

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 17, 2021

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 21, 2021 Budget and Appropriations Committee Meeting

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Items 1 & 3 Files 21-0647 & 21-0649	Department: Public Utilities Commission
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • <u>File 21-0647</u> is a proposed ordinance that would appropriate \$19.3 million Power bond proceeds, de-appropriate \$8.8 million in certain Hetch Hetchy capital projects and revenues, appropriate \$16.4 million for the Bay Corridor Project, \$2.9 million for Power Bond financing costs, and \$8.8 million to Hetch Hetchy fund balance in the SFPUC's Hetch Hetchy Capital Improvement Program in FY 2020-21 and FY 2021-22. • <u>File 21-0649</u> is a proposed ordinance that would increase the SFPUC's authorization to issue Power Revenue Bonds and other forms of indebtedness from \$142,970,073 to \$162,314,897. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • According to the SFPUC, \$6.8 million of previously appropriated Hetch Hetchy revenues in FY 2020-21 is no longer necessary because of close-out of completed projects and adjustment to the project schedule for the Distribution Services Project. The proposed appropriation would return those monies to fund balance. • The proposed appropriation appropriates \$16.4 million the Bay Corridor Transmission Distribution project in FY 2021-22 to fund construction of transmission and distribution infrastructure related to a new SFPUC substation at Quint Street. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The SFPUC anticipates issuing the proposed \$19.3 million in Power Bonds in 1 or 2 series beginning in FY 2021-22. The debt service for the proposed \$19.3 Power bonds is expected to be \$1.5 million annually. • The SFPUC is expected to remain compliant with its Debt Management Policy and its Fund Balance Policy. • According to the SFPUC, approved FY 2021-22 rate increases ranging from 3% - 6% will fund budgeted operating and capital cost increases including the debt service associated with these bonds. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The SFPUC's policy is to request authorization for the future issuance of bonds and other forms of debt to fund new capital appropriations, even if it has unused bond authority. The SFPUC has \$304.9 million in unused Power Revenue Bond debt 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 2021-22 through FY 2030-31 is \$1.57 billion, of which \$1.034 billion is for the Hetchy Water Capital Program including Water, Power and Joint Water and Power Projects, and \$533 million is for the Local Power Capital Program. Major funding sources include power revenues, power revenue bonds, and water revenue bonds.

DETAILS OF PROPOSED LEGISLATION

File 21-0647 is a proposed ordinance that would appropriate \$19.3 million Power bond proceeds, de-appropriate \$8.8 million in certain Hetch Hetchy capital projects and revenues, appropriate \$16.4 million for the Bay Corridor Project, \$2.9 million for Power Bond financing costs, and \$8.8 million to Hetch Hetchy fund balance in the SFPUC’s Hetch Hetchy Capital Improvement Program in 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 Changes to Hetch Hetchy Capital Improvement Program

	FY 2020-21	FY 2021-22	Total
Sources			
Cruise Ship Power	148,830	0	148,830
Transbay Center	1,991,297	0	1,991,297
Enterprise Fund	84,631	0	84,631
525 Golden Gate	218,778	0	218,778
Hunters Point Municipal Power	1,000,000	0	1,000,000
Distribution Services	3,400,000	0	3,400,000
Power Bond Proceeds	0	19,344,824	19,344,824
Retail Customer Program	0	1,000,000	1,000,000
Small Renewable Generation	0	1,000,000	1,000,000
Total Sources	6,843,536	21,344,824	28,188,360
Uses			
Bay Corridor Transmission Distribution	0	16,443,100	16,443,100
Financing Costs	0	2,892,052	2,892,052
Revenue Bond Oversight Committee	0	9,672	9,672
General Reserve Fund Balance	6,843,536	2,000,000	8,843,536
Total Uses	6,843,536	21,344,824	28,188,360

Source: File 21-0647

Bond proceeds would be placed on Controller’s Reserve pending receipt of bond revenues and construction related expenses.

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 21-0649 is a proposed ordinance that amends Ordinance 172-20 (File 20-0836) to increase the SFPUC’s authorization to issue taxable or tax-exempt Power Revenue Bonds and other forms of indebtedness by \$19,344,824 from \$142,970,073 to \$162,314,897. Authorized forms of debt include refunding bonds, 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. As noted above, the increase in the debt authorization is to provide funding for the Bay Corridor Transmission Distribution Project.

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.

Unspent Revenues in FY 2020-21

According to the SFPUC, \$6.8 million of previously appropriated Hetch Hetchy revenues in FY 2020-21 is no longer necessary because of close-out of completed projects and adjustment to the project schedule for the Distribution Services Project. Table 2 below provides detail for each revenue source.

Table 2: Changes to FY 2020-21 Revenues

Project	Reason for Change
Cruise Ship Power	Close out completed project with budget savings
Transbay Center	Close out excess balance not needed for final project incentive payments
Enterprise Fund	Close out completed project with budget savings
525 Golden Gate	Close out completed project with budget savings
Hunters Point Municipal Power	Close out excess budget related to completed Hilltop portion of the Hunters Point project; remaining funds still needed for Hillside portion of the project.
Distribution Services	Funds are not needed in the upcoming fiscal year due to adjustments to project schedules; these funds will be requested in future years based on revised schedules.

Source: SFPUC

Bay Corridor Transmission Distribution Project

As shown above in Table 1, the SFPUC intends to issue \$19.3 million in Power Bonds to fund construction and financing costs related to the Bay Corridor Transmission Distribution project. According to information provided by SFPUC, the Bay Corridor Transmission Distribution project includes installation of infrastructure to convert transmission voltage electricity from the PG&E Potrero Substation at a new SFPUC substation on Quint Street and distributing the electricity to Power Enterprise customers. The scope of work includes s underground duct bank work, cable pulls, transformer substation and transmission connections to the PG&E Potrero substation and related customer interface equipment and cables. Construction is expected to occur in FY 2021-22.

FISCAL IMPACT

Bond Issuance and Debt Service

The SFPUC anticipates issuing the proposed \$19.3 million in Power Bonds in 1 or 2 series beginning in FY 2021-22. The debt service for the proposed \$19.3 Power bonds is expected to be \$1.5 million annually.

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 (including fund balance) 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 compliant with these debt service coverage ratios.

Fund Balance

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 Hetch Hetchy Water and Power Enterprise fund balance is expected to exceed this level over the 10-year plan period. The 10 Year Financial Plan shows negative net operating revenues in four of the next ten years (i.e., operating revenues are less than expenses) which will draw down on the fund balance, although the fund balance will exceed the minimum amount of 25 percent of operating expenses.

Power Rate Increases

According to the SFPUC, approved FY 2021-22 rate increases ranging from 3% - 6% will fund budgeted operating and capital cost increases including the debt service associated with these bonds. Increased debt service from these bonds represent about 0.5% of the proposed FY 2021-22 budget.

POLICY CONSIDERATION

Status of Authorized and Issued Power Enterprise Debt

As of June 16, 2021, the Board of Supervisors have previously authorized the issuance and sale of \$423.4 million in Power Revenue Bonds and other debt, of which \$118.5 million of Power Revenue Bonds and commercial paper have been sold with \$304.9 million in authorized and unsold bonds. The proposed ordinance (File 21-0647) authorizes an additional \$19.3 million in Power Revenue Bonds and other forms of debt. The SFPUC's policy is to request authorization for the future issuance of bonds and other forms of debt to fund new capital appropriations, even if it has unused bond authority.

RECOMMENDATION

Approve the proposed ordinances.

<p>Items 2 and 4 Files 21-0648 and 21-0650</p>	<p>Department: San Francisco Public Utilities Commission</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • File 21-0650 is an ordinance amending Ordinance 20-173, authorizing the San Francisco Public Utilities Commission (SFPUC) to (i) issue and sale tax-exempt or taxable Wastewater Revenue Bonds up to \$563,430,430 to finance the costs of various capital wastewater projects; and (ii) Wastewater Revenue Refunding Bonds and the retirement of outstanding Wastewater Enterprise Commercial Paper. • File 21-0648 is an ordinance appropriating (i) \$213,511,178 of proceeds from revenue bonds, State of California Water Resources Control Board’s revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), for the San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise’s Capital Improvement Program for Fiscal Year 2021-22, (ii) de-appropriating and re-appropriating \$42,900,587, and (3) placing \$256,411,765 in Revenue Bonds or State Loan or Grant Funds by project on Controller’s Reserve subject to the Controller's certification of funds availability. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Board of Supervisors previously approved issuance of \$349.9 million in Wastewater Revenue Bonds to finance Sewer System Improvement Program and other Wastewater Enterprise capital projects. File 21-0650 increases the bond issuance authority by \$213.5 million, from \$349.9 million to \$563.4 million. File 21-0648 appropriates the increase of \$213.5 million to the Biosolids Digester Facility project at the Southeast Treatment Plant. • File 21-0650 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 <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to the SFPUC’s 10 Year Financial Plan for FY 2021-22 to FY 2030-31, estimated Wastewater Enterprise annual debt service in FY 2021-22 would be \$93.6 million, increasing to \$272.4 million in FY 2030-31. According to Charter Section 8B.124, SFPUC must obtain certification by a qualified third party that the debt service coverage ratio will be at least 1.25x; according to the SFPUC’s 10 Year Financial Plan, estimated annual debt service coverage ratio in FY 2021-22 would be 2.32x, decreasing to 1.43x in FY 2030-31. • The adopted sewer rate increase in FY 2021-22 is 8 percent and estimated increase in FY 2022-23 to FY 2027-28 is 5 percent, reducing to 4 percent in FY 2028-29 to FY 2030-31. The estimated average monthly residential sewer bill will increase by \$6.24 in FY 2021-22 from \$78.00 in FY 2020-21 to \$84.24 in FY 2021-22; and by \$4.21 in FY 2021-22 to \$88.45. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend File 21-0650 to state that if the SFPUC issues refunding bonds, a Refunding Savings Report and copy of the final Official Statement would be submitted to the Board. • Approve File 21-0650 as amended, and File 21-0648. 	

MANDATE STATEMENT

City Charter Section 8B.124 authorizes the San Francisco Public Utilities Commission (SFPUC) to issue revenue bonds when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing, or improving water facilities, clean water facilities, power facilities, or combinations of water, clean water, and power facilities under the jurisdiction of the Public Utilities Commission or for any other lawful purpose of the water, clean water, or power utilities of the City.

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

BACKGROUND

Sewer System Improvement Program

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.

DETAILS OF PROPOSED LEGISLATION

File 21-0650 The proposed ordinance amends Ordinance 20-173, (1) authorizing the San Francisco Public Utilities Commission (SFPUC) to issue and sale tax-exempt or taxable Wastewater Revenue Bonds and other forms of indebtedness in an aggregate amount not-to-exceed \$563,430,430 to finance the costs of various capital wastewater projects; (2) authorizing the issuance of Wastewater Revenue Refunding Bonds and the retirement of outstanding Wastewater Enterprise Commercial Paper; (3) declaring the official intent of the Commission to reimburse itself with one or more issues of tax-exempt bonds or other forms of indebtedness; and (4) ratifying previous actions in connection with the issuance.

File 21-0648 The proposed ordinance (1) appropriates \$213,511,178 of proceeds from revenue bonds, State of California Water Resources Control Board's revolving loan funds (State Loan Funds) or grant funds (State Grant Funds), for the San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise's Capital Improvement Program for Fiscal Year 2021-22, (2) de-appropriates and re-appropriates \$42,900,587, and (3) places \$256,411,765 in Revenue Bonds or State Loan or Grant Funds by project on Controller's Reserve subject to the Controller's certification of funds availability, including proceeds of indebtedness, and for construction related expenditures (excluding program management, planning and design) for these projects.

Use of funds for these projects is also subject to the prior occurrence of the SFPUC's and 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, where required.

Funding Sources

File 21-0650 authorizes SFPUC to issue Wastewater Revenue Bonds, or other forms of indebtedness, including State Water Resources Control Board loans, U.S. Environmental Protection Agency Water Infrastructure Finance and Innovation Act loans ("WIFIA Loans"), State Revolving Loan Funds, or other sources. According to SFPUC staff, the proposed ordinance authorizes SFPUC to incur forms of debt other than revenue bond debt because the cost of State and federal loans, when available, is less than the cost of revenue bond debt.

File 21-0650 amends Ordinance 173-20, approved by the Board of Supervisors in August 2020, to increase the authorization for Wastewater Revenue Bonds from \$349,919,252 to \$563,430,430. SFPUC has issued commercial paper to fund portions of the previously authorized \$349,919,252 Wastewater Revenue Bonds. According to SFPUC staff, SFPUC is now requesting an increase in bond authorization from \$349,919,252 to \$563,430,430 primarily to fund the Biosolids Digester Facility Project at the Southeast Treatment Plant.

Proposed Projects

File 21-0648 appropriates \$213,511,178 in new Wastewater Revenue Bond proceeds to Sewer System Improvement projects shown in Exhibit 1 below. This amount of \$213,511,178 is in addition to \$349,919,252 appropriated by the Board of Supervisors to SSIP and other projects in August 2020, totaling \$563,430,400.

Exhibit 1: Prior and New Appropriation

	File 20-0832	File 21-0648	Total
Biosolids Digester	\$81,744,633	\$214,200,000	\$295,944,633
Southeast Treatment Plant	18,390,184		18,390,184
North Point Treatment Plant	11,094,891		11,094,891
Oceanside Treatment Plant	15,013,824		15,013,824
Collection System	13,133,357		13,133,357
Pump Stations	3,704,212		3,704,212
Flood Resilience	45,000,000	(15,000,000)	30,000,000
Green Infrastructure Projects	2,316,368	6,000,000	8,316,368
Subtotal SSIP	\$190,397,469	\$205,200,000	\$395,597,469
Collection System	\$45,554,985		\$45,554,985
Treasure Island	35,000,000	(20,000,000)	15,000,000
Ocean Beach	2,416,702		2,416,702
Southeast Community Center	4,500,000		4,500,000
Islais Creek Outlet	19,562,178	(3,715,499)	15,846,679
Other Projects	\$107,033,865	(\$23,715,499)	\$83,318,366
Financing, Oversight, Audits	52,487,888	32,026,677	84,514,565
Total Uses	\$349,919,222	\$213,511,178	\$563,430,400

Source: Files 20-0832 and 21-0648

The Attachment describes the projects.

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 approximately \$3.0 billion.¹ The Board of Supervisors has previously authorized \$3.8 billion in Wastewater Revenue Bonds, of which SFPUC has issued \$3.4 billion and \$406 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 21-0650 would authorize issuance of \$563.4 million in new Wastewater Revenue Bonds, for total authorized Wastewater Revenue Bond debt of approximately \$4.4 billion.² 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 \$538 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. The proposed ordinance should be amended to state that 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.

Bond Issuance and Debt Service

SFPUC anticipates issuing \$563.4 million in two to four series beginning in FY 2021-22. According to the SFPUC's 10 Year Financial Plan for FY 2021-22 to FY 2030-31, estimated Wastewater Enterprise annual debt service in FY 2021-22 would be \$93.6 million, increasing to \$272.4 million

¹ 1st Quarter Report, page 3.

² As noted above, of the \$563.4 million, the Board of Supervisors previously authorized issuance of \$349.9 million (File 20-0382), resulting in a net increase in bond authority of \$213.5 million.

in FY 2030-31. According to Charter Section 8B.124, SFPUC must obtain certification by a qualified third party that the debt service coverage ratio will be at least 1.25x (i.e., net revenues plus available fund balance are 1.25 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 2021-22 would be 2.32x, decreasing to 1.43x in FY 2030-31.

Sewer Rate Increases

To meet operating, capital, and debt expenses, the SFPUC estimates annual sewer rate increases of 5.0 percent. The adopted annual rate increase in FY 2021-22 is 8 percent. The estimated increase in FY 2022-23 to FY 2027-28 is 5 percent, reducing to 4 percent in FY 2028-29 through FY 2030-31. SFPUC estimates that the average monthly residential sewer bill will increase by \$6.24 in FY 2021-22 from \$78.00 in FY 2020-21 to \$84.24 in FY 2021-22; and by \$4.21 in FY 2021-22 to \$88.45.

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 21-0650 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 is expected to exceed this level over the 10-year plan period. The 10 Year Financial Plan shows negative net operating revenues in four of the next ten years (i.e., operating revenues are less than expenses) which will draw down on the fund balance, although the fund balance will exceed the minimum amount of 25 percent of operating expenses.

RECOMMENDATIONS

1. Amend File 21-0650 to state that 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.
2. Approve File 21-0650 as amended, and File 21-0648.

Attachment: Project Description

Biosolids Digester Facilities Project (\$214,200,000 appropriation)

The Biosolids Digester Facilities project replaces and relocates existing biosolids treatment facilities at the Southeast Treatment Plant with more modern, reliable, and efficient facilities. According to the Wastewater Enterprise Capital Improvement Program FY 2020-21 2nd Quarter Report, the demolition of existing facilities and relocation of utilities and site preparation has been completed. Because construction bids were higher than estimated, SFPUC redesigned components of the project scope to contain costs, and a notice-to-proceed was issued to the construction manager/general contract on July 1, 2020. Project completion is expected in 2027.

The approved Biosolids Digester Facilities project budget is \$1.7 billion and project expenditures as of December 2020 were \$363 million.

Green Infrastructure Projects (\$6,000,000 appropriation)

The Sewer System Improvement Program provides for various green infrastructure projects to manage stormwater runoff. Recently completed projects or projects near completion include the Sunset Boulevard project and Baker Beach Green Street. A Request for Proposals (RFP) for the Yosemite Creek Daylighting project, which has an approved budget of \$17 million, is in progress. Other current projects include the Green Infrastructure Grant Program, budgeted at \$25 million, which allocates grant up to \$765,000 per acre, to projects on private property.

Flood Resilience Projects (\$15,000,000 de-appropriation)

The implementation of the Folsom component of the Flood Resilience Project is now subdivided into two components that separate the tunnel portion of the scope - as opposed to the previous plan calls for a single scope. This has changed the timeline and associated funding requirements for this project.

Treasure Island Project (\$20,000,000 de-appropriation)

The Treasure Island wastewater treatment facility replaces the facility built by the U.S. Navy, with is past its useful life. The RFP for design-build services was advertising, with construction estimated to begin in December 2021, which is later than originally planned, reducing the funding need in the near-term.

Items 7 & 8**Files 21-0651 and 21-0652****Department:**

Airport, Port, and Public Utilities Commission

EXECUTIVE SUMMARY**Legislative Objectives**

- File 21-0651 is an ordinance (a) appropriating \$20,716,252 in the San Francisco Public Utilities Commission and (b) reduces appropriations by (i) \$272,379,116 in the Airport Commission and (ii) \$17,664,260 in the Port Commission. These appropriations revise the FY 2021-22 budget, previously approved by the Board of Supervisor. The ordinance requires a two-thirds approval vote of all members of the Board of Supervisors for \$59,659,237 in the Public Utilities Commission, for \$10,061,693 in the Airport Commission and for \$3,796,402 in the Port Commission appropriations.
- File 21-0652 is an ordinance amending the Salary Ordinance for FY 2020-21 and FY 2021-22 to reflect the substitution of 3 positions (0.00 FTEs) at the Airport Commission, and the substitution of 9 positions (0.00 FTEs) and the addition of 24 positions (20.81 FTEs) at the San Francisco Public Utilities Commission in FY 2021-22.

Key Points

- The Airport's reduction of \$272.4 million includes \$256.0 million reduction in the annual operating budget and approximately \$18.4 million reduction in projects and other uses. The Airport is using \$84.6 million of fund balance to balance the FY 2021-22 budget, resulting in an ending fund balance of \$0. According to Airport staff, the Airport will begin refunding the fund balance and OPEB liability when Airport finances improve.
- The Port's reduction of \$17.7 million includes \$16.1 million increase in the annual operating budget (of which \$12.8 million is a deposit to the Port's fund balance), offset by net reductions of approximately \$33.6 million in capital projects.
- SFPUC proposes an increase of \$20.7 million, allocated to the SFPUC Operating Fund, and CleanPowerSF, Hetch Hetchy Water and Power Enterprise, Wastewater Enterprise, and Water Enterprise. SFPUC is proposing 22 new positions in FY 2021-22.

Fiscal Impact

- Based on our evaluation of SFPUC's proposed organization and position descriptions, we recommend approval of 21 of the 22 new positions.

Recommendations

- Amend File 21-0652 to (1) delete 0.77 FTE 1823 Senior Administrative Analyst in the PUC Operating Fund; and (2) revise 0.77 FTE 0933 Manager V to 0.77 FTE 0932 Manager IV in the PUC Operating Fund.
- Approve File 21-0652 as amended and File 21-0651.

MANDATE STATEMENT

City Charter Section 9.101 provides for two-year budgets and authorizes the Board of Supervisors to determine by resolution which budgets are on a two-year fixed budget. Section 9.101(g) provides for the Mayor to submit an ordinance to the Board of Supervisors, amending the second-year budgets of City departments with fixed two-year budgets, if the Controller projects that the City will experience significant increases or decreases in revenues or expenditures during the second year of such budgetary cycle.

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

BACKGROUND

The Controller's FY 2020-21 Nine Month Budget Status Report reported on the budget status of the Airport, Port, and San Francisco Public Utilities Commission (SFPUC).

Airport

The projected Airport revenue deficit is \$356.8 million in FY 2020-21, offset by expenditure savings of \$383.0 million, for a net operating surplus of \$26.2 million. The revenue deficit is due primarily to reduced travel and flight cancellations, and associated decreases in parking, concession, and other revenues. Expenditure savings are largely from use of federal CARES Act funds, and operating savings, including salary savings and reduced Annual Service Payments to the General Fund due to reduced concession revenues. The projected FY 2020-21 year-end fund balance is \$65.7 million.

Port

The projected Port revenue surplus is \$10.3 million in FY 2020-21, and expenditure savings are \$6.5 million, for a net operating surplus of \$16.8 million. The revenue surplus is due to continued revenues from warehouse and industrial tenants. Expenditure savings are largely from salary savings and other operating expenses. The projected FY 2020-21 year-end fund balance is \$30 million.

San Francisco Public Utilities Commission

According to the Controller's report, SFPUC projects net operating surpluses for the Hetch Hetchy Operating Fund, the Water Enterprise Fund and the Clean Power Fund. A net operating deficit is projected for the Wastewater Operations Fund.

Hetch Hetchy Enterprise

The projected Hetch Hetchy Enterprise revenue surplus is approximately \$3.9 million in FY 2020-21, and expenditure savings are \$41.3 million, for a net operating surplus of \$37.4 million. The revenue surplus is from increases in miscellaneous income, offset by reduced wholesale and retail electricity sales, reduced recoveries from City departments, and other reductions.

Expenditure savings are largely from reduced electricity purchase and distribution costs, and maintenance and capital costs. The projected FY 2020-21 year-end fund balance is \$81.6 million.

CleanPowerSF

The projected CleanPowerSF revenue deficit is \$16.3 million in FY 2020-21, and expenditure savings are \$19.8 million, for a net operating surplus of \$3.5 million. The revenue deficit is due largely to lower than budgeted electricity sales. Expenditure savings are largely from salary and other operating budget savings and from reduced deposits to budgeted reserves. The projected FY 2020-21 year-end fund balance is \$32.5 million.

Wastewater Enterprise

The projected Wastewater Enterprise revenue deficit is \$23.9 million in FY 2020-21, and expenditure savings are \$19.7 million, for a net operating deficit of \$4.2 million. The revenue deficit is due largely to lower than budgeted sewer service charges and COVID discounts. Expenditure savings are largely from salary and other operating budget savings and from reduced maintenance and capital project costs. The projected FY 2020-21 year-end fund balance is \$195.1 million.

Water Enterprise

The projected Water Enterprise revenue deficit is \$10.6 million in FY 2020-21, and expenditure savings are \$14.6 million, for a net operating surplus of \$4.0 million. The revenue deficit is due largely to lower than budgeted retail water sales, offset by an increase in wholesale water sales. Expenditure savings are largely from debt service savings and from reduced maintenance and capital project costs. The projected FY 2020-21 year-end fund balance is \$206.6 million.

DETAILS OF PROPOSED LEGISLATION

File 21-0651: The proposed ordinance (a) appropriates \$20,716,252 in the San Francisco Public Utilities Commission and (b) reduces appropriations by (i) \$272,379,116 in the Airport Commission and (ii) \$17,664,260 in the Port Commission. The ordinance requires a two-thirds approval vote of all members of the Board of Supervisors for \$59,659,237 in the Public Utilities Commission, for \$10,061,693 in the Airport Commission and for \$3,796,402 in the Port Commission appropriations, pursuant to Charter Section 9.113(c).¹

File 21-0652: The proposed ordinance amends the Salary Ordinance for FY 2020-21 and FY 2021-22 to reflect the substitution of 3 positions (0.00 FTEs) at the Airport Commission, and the

¹ Charter Section 9.113(c) states that “In the event the Mayor or a member of the Board of Supervisors recommends a supplemental appropriation ordinance after the adoption of the budget for any budgetary cycle and prior to the close of the budgetary cycle containing any item which had been rejected by the Mayor in his/her review of departmental budget estimates for the budgetary cycle or which had been rejected by the Board of Supervisors in its consideration of the Mayor's proposed budget for the budgetary cycle, it shall require a vote of two-thirds of all members of the Board of Supervisors to approve such supplemental appropriation ordinance”.

substitution of 9 positions (0.00 FTEs) and the addition of 24 positions (20.81 FTEs) at the San Francisco Public Utilities Commission in FY 2021-22.²

Sources of Funds

Increases and decreases in funding sources in the FY 2021-22 budgets for the Airport, Port, and SFPUC are shown in Exhibit 1 below.

Exhibit 1: Sources of Funds FY 2021-22

	SFPUC	Airport	Port
Charges for Services	\$7,227,118	(\$291,957,000)	(\$74,398)
Other Revenues	(5,498,000)	(7,221,000)	732,317
Expenses from Other Departments	2,588,447		
Operating Transfers In	(1,614,462)		
Intrafund Transfers In	1,175,180	(65,634,490)	24,081,614
ELIMSD TRANSFER Adjustment ³	(1,956,180)	75,604,541	(24,081,614)
Fines and Penalties		(1,023,000)	(321,532)
Interest and Investments		2,308,000	(551,348)
Rent and Concessions		(172,147,000)	(10,662,048)
Federal Grants		103,064,748	1,742,107
State Grants		(1,000)	
Beginning Fund Balance	18,794,149	84,627,085	(8,529,358)
Total	\$20,716,252	(\$272,379,116)	(\$17,664,260)

Source: Proposed Ordinance

FISCAL IMPACT

Airport (Reduction \$272,379,116)

Sources and Uses of Funds

The Airport's reduction of \$272.4 million includes \$256.0 million reduction in the annual operating budget and approximately \$18.4 million reduction in projects and other uses, shown in Exhibit 2 below.

Exhibit 2: Reduction in Airport Budget FY 2021-22

	Amount
Annual Operating Budget	(\$255,977,878)
Annual Project Budget	(603,468)
Continuing Budget	(2,500,000)
Capital Operating Fund	(71,770)
Other Post-Employment Benefits (OPEB)	(13,226,000)
Total	(\$272,379,116)

Source: Proposed Ordinance

² The number of Airport and SFPUC positions in the amended Annual Salary Ordinance differs from the number of positions in the revised budget.

³ ELIMSD transfer adjustment accounts for the internal transfer of funds.

The Airport's \$256.0 million reduction in the annual operating budget in FY 2021-22 consists primarily of debt service savings due to debt restructuring, reduction in contracts for passenger services, reduction in the Annual Service Payment to the General Fund due to reduced concession revenues, and other budget adjustments in the revised FY 2021-22 budget, shown in Exhibit 3 below.

Exhibit 3: Proposed Reduction in FY 2021-22 Airport Operating Budget

	FY 2021-22 Change	Notes
Salaries & Fringe Benefits	\$8,297,003	Negotiated wage increases, position reassignments, and salary savings due to hiring freeze.
Professional Service	(53,311,128)	Reduction in contracts for passenger services
Materials and Supplies	(3,422,119)	Reduction in materials & supplies due to reduced passenger volume
Capital Outlay	(106,038)	
Debt Service	(153,961,993)	Debt service reduction based on anticipated debt restructuring/refunding.
Services of Other Departments	(5,422,028)	Reduction to Police MOU, no new Police Academy classes offset by increase to PUC MOU for utilities charges.
Annual Service Payment to General Fund	(23,083,900)	Reduction based on projected concession revenues
Reduction in Reserves	(24,967,675)	
Total Operating Budget	(\$255,977,878)	

Source: Airport

Other reductions to the Airport budget, totaling \$18.4 million, include reductions in temporary salaries, facilities maintenance, small capital projects, and reductions in the funding of the Airport's OPEB liability.

The Airport is using \$84.6 million of fund balance to balance the FY 2021-22 budget, resulting in an ending fund balance of \$0. According to Airport staff, the Airport will begin refunding the fund balance and OPEB liability when Airport finances improve.

Proposed Position Changes

The Airport is proposing nine position substitutions, resulting in salary and fringe benefit increases of \$119,292, shown in Exhibit 4 below.

Exhibit 4: Proposed Airport Position Substitutions

FTE	Current Position	Current Salary	Proposed Position	Proposed Salary	Increase
1.00	Senior Airport Noise Abatement Specialist	\$158,883	Planner II	\$159,754	\$871
1.00	Electrician	175,418	Assistant Materials Coordinator	175,945	527
1.00	Chemist	173,696	Chemist III	206,596	32,900
2.00	Senior Human Resources Analyst	374,862	Principal Human Resources Analyst	466,680	91,818
1.00	Senior Human Resources Analyst	187,431	Health Program Coordinator III	190,753	3,322
1.00	Executive Secretary III	157,487	Senior Management Assistant	163,901	6,414
1.00	Principal Administrative Analyst	204,758	Manager II	223,988	19,230
1.00	Steamfitter Supervisor II	219,098	Water Service Inspector	183,308	(35,790)
9.00		\$1,651,633		\$1,770,925	\$119,292

Source: Budget System

Port (Reduction \$17,664,260)Sources and Uses of Funds

The Port's reduction of \$17.7 million includes \$16.1 million increase in the annual operating budget, offset by net reductions of approximately \$33.6 million in capital projects, shown in Exhibit 5 below.

Exhibit 5: Proposed Reduction in FY 2021-22 Port Budget

Port Fund	Amount
Annual Operating Budget	\$16,119,740
Annual Project Budget	(148,712)
Continuing Project	(35,377,395)
Federal Projects	1,742,107
Subtotal Harbor Fund	(\$17,664,260)
South Beach Harbor Fund	
Annual Project	209,201
Continuing Project	(209,201)
Subtotal South Beach	\$0

Source: Proposed Ordinance

The Port is proposing the following changes to the FY 2021-22 budget:

- Increase of \$16.1 million in the annual operating budget, including an approximately \$3 million increase to the Port's office lease at Pier 1, and \$12.8 million deposit to the Port's fund balance; offset by other changes to operating expenses;
- Reduction of \$148,712, including reductions to architect/engineering consulting contracts, and park and facility maintenance; offset by increases to other facility improvements;

- Reduction of \$35.4 million to Port capital projects with previously appropriated but unspent balances, ranked as low priority by Port staff based on the Port's maritime mission, life safety needs, and long-term revenue capacity; and
- \$1.7 million federal Transportation Safety Administration (TSA) grant for Port security improvements.

San Francisco Utilities Commission (Increase of \$20,716,252)

Sources and Uses of Funds

The San Francisco Public Utilities Commission (SFPUC) proposed increase of \$20.7 million in FY 2021-22 is shown in Exhibit 6 below.

Exhibit 6: Proposed Increase in FY 2021-22 SFPUC Budget

	Amount
<i>Clean Power SF</i>	
Annual Operating Budget	(\$1,527,628)
Customer Trust Fund	<u>\$1,896,749</u>
Subtotal Clean Power	\$369,121
<i>Hetch Hetchy Water and Power</i>	
Annual Operating Budget	<u>\$11,876,350</u>
Subtotal Hetch Hetchy	\$11,876,350
<i>PUC Operating Fund</i>	
PUC Operating Fund	<u>\$269,538</u>
Subtotal PUC Operating	\$269,538
<i>Water Enterprise</i>	
Annual Operating Budget	\$1,350,029
Annual Project Budget	<u>(\$629,000)</u>
Subtotal Water	\$721,029
<i>Wastewater Enterprise</i>	
Annual Operating Budget	\$6,548,406
Annual Project Budget	<u>\$931,808</u>
Subtotal Wastewater	\$7,480,214
Total	\$20,716,252

Source: Proposed Ordinance

The proposed changes to the FY 2021-22 budget are summarized below.

CleanPower SF

The proposed FY 2021-22 includes (a) a reduction in debt service due to the final payment of a loan from Hetch Hetchy Power to CleanPowerSF; and (b) an increase in the CleanPowerSF Customer Trust Fund due to increases in the cost of power purchases.

Hetch Hetchy Water and Power

The proposed FY 2021-22 increase is primarily due to an increase in the PG&E wholesale distribution tariff, increasing the cost of power purchases.

SFPUC Operating Fund

The proposed FY 2021-22 increase represents an adjustment in the SFPUC operating fund, which is funded by the Water, Wastewater, HHWP and CleanPowerSF operating funds through an overhead allocation.

Water Enterprise

The proposed FY 2021-22 increase is mainly related to (a) climate change and environmental programs, including wildfire mitigation and environmental compliance, and (b) implementation of racial equity initiatives. These increases are offset by reductions in debt service costs.

Wastewater Enterprise

The proposed FY 2021-22 increase is due primarily to (a) maintenance of infrastructure and equipment, and green infrastructure, (b) implementation of racial equity initiatives, and (c) staff and operating costs to manage the new Southeast Community Center.

Proposed Position Changes

SFPUC is proposing 11 position substitutions (shown in Exhibit 7 below) and 22 new positions in FY 2021-22 (shown in Exhibit 8 below).

Exhibit 7: Proposed SFPUC Substitutions

FTE	Current Position	Salary	Proposed Position	Salary	Increase
<i>PUC Operating</i>					
1.00	Manager III	\$239,031	Manager IV	\$254,270	\$15,239
1.00	Administrative Analyst	156,218	Senior Administrative Analyst	179,856	23,638
1.00	Planner III-Environmental Review	0	Manager IV	254,270	254,270
1.00	Planner I	0	Principal Administrative Analyst	204,758	204,758
1.00	Planner III-Environmental Review	0	Manager II	223,988	223,988
<i>Water Enterprise</i>					
1.00	Engineer	235,258	Associate Engineer	206,628	(28,630)
1.00	Junior Administrative Analyst	122,611	Administrative Analyst	156,218	33,607
<i>Wastewater Enterprise</i>					
1.00	Telecommunication Supervisor	218,402	Manager II	223,988	5,586
1.00	Manager IV	254,270	Manager V	271,796	17,526
1.00	IT Operations Support Administrator III	159,754	Construction Inspector	179,163	19,409
1.00	Truck Driver	149,425	Maintenance Planner	197,755	48,330
11.00		\$1,534,969		\$2,352,690	\$817,721

Source: Budget System

Exhibit 8: SFPUC Proposed New Positions

	FY 2021-22		FY 2022-23	
	FTES	Salary & Benefits	FTES	Salary & Benefits
<u>PUC Operating Fund</u>				
IS Business Analyst-Principal	0.77	183,194	1.00	244,271
Manager II	0.77	172,471	1.00	230,224
Manager IV	0.77	195,788	1.00	522,448
Manager V	0.77	209,283	1.00	279,170
Principal Administrative Analyst	0.77	157,663	1.00	420,646
Senior Administrative Analyst	0.77	138,490	1.00	184,806
PUC Operating Fund	4.62	1,056,889	6.00	1,899,610
<u>PUC Personnel Fund</u>				
Principal Administrative Analyst II	0.77	182,486	1.00	243,331
PUC Personnel Fund	0.77	182,486	1.00	243,331
<u>Water Enterprise</u>				
Associate Engineer	1.54	318,206	2.00	424,472
Junior Management Assistant	0.77	99,849	1.00	133,382
Maintenance Machinist Assistant Supervisor	0.77	139,951	1.00	186,813
Manager V	0.77	209,283	1.00	279,170
Plumber	0.77	140,001	1.00	186,947
Principal Administrative Analyst	0.77	157,663	1.00	210,323
Regulatory Specialist	0.77	143,113	1.00	190,948
Water Service Inspector	0.77	141,147	1.00	188,471
Watershed Keeper	0.77	-	1.00	-
Watershed Keeper Supervisor	0.77	-	1.00	-
Water Enterprise	8.47	1,349,213	11.00	1,800,526
<u>Wastewater Enterprise</u>				
Electronic Instrumentation Tech	0.77	-	1.00	-
Manager II	0.77	172,471	1.00	230,224
Principal Administrative Analyst	0.77	157,663	1.00	210,323
Stationary Engineer, Sewage Plant	0.77	-	1.00	-
Wastewater Enterprise	3.08	330,134	4.00	440,547
SFPUC Total	16.94	2,918,722	22.00	4,806,516

Source: Budget System

Position Recommendations*New and Substituted Positions for Racial Equity Initiatives*

SFPUC has proposed 12 new and substituted positions to support Racial Equity initiatives, shown in Exhibit 9 below.

Exhibit 9: SFPUC Proposed Staffing for Racial Equity New Initiatives

Employee Labor Relations	People Science & Strategy	Equity Group
	<u>New Positions</u>	
	0932 Manager IV	1825 Principal Administrative Analyst II
	0923 Manager II	1824 Principal Administrative Analyst
	1824 Principal Administrative Analyst	1824 Principal Administrative Analyst
	1823 Senior Administrative Analyst	1054 Principal IS Business Analyst
	<u>Position Substitutions</u>	
0932 Manager IV	1823 Senior Administrative Analyst	0932 Manager IV 1824 Principal Administrative Analyst

The Employee Labor Relations position is an existing position within Human Resources Services. The People Science & Strategy unit was formerly the Enterprise Workforce Planning unit; SFPUC is proposing adding five positions to this unit to provide human resources data and analytical report. The Equity Group is in the General Manager’s Office, and SFPUC is proposing adding six positions with responsibility for implementing SFPUC’s Racial Equity Action Plan.

Based on our evaluation of proposed organization and position descriptions, we recommend approval of seven of eight of the new positions as follows:

- SFPUC proposes two 1823 Senior Administrative Analyst positions (one new and one substituted) to be added to the People Science & Strategy unit for data management. These two positions are in addition to the existing 1824 Principal Administrative Analyst position for this purpose. Overall, SFPUC is adding five positions to the People Science & Strategy unit for data and analytical support. Given that this is an expanding function, and the total work and staffing needs are not yet fully known, we recommend amending File 21-0652 to delete 0.77 FTE 1823 Senior Administrative Analyst in the PUC Operating Fund.
- SFPUC proposes one new 0933 Manager V to enhance the Department’s audit function. Based on the level of responsibility required for this position, we consider that this position could be more appropriately filled as a 0932 Manager IV, and therefore recommend amending File 21-0652 to revise 0.77 FTE 0933 Manager V to 0.77 FTE 0932 Manager IV in the PUC Operating Fund.

POLICY CONSIDERATION

According to the proposed ordinance, the following appropriation amounts require a 2/3 vote of the Board of Supervisors:

- \$10,061,693 in the Airport FY 2021-22 budget for salaries;
- \$3,769,402 in the Port’s FY 2021-22 budget, including \$567,385, \$3,019,816 for Nonpersonnel Services, and \$209,372 for the South Beach Harbor Project; and
- \$59,659,237 in the SFPUC FY 2021-22 budget as follows:

- \$11,398,337 in the Wastewater Enterprise
- \$15,910,163 in the Hetch Hetchy Water and Power Enterprise
- \$617,635 in CleanPowerSF
- \$1,896,749 in the CleanPowerSF Customer Trust Fund
- \$8,904,876 in the SFPUC Operating Fund
- \$20,931,477 in the Water Enterprise

RECOMMENDATIONS

- Amend File 21-0652 to (1) delete 0.77 FTE 1823 Senior Administrative Analyst in the PUC Operating Fund; and (2) revise 0.77 FTE 0933 Manager V to 0.77 FTE 0932 Manager IV in the PUC Operating Fund.
- Approve File 21-0652 as amended and File 21-0651.

<p>Item 13 File 21-0645</p>	<p>Department: Controller, City Administrator</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed ordinance would authorize the sale of \$67.5 million in Certificates of Participation (COPs) and approve documents associated with the transaction. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> In April 2021, the Board of Supervisors approved a resolution that adopted the City’s Ten-Year Capital Plan for FY 2022 – FY 2031 (File 21-0220). The Capital Plan included \$765 million of Certificates of Participation debt (COP), including \$50 million for Recovery Stimulus projects and \$60.8 million for Critical Repair projects in FY 2021-22, for a total of \$110.8 million for those two project categories in FY 2021-22. The Mayor’s proposed budget for FY 2021-23 would appropriate \$47.2 million in COPs proceeds for Critical Repair projects, \$9.5 million in COPs proceeds for Recovery Stimulus projects, \$8 million for COPs financing costs, and a \$2.7 million reserve for market uncertainty. The remaining \$43.3 million of remaining Critical Repair and Recovery Stimulus projects in FY 2021-22 that were originally intended to be funded by COPs would be funded by General Fund revenue appropriations that year. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> Average annual debt service on the \$64.8 million in COPs is \$4.9 million. Total debt service over the anticipated 20-year term is approximately \$102.9 million, which includes approximately \$64.8 million in principal and \$38.1 million in interest and true interest cost of 4.75%. Debt service will be paid from the City’s General Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> The spending plan for the proposed COPS includes a \$2 million contingency to provide funding for local match requirements of potential future grants. The Office of Public Finance and Office of Resilience and Capital Planning staff did not identify prior instances of the City issuing debt for this purpose but did point to pending State and Federal legislation that, if passed, would provide the City new capital grant opportunities that will likely require local matching funds. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the proposed ordinance. 	

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

BACKGROUND

Ten-Year Capital Plan

In April 2021, the Board of Supervisors approved a resolution that adopted the City's Ten-Year Capital Plan for FY 2022 – FY 2031 (File 21-0220). The Capital Plan included \$765 million of Certificates of Participation debt (COP), including \$50 million for Recovery Stimulus projects and \$60.8 million for Critical Repair projects in FY 2021-22. Although not defined in the Capital Plan, according to the City Administrator's Office of Resilience and Capital Planning, Recovery Stimulus projects refer to projects that are "shovel ready" and would deliver immediate local economic stimulus by creating construction jobs, as well as additional benefits (advance racial equity, reduce climate & hazard risks, support small businesses). Critical Repair projects refer to improvements to City facilities and public right-of-way.

DETAILS OF PROPOSED LEGISLATION

File 21-0645 is an ordinance that would:

- authorize sale of up to \$67.5 million of Certificates of Participation in one more series on a tax or tax-exempt basis
- authorize a competitive, negotiated, or direct placement sale for the COPs
- authorize the Director of Public Finance to appoint underwriters for a negotiated sale, appoint a placement agent for a direct placement or award a bid to a bidder with the lowest true interest cost for a competitive sale
- authorize use of the proceeds to pay for issuance costs, capital project costs, or to retire related commercial paper

- approve the form of the Supplement to the Trust Agreement between the City and U.S. Bank National Association, as Trustee
- approve the form of the Supplement to the Property Lease between the City and U.S. Bank National Association
- approve the Supplement to the Project Lease for Laguna Honda Hospital and County Jail Complex for additional base rent up to \$5.7 million per year
- approve the form of the Official Notice of Sale and Notice of Intention to Sell the COPs
- approve the form of the Continuing Disclosure Certification
- approve the form of the preliminary and final Official Statement
- approve the form of a Purchase Contract for the COPs
- grant authority to City officials to modify the aforementioned documents in furtherance of the COPs sale

Supplement to Property and Project Leases, and Trust Agreement

COPs are structured as a lease-lease back, in which the City leases the City-owned property to the Trustee and leases back the property. The City would enter into the one or more Supplements to existing Property and Project Leases and Trust Agreement with U.S. Bank National Association, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard and the San Bruno Jail Complex at 1 Moreland Drive in San Bruno would serve as the leased property to secure the proposed COPs. The City may add additional properties to the Master Lease in order to secure the COPs based on the timing of issuances of other series of authorized but unissued certificates of participation.

Commercial Paper

The City may issue commercial paper, a form of short-term debt, in advance of issuing COPs to fund project costs and then use COPs proceeds to repay related commercial debt obligations. According to the Office of Public Finance, of the \$250 million in commercial paper authority, \$198.6 million is currently unencumbered.

Method of Sale

The Office of Public Finance expects to issue the proposed COPS via competitive sale. However, if municipal market conditions change, the Director of the Office of Public Finance, in consultation with the Controller and the City's municipal advisor, and as authorized by the proposed ordinance, may choose to pursue a negotiated sale through the City's Underwriting Pool, which was selected via a competitive process.

Projects and Uses of Proceeds

Table 1 below shows the sources and uses of the proposed debt.

Table 1: Sources and Uses

Sources	
COP Proceeds	\$64,800,000
Total Sources	64,800,000
Uses	
<u>Critical Repair Projects</u>	
City Hall HVAC & Elevators	\$8,275,000
1 S. Van Ness Bathrooms & Elevators	\$2,100,000
Hall of Justice HVAC	\$4,800,000
Laguna Honda Hospital Emergency Power	\$7,600,000
Curb Ramps with Basements	\$4,000,000
Infill Sidewalks in Bayview	\$2,000,000
Fiber Backbone	\$2,500,000
Stow Lake ADA Improvements	\$900,000
County Jail 2 Elevators & Fire Safety Systems	\$5,407,000
County Jail 5 Security Electronics & Fire Safety System	\$4,450,000
Davies Hall Elevators	\$2,200,000
COVID Impact Contingency	\$3,000,000
Critical Repair Subtotal	\$47,232,000
<u>Recovery Stimulus Projects</u>	
SF Wholesale Produce Market (roadway improvements etc.)	\$3,000,000
Better Market Street (pedestrian & streetscape improvements)	\$3,000,000
Zuckerberg SF General New Childcare Center	\$1,500,000
Matching Funds Contingency	\$2,000,000
Recovery Stimulus Subtotal	\$9,500,000
Subtotal, Project Costs	\$56,732,000
Capitalized Interest	\$1,640,000
Debt Service Reserve Fund	\$5,065,000
City Services Auditor Fee	\$113,464
Cost of Issuance	\$779,536
Underwriter's Discount	\$470,000
Total Uses	\$64,800,000
Reserve for Market Uncertainty	2,700,000
Not to Exceed Amount	\$67,500,000

Source: Office of Public Finance

A description of each project and intended use is included in Appendix 1 at the end of this report.

Change in Financing Plan

As noted above, the 10-Year Capital Plan approved by the Board included \$50 million for Recovery Stimulus COPs and \$60.8 million of Critical Repair projects in FY 2021-22. According to the Office of Public Finance, the remaining \$43.3¹ million in Recovery Stimulus and Critical Repairs projects will not be financed and instead be cash funded by the General Fund appropriations in the Mayor's proposed FY 2021-22 budget.

City Debt Policy

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the projections provided by the Controller's Office, the incremental increase in debt service from the proposed COPs as well as planned COPs through FY 2030-31 will be below that cap.

FISCAL IMPACT**Debt Service**

According to the Office of Public Finance, average annual debt service on the \$64.8 million in COPs is \$4.9 million. Total debt service over the anticipated 20-year term is approximately \$102.9 million, which includes approximately \$64.8 million in principal and \$38.1 million in interest and true interest cost of 4.75%. Debt service will be paid from the City's General Fund.

POLICY CONSIDERATION**Matching Funds Contingency**

The spending plan for the proposed COPS includes a \$2 million contingency to provide funding for local match requirements of potential future grants. The Office of Public Finance and Office of Resilience and Capital Planning staff did not identify prior instances of the City issuing debt for this purpose but did point to pending State and Federal legislation that, if passed, would provide the City new capital grant opportunities that will likely require local matching funds.

RECOMMENDATION

Approve the proposed ordinance.

¹ \$50 million Recovery Stimulus COPS + \$60.8 million Critical Repairs COPs = \$110.8 million - \$67.5 million in proposed COPs = \$43.3 million remaining in the FY 2021-22 Recovery Stimulus and Critical Repairs COPs program in the Ten-Year Capital Plan.

Appendix 1: Project Descriptions

Program	Dept.	Project	Amount	Description
Critical Repairs	ADM	City Hall HVAC & Elevators	\$8,275,000	This project will fully fund the HVAC needs at City Hall, including cooling tower, heat pumps, duct work; and fund repairs to passenger elevators which fail regularly.
Critical Repairs	ADM	1 S. Van Ness Bathrooms & Elevators	\$2,100,000	The bathroom project will convert the 2nd floor bathroom to an all gender bathroom, and fund repairs to elevators, which fail regularly.
Critical Repairs	ADM	Hall of Justice HVAC	\$4,800,000	This project funds required HVAC related projects at the HOJ for which emergency repairs are currently required. This funding will fully fund the boiler, heat exchanger, chiller projects.
Critical Repairs	DPH	Laguna Honda Hospital Emergency Power	\$7,600,000	The emergency electrical power designed at the Laguna Honda Hospital campus is insufficient to meet the modern needs of this facility housing elderly non-ambulatory and immuno-compromised individuals. This project would install the appropriate emergency power system to ensure continuity in operations in an emergency. A construction cost estimate was prepared in January of 2019, estimating that the project could be completed in one year in multiple phases given that the hospital is occupied and must remain in operation with minimal impact.
Critical Repairs	DPW	Curb Ramps with Basements	\$4,000,000	City has identified several locations where installing curb ramps is complicated by sub-sidewalk basements. This funding will support planning, design, and construction of curb ramps with sub-sidewalk basements.
Critical Repairs	DPW	Infill Sidewalks in Bayview	\$2,000,000	This project will install new sidewalks or widen existing sidewalks to address gaps in the sidewalk network through the Bayview. Public Works has identified several locations throughout Bayview and will work with the district office to prioritize locations, depending on available funding.
Critical Repairs	DT	Fiber Backbone	\$2,500,000	This project would provide essential city-owned communications infrastructure to meet capacity needs and greater redundancy. The optic fiber infrastructure cannot add new locations or users because it is at capacity. The secondary routes are required to meet the mission critical phone VOIP service for departments.
Critical Repairs	REC	Stow Lake ADA Improvements	\$900,000	This restores funding lost during rebalancing. This fully funds barrier removal scope that includes re-paving path around lake and replacing benches

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Critical Repairs	SHF	County Jail 2 Elevators & Fire Safety Systems	\$5,407,000	This project will fund 4 elevators at CJ2 and replace the fire safety system which is outdated.
Critical Repairs	SHF	County Jail 5 Security Electronics & Fire Safety System	\$4,450,000	This project will replace the security electronics system and the fire safety system, both of which are outdated.
Critical Repairs	WAR	Davies Hall Elevators	\$2,200,000	Elevators frequently fail at Davies Hall. One elevator has been previously funded, and this project will replace the remaining two elevators.
Critical Repairs	n/a	COVID Impact Contingency	\$3,000,000	Construction contingency for cost overruns related to COVID-19.
Recovery Stimulus	OEWD	SF Wholesale Produce Market	\$3,000,000	This funding will address improvements to the Marshalling Yard. A key component of The SF Market's Reinvestment Project is to repurpose the space in between the main campus' four warehouses. This work requires removing existing structures and reworking drainage and circulation. New open docks will be provided under the Interstate 280 overpass. New safety improvements will be implemented. The scope includes: <ul style="list-style-type: none"> • Demolition of three open dock structures and construction of two temporary docks • Repaving of roadway and parking • Implementation of planters and other stormwater management devices • Replacement of sewer infrastructure line • New pedestrian circulation protections • New forklift circulation system(s)
Recovery Stimulus	DPW	Better Market Street	\$3,000,000	Pedestrian and streetscape improvements between 5th - 8th streets including curb ramps, granite curb, street trees, sidewalk pavers, bike racks and seating.
Recovery Stimulus	DPH	Zuckerberg SF General New Childcare Center	\$1,500,000	ZSFG is required to construct and operate a new childcare center for employees as a result of a recent union arbitration award.
Recovery Stimulus	n/a	Matching Funds Contingency	\$2,000,000	Contingency for required local match for future grant opportunities

Source: Office of Resilience and Capital Planning