286.5 million.

¹ Force mains are pipelines that convey wastewater under pressure from the discharge side of a pump or pneumatic ejector to a discharge point. Pumps or compressors located in a lift station provide the energy for wastewater conveyance in force mains.

Central Bayside and Early Implementation (de-appropriation of \$72.8 million)

The proposed ordinance de-appropriates prior Wastewater Revenue Bond appropriations from the Central Bayside System Improvement Project, which provides collection system improvements to the Channel and Islais Creek watersheds. According to the 3rd Quarter Report, the first phase of the Central Bayside System Improvement Project is expected to be completed in December 2020 and to come in under budget.

The proposed ordinance de-appropriates prior Wastewater Enterprise Revenue Bond appropriations from Early Implementation projects, which consist of green infrastructure to manage stormwater runoff. Early Implementation projects include Islais Creek, North Shore, Lake Merced, Channel, and Sunnydale, Sunset, Richmond, and Yosemite. SFPUC is recommending re-appropriating previously appropriated Wastewater Enterprise Bond funds from Early Implementation projects because the project are being funded through a re-allocation of existing current year project appropriations that funds the projects through completion.

Program Management (re-appropriation of \$7.9 million)

The proposed ordinance re-appropriates \$7.9 million to the existing agreement between SFPUC and AECOM for management of the Sewer System Improvement Program. The Board of Supervisors approved the original AECOM program management agreement in 2011, for a term of 15 years through September 2025 and an amount not-to-exceed \$150 million. According to the 3rd Quarter Report, program management expenditures to date are \$113.2 million, and total forecasted expenditures are \$175 million, or \$25 million more than then approved agreement amount.

Treasure Island (new fund of \$35 million)

The proposed ordinance includes new Wastewater Revenue Bonds for the construction of a new wastewater treatment plant on Treasure Island to replace the facility built by the Navy that is past its useful life. The conceptual engineering report was completed in January 2020; SFPUC is currently preparing the Request for Qualifications to select a design-build contractor. The schedule is one year longer than previously estimated (completion in January 2025 rather than September 2023) and costs based on the conceptual engineering design are higher than previously estimated. According to the 3rd Quarter Report, the approved budget is \$67.4 million and the forecasted budget is \$202.2 million, an increase of \$134.8 million.

Ocean Beach (new funds of \$2.4 million)

The proposed ordinance includes new Wastewater Revenue Bonds for the Ocean Beach project for shoreline management to protect from bluff erosion and sea level rise due to climate change. The project is scheduled for completion in 2026. According to the 3rd Quarter Report, the current approved budget is \$126.8 million and the forecasted budget is \$169.9 million, an increase of \$43.1 million.

Southeast Community Center (new funds of \$4.5 million)

The proposed ordinance includes new Wastewater Revenue Bonds for the Southeast Community Center at 1550 Evans Street, which will include a community center, childcare cent, café, multi-purpose space, and other facilities to serve the surrounding neighborhood and mitigate the impact of the Southeast Treatment Plant. The project is scheduled for completion in 2023. According to the 3rd Quarter Report, the approved budget is \$108.5 million and the forecasted budget is \$109.5 million, an increase of \$1 million.

Islais Creek Outlet (new funds of \$19.6 million)

The proposed ordinance includes new Wastewater Revenue Bonds for replacing pipelines crossing under Islais Creek, and other pipeline improvements to ensure reliable outflow from the Southeast Treatment Plant. The project is behind schedule and over budget due to design changes, additional scope and incorporation of emergency bypass project components, seismic design additions, and Muni overhead control system relocation work on 3rd Street. According to the 3rd Quarter Report, the approved budget is \$35 million and the forecasted budget is \$67.6 million, an increase of \$32.6 million.

<p>Items 6 and 9 Files 20-0833 and 20-0838</p>	<p>Department: San Francisco Public Utilities Commission (SFPUC)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • <u>File 20-0832</u> is an ordinance appropriating \$344,846,164 of proceeds from Water Revenue Bonds, State of California Water Resources Control Board’s revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), and Water revenues and capacity fees. • <u>File 20-0838</u> is an ordinance authorizing the issuance of \$347,141,218 in taxable or tax-exempt Water Revenue Bonds to finance the proposed capital projects. The requested authorization includes \$238,514,485 in regional and local Water Revenue Bonds for Water Enterprise projects and \$108,626,733 for Hetch Hetchy water projects. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The San Francisco Public Utilities Commission (SFPUC) water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The Water Enterprise 10-Year Capital Plan for FY 2021-20 through FY 2029-30 is \$2.2 billion, of which \$1.0 billion are regional projects and \$1.2 billion are local projects. Funding sources include \$1.54 billion in bond and \$0.66 billion in revenues. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • As of June 30, 2020, the Board of Supervisors authorized \$4.3 billion in Water Revenue Bonds. To date, \$3.6 billion of the Proposition E bonds have been sold with \$629 million in authorized and unsold bonds. SFPUC anticipates issuing \$347.1 million in one or two series beginning FY2021-22. According to the SFPUC’s 10 Year Financial Plan from FY 2020-21 to FY 2029-30, estimated Water Enterprise annual debt service in FY 2020-21 would be \$304.1 million, increasing to \$503.9 million in FY 2029-30. • As of June 30, 2020, the Board of Supervisors authorized \$4.3 billion in Water Revenue Bonds. To date, \$3.6 billion of the Proposition E bonds have been sold with \$629 million in authorized and unsold bonds. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinances. 	

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) 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.

Water Enterprise Capital Plan

The Water Enterprise 10-Year Capital Plan for FY 2021-20 through FY 2029-30 is \$2.2 billion, of which \$1.0 billion are regional projects and \$1.2 billion are local projects. Funding sources include \$1.54 billion in bond and \$0.66 billion in revenues.

DETAILS OF PROPOSED LEGISLATION

File 20-0832 is an ordinance appropriating \$344,846,164 of proceeds from Water Revenue Bonds, State of California Water Resources Control Board's revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), and Water revenues and capacity fees, as shown in Exhibit 1 below and in Attachment I.

Exhibit 1: Appropriation Sources and Uses

	FY 2020-21	FY 2021-22	Two Year Total
Sources			
Regional Programs/ Wholesale Customers	\$53,574,300	\$64,469,827	\$118,044,127
Local Programs	78,559,626	148,242,411	226,802,037
Total Sources	\$132,133,926	\$212,712,238	\$344,846,164
Uses			
<i>Regional</i>			
Water Supply & Treatment	9,225,155	42,388,000	\$51,613,155
Watershed & Land Management	30,720,000	9,659,650	40,379,650
Communication, Monitoring, Permit	4,543,000	2,913,210	7,456,210
Buildings & Grounds	3,000,000	1,784,463	4,784,463
Financing, Oversight, Audits	6,086,145	7,724,503	13,810,648
Regional Uses Subtotal	\$53,574,300	\$64,469,826	\$118,044,126
<i>Local</i>			
Watershed & Land Management	\$7,000,000	\$5,201,350	\$12,201,350
Water Conveyance & Distribution	34,050,000	70,275,998	104,325,998
Communication, Monitoring, Permit		1,568,652	1,568,652
Town of Sunol Pipeline	525,000	1,075,000	1,600,000
Automated Water Meter Program	4,239,638	2,970,340	7,209,978
Tanks & Reservoirs	3,325,000	3,000,000	6,325,000
Lombard Geotechnical	150,000	2,265,000	2,415,000
Westside Recycled Water	5,057,144	4,664,854	9,721,998
Buildings & Grounds	15,150,000	34,715,537	49,865,537
Water Supply/ Pump Station	2,702,000	6,900,000	9,602,000
Financing, Oversight, Audits	6,360,844	15,605,681	21,966,525
Local Uses Subtotal	\$78,559,626	\$148,242,412	\$226,802,038
Total Uses	\$132,133,926	\$212,712,238	\$344,846,164

The proposed ordinance also:

- (a) de-appropriates \$3,528,113 in surplus project funds, and returns these funds to the Water Enterprise fund balance; and
- (b) re-appropriates \$14,431,167 for surplus project funds to various local water supply projects, as shown in Exhibit 2 below.

Exhibit 2: De-appropriation and Re-appropriation of Funds

	Water Revenue Bonds	Water Enterprise Revenues	Total
<i>De-appropriation</i>			
Pump Stations	\$6,250,000		\$6,250,000
Harding Park Recycled Water	3,574,167		3,574,167
Local Water Supply	3,500,000	1,089,000	4,589,000
Total	\$13,324,167	\$1,089,000	\$14,413,167
<i>Re-appropriation</i>			
Local Water Supply	\$13,324,167	\$1,089,000	\$14,413,167

The following funds would be placed on Controller’s Reserve pending receipt of revenues:

- \$82,979,926 of the \$132,133,926 in new sources in FY 2020-21
- \$155,534,559 of the \$212,712,238.76 in new sources in FY 2021-22
- \$8,432,000 of \$14,413,167 of re-appropriated sources

Use of the appropriated funds is also subject to the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects, following review and consideration of completed project related environmental analysis.

File 20-0838 is an ordinance authorizing the issuance of \$347,141,218 in taxable or tax-exempt Water Revenue Bonds to finance the proposed capital projects. The requested authorization includes \$238,514,485 in regional and local Water Revenue Bonds for Water Enterprise projects and \$108,626,733 for Hetch Hetchy water projects, as shown in Exhibit 3 below. Attachment I further summarizes bond project financing.

Exhibit 3: Bond Appropriation

	Water Revenue Bonds			Hetchy Water	Hetchy Water	Total Hetch Hetchy Water
	FY 2020-21	FY 2021-22	Total	FY 2020-21	FY 2021-22	
<i>Regional</i>						
Projects Subtotal	34,488,155	43,772,181	78,260,336	28,368,149	63,964,574	92,332,723
Financing	6,025,858	7,658,838	13,684,696	4,989,457	11,250,240	16,239,697
RBOC	20,287	25,748	46,035	16,687	37,626	54,313
City Services Auditor	40,000	39,917	79,917			0
Regional Total	40,574,300	51,496,684	92,070,984	33,374,293	75,252,440	108,626,733
<i>Local</i>						
Projects	36,044,782	88,432,194	124,476,976			
Financing	6,281,333	15,479,224	21,760,557			
RBOC	21,203	52,019	73,222			
City Services Auditor	58,308	74,438	132,746			
Local Total	42,405,626	104,037,875	146,443,501	0	0	0
Total Bonds	82,979,926	155,534,559	238,514,485	33,374,293	75,252,440	108,626,733

Source: Files 20-0833 and 20-0834

FISCAL IMPACT

Water Revenue Bond Authorization

File 20-0837 would authorize issuance of \$347.1 million in new Water Revenue Bonds. The proposed ordinance also authorizes the issuance of refunding bonds to refinance outstanding Wastewater Revenue Bond commercial paper debt.

SFPUC Debt Management Policy

SFPUC's Debt Policy provides for issuance of short term debt, such as commercial paper, and refunding bonds.

Commercial Paper

The Board of Supervisors previously authorized the SFPUC Water Enterprise to issue up to \$500 million in short term commercial paper (File 08-1453). The SFPUC currently has \$362 million in outstanding commercial paper which could be retired by the issuance of new Water Revenue Bonds under the proposed ordinance.

Refunding Bonds

The proposed ordinance does not specify the amount of Water Refunding Bonds that could be issued to refinance outstanding Wastewater Revenue Bond debt. SFPUC anticipates issuing \$693 million in taxable refunding bonds in FY2020-21 for an estimated savings of 17.5% of the amount of refunded bonds based on current market conditions. This provision would end on June 30, 2025 unless extended by resolution of the Board of Supervisors. If the SFPUC issues refunding bonds, a Refunding Savings Report and copy of the final Official Statement would be submitted to the Board of Supervisors.

The proposed ordinance also provides for the SFPUC to issue refunding bonds for non-economic reasons, but issuance of refunding bonds for non-economic reasons would need to be approved by the Board of Supervisors by resolution. According to the SFPUC, the Commission has never issued refunding bonds for non-economic reasons

Bond Issuance and Debt Service

SFPUC anticipates issuing \$347.1 million in one or two series beginning FY2021-22. According to the SFPUC's 10 Year Financial Plan from FY 2020-21 to FY 2029-30, estimated Water Enterprise annual debt service in FY 2020-21 would be \$304.1 million, increasing to \$503.9 million in FY 2029-30. According to the SFPUC debt management policy, debt service coverage ratio should be 1.1x (i.e., earnings before interest, taxes, and amortization – EBITA – are 1.1 times the annual principal and interest payments on the debt.) According to the SFPUC's 10 Year Financial Plan, estimated Water Enterprise annual debt service coverage ratio in FY 2020-21 would be 1.11x and in FY 2021-22 would be 1.12x.

Water Rate Increases

In order to meet operating, capital, and debt expenses, the SFPUC adopted annual rate increases of 7.8 percent in FY 2020-21 and 7.9 percent in FY 2021-2. Therefore, the SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2020-21, from \$56 in FY 2019-20 to \$60; and by \$5 in FY 2021-22 to \$65.

POLICY CONSIDERATION

San Francisco voters approved Proposition A in 2002, authorizing \$1.6 billion in Water Revenue Bonds. To date, 1.5 billion of the Proposition A bonds have been sold with \$93 million in authorized and unsold bonds.

San Francisco voters also approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approve by ordinance of two-thirds of the Board of Supervisors. Proposition E did not set a maximum amount of the Water Revenue Bonds that could be authorized. As of June 30, 2020, the Board of Supervisors authorized \$4.3 billion in Water Revenue Bonds. To date, \$3.6 billion of the Proposition E bonds have been sold with \$629 million in authorized and unsold bonds. According to the SFPUC, the \$629 million in authorized and unsold bonds will be used to finance Water System Improvement Program (WSIP) projects as well as other non-WSIP Water capital improvement projects.

When the Board of Supervisors approved the prior ordinance in May 2018, authorizing the issuance of Water Revenue Bonds, the Board amended the ordinance (File 18-0451) to request the SFPUC General Manager to provide a written report to the Board as part of the two year budget review detailing the total amount of Water Revenue Bonds authorized under Proposition E, the total amount sold, the total amount authorized and unsold, and the amount of authorized bonds that are no longer needed due to changes in projects and project financing, beginning in May 2020. The SFPUC submitted such reports on July 14, 2020.

RECOMMENDATION

- Approve the proposed ordinances.

Water Enterprise Appropriation (File 20-0833)

	FY 2020-21				FY 2021-22			
	Water Revenue Bonds	Water Enterprise Revenues	Water Capacity Fees	Total	Water Revenue Bonds	Water Enterprise Revenues	Water Capacity Fees	Total
Sources								
Regional Programs/ Wholesale Customers	40,574,300	13,000,000		53,574,300	51,496,684	12,973,143		64,469,827
Local Programs	42,405,626	34,600,000	1,554,000	78,559,626	104,037,875	42,684,536	1,520,000	148,242,411
Total Sources	82,979,926	47,600,000	1,554,000	132,133,926	155,534,559	55,657,679	1,520,000	212,712,238
Uses								
<i>Regional</i>								
Water Supply & Treatment	9,225,155			9,225,155	42,388,000			42,388,000
Watershed & Land Mgmt	17,720,000	13,000,000		30,720,000		9,659,650		9,659,650
Communication, Monitoring	4,543,000			4,543,000		2,913,210		2,913,210
Buildings & Grounds	3,000,000			3,000,000	1,384,181	400,282		1,784,463
Financing, Oversight, Audits	6,086,145			6,086,145	7,724,503			7,724,503
Regional Uses Subtotal	40,574,300	13,000,000	0	53,574,300	51,496,684	12,973,142	0	64,469,826
<i>Local</i>								
Watershed & Land Mgmt		7,000,000		7,000,000		5,201,350		5,201,350
Water Convey & Distribution	4,896,000	27,600,000	1,554,000	34,050,000	33,057,000	35,698,998	1,520,000	70,275,998
Communication, Monitoring						1,568,652		1,568,652
Town of Sunol Pipeline	525,000			525,000	1,075,000			1,075,000
Automated Water Meter	4,239,638			4,239,638	2,970,340			2,970,340
Tanks & Reservoirs	3,325,000			3,325,000	3,000,000			3,000,000
Lombard Geotechnical	150,000			150,000	2,265,000			2,265,000
Westside Recycled Water	5,057,144			5,057,144	4,664,854			4,664,854
Buildings & Grounds	15,150,000			15,150,000	34,500,000	215,537		34,715,537
Water Supply/ Pump Station	2,702,000			2,702,000	6,900,000			6,900,000
Financing, Oversight, Audits	6,360,844			6,360,844	15,605,681			15,605,681
Local Uses Subtotal	42,405,626	34,600,000	1,554,000	78,559,626	104,037,875	42,684,537	1,520,000	148,242,412
Total Uses	82,979,926	47,600,000	1,554,000	132,133,926	155,534,559	55,657,679	1,520,000	212,712,238

Bond Authorization (File 20-0837)

	FY 2020-21		FY 2021-22		Two Year Total
	Water Revenue		Water Revenue		
	Bonds	Hetchy Water	Bonds	Hetchy Water	
<u>Regional</u>					
Water Supply & Treatment	9,225,155		42,388,000		51,613,155
Watershed & Land Management	17,720,000				17,720,000
Communication, Monitoring, Permit	4,543,000				4,543,000
Buildings & Grounds	3,000,000		1,384,181		4,384,181
Hetch Hetchy Water Infrastructure		20,077,000		33,733,000	53,810,000
Hetch Hetchy Mountain Tunnel		7,596,900		8,474,850	16,071,750
Hetch Hetchy Joint Water - Power		694,249		21,756,724	22,450,973
Projects Subtotal	34,488,155	28,368,149	43,772,181	63,964,574	170,593,059
Financing	6,025,858	4,989,457	7,658,838	11,250,240	29,924,393
Revenue Bond Oversight Committee	20,287	16,687	25,748	37,626	100,348
City Services Auditor	40,000		39,917		79,917
Regional Total	40,574,300	33,374,293	51,496,684	75,252,440	200,697,717
<u>Local</u>					
Water Conveyance & Distribution	4,896,000		33,057,000		37,953,000
Town of Sunol Pipeline	525,000		1,075,000		1,600,000
Automated Water Meter Program	4,239,638		2,970,340		7,209,978
Tanks & Reservoirs	3,325,000		3,000,000		6,325,000
Lombard Geotechnical	150,000		2,265,000		2,415,000
Westside Recycled Water	5,057,144		4,664,854		9,721,998
Buildings & Grounds	15,150,000		34,500,000		49,650,000
Water Supply/ Pump Station	2,702,000		6,900,000		9,602,000
Local Projects	36,044,782		88,432,194		124,476,976
Financing	6,281,333		15,479,224		21,760,557
Revenue Bond Oversight Committee	21,203		52,019		73,222
City Services Auditor	58,308		74,438		132,746
Local Total	42,405,626	0	104,037,875	0	146,443,501
Total Bonds	82,979,926	33,374,293	155,534,559	75,252,440	347,141,218