



PUBLIC UTILITIES REVENUE BOND OVERSIGHT COMMITTEE CITY AND COUNTY OF SAN FRANCISCO MINUTES - DRAFT

Public Utilities Commission Building
525 Golden Gate Ave., 2nd Floor
Yosemite Conference Room
San Francisco, CA 94102

March 6, 2017 - 9:00 AM

Regular Meeting

Mission: The purpose of the Revenue Bond Oversight Committee (RBOC) is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrade and expansion of the SFPUC's water, power and sewer infrastructure. The RBOC's goal is to ensure that specific SFPUC revenue bond proceeds are spent appropriately and according to authorization and applicable laws. The RBOC provides oversight to ensure transparency and accountability in connection with expenditure of the proceeds. The public is welcome to attend RBOC meetings and provide input.

1. Call to Order and Roll Call

Seat 1 Holly Kaufman (Holdover status)
Seat 2 Kevin Cheng, Chair (Holdover status)
Seat 3 Robert Leshner
Seat 4 Tim Cronin
Seat 5 Travis George
Seat 6 Christina Tang, Vice Chair
Seat 7 Jadie Wasilco

Chair Cheng called the meeting to order at 9:06 a.m. On the call of the roll, Chair Cheng and Members Cronin, George, Leshner and Wasilco were noted present. Vice Chair Tang and Member Kaufman were noted not present. There was a quorum.

Vice Chair Tang was noted present at 9:35 a.m.

2. Agenda Changes

There were no agenda changes.

3. Public Comment: Members of the public may address the Revenue Bond Oversight Committee (RBOC) on matters that are within the RBOC's jurisdiction but are not on today's agenda.

Public Comment. Speakers: There were none.

4. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Sewer System Improvement Program (SSIP) - Alternative Project Delivery on SSIP Projects**

Karen Kubick, SSIP Director, and Martin Dorward (SFPUC); provided an overview of the Alternative Project Delivery Selection for the Sewer System Improvement Program, including the following: Alternative Project Delivery (APD) Methods Overview and Analysis, design-build advantages, San Francisco Administrative Code requirements, APD on Previous SFPUC Projects, Lessons Learned in Southeast Program Cogeneration and Tesla Water Treatment Plant, SFPUC Headquarters Lessons Learned, project development and review, identifying APD candidate projects, APD selection criteria, APD Decisions for Sewer System Improvement Program SSIP Projects, Southeast project digester roof repairs, Southeast project new headworks (grit) replacement, distributed control system upgrades, biosolids digester facilities project, Bay Corridor transmission and distribution, and Treasure Island wastewater facilities. Mark Blake, Deputy City Attorney; provided information and responded to questions and answers throughout the discussion.

Public Comment. Speakers: There were none.

5. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Generic Rating Process (Discussion)**

Public Comment. Speakers: There were none.

By unanimous consent, the Committee CONTINUED this item to the April 10, 2017, Revenue Bond Oversight Committee meeting.

Chair Cheng requested Items 6 and 7 be called together.

6. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Capital Financing Policy (Discussion)**

Richard Morales, Debt Manager (SFPUC); responded to questions raised throughout the discussion and provided an overview of SFPUC Capital Financing Policy and Debt Service Coverage Policy, including the following: financial policy review and timeline, debt service coverage and capital financing policy objectives, explanation of debt service coverage (DSC) and requirements, weaknesses of the SFPUC DSC requirements, water enterprise DSC, pros and cons of revenue versus debt, peer group study findings, DSC rations in current draft 10-year plans, and current revenue-funded share.

Public Comment. Speakers: There were none.

7. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Debt Service Coverage Policy (Discussion)**

Richard Morales, Debt Manager (SFPUC); responded to questions raised throughout the discussion and provided an overview of SFPUC Capital Financing Policy and Debt Service Coverage Policy, including the following: financial policy review and timeline, debt service coverage and capital financing policy objectives, explanation of debt service coverage (DSC) and requirements, weaknesses of the SFPUC DSC requirements, water enterprise DSC, pros and cons of revenue versus debt, peer group study findings, DSC rations in current draft 10-year plans, and current revenue-funded share.

Public Comment. Speakers: There were none.

8. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Environmental Justice Update – Next Steps** (*Discussion*)

Richard Morales, Debt Manager (SFPUC); responded to questions raised throughout the discussion and introduced External Affairs Bureau staff. Yolandra Manzone, Environmental Justice and Land Use Analyst, Community Benefits Program (SFPUC); provided an overview of the SFPUC environmental justice (EJ) policy, including a history of environmental justice, goals for the EJ policy implementation, EJ guiding principles, EJ implementation framework, and the implementation of pilots.

Public Comment. Speakers: There were none.

9. **Approval of Minutes: February 13, 2017, Meeting Minutes** (*Discussion and Action*) (*Attachment*)

Chair Cheng requested that the Minutes include the results of a poll conducted by Derek Evans, Assistant Clerk of the Board of Supervisors, with RBOC Members for member leads on 2017 issues of interest to the Committee. The results have been included in the February 13, 2017, meeting minutes.

Public Comment. Speakers: There were none.

By unanimous consent, the Committee CONTINUED this item to the April 10, 2017, Revenue Bond Oversight Committee meeting.

10. **Election of Officers** (*Discussion and Action*)

Chair Cheng proposed two co-chairs and one vice-chair be considered at the Election of Officers and further requested the item be continued to the next meeting.

Public Comment. Speakers: There were none.

By unanimous consent, the Committee CONTINUED this item to the April 10, 2017, Revenue Bond Oversight Committee meeting.

11. **Announcements, Comments, Questions, and Future Agenda Items**

The tentative schedule for upcoming regular meetings is included below.

Public Comment. Speakers: There were none.

April 10, 2017

1. Assurance of bond compliance and first quarter financial reports
2. Discussion on generic rating process
3. Approval of Minutes: February 13, 2017, and March 6, 2017
4. Election of Officers

May 8, 2017

1. WSIP update
2. Ratemaking 101
3. Avoiding major cost overruns – options for consulting assistance in “deep dives”
4. Presentation on consultants’ pool – City Services Auditor
5. Debt Management Policies and Procedures – including Green bonds
6. Review RBOC account/budget

June 12, 2017

1. SSIP update – Collection System Plan
2. Depth/breadth of RBOC oversight activities
3. Environmental Justice Update

July 17, 2017

1. WSIP update - staff report
2. Green infrastructure

August 7, 2017

1. Half day field trip/site visit – location TBD, possible locations: Mountain Tunnel, Calaveras Dam, Southeast Plant

September 18, 2017

1. Follow up to May discussion on avoiding major costs overruns and consultant pool info
2. Review RBOC account/budget

October 16, 2017

1. WSIP update
2. Seminar on capital planning

November 6, 2017

1. SSIP update

December 11, 2017

1. Clean Power/Power Enterprise presentation

12. **Adjournment**

There being no further business, the meeting adjourned at 11:20 a.m.

N.B. The Minutes of this meeting set forth all actions taken by the Revenue Bond Oversight Committee on the matters stated but not necessarily in the chronological sequence in which the matters were taken up.

Agenda Item Information

Each item on the agenda may include: 1) Department or Agency cover letter and/or report; 2) Public correspondence; 3) Other explanatory documents. For more information concerning agendas, minutes, and meeting information, such as these documents, please contact RBOC Clerk, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 – (415) 554-5184.

Audio recordings of the meeting of the Revenue Bond Oversight Committee are available at:
http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=97

For information concerning San Francisco Public Utilities Commission please contact by e-mail RBOC@sfgov.org or by calling (415) 554-5184.

Meeting Procedures

Public Comment will be taken before or during the Committee's consideration of each agenda item. Speakers may address the Committee for up to three minutes on that item. During General Public Comment, members of the public may address the Committee on matters that are within the Committee's jurisdiction and are not on the agenda.

Procedures do not permit: 1) persons in the audience to vocally express support or opposition to statements by Commissioners by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) bringing in or displaying signs in the meeting room; and 4) standing in the meeting room.

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

LANGUAGE INTERPRETERS: Requests must be received at least 48 hours in advance of the meeting to help ensure availability. Contact Peggy Nevin at (415) 554-5184. AVISO EN ESPAÑOL: La solicitud para un traductor debe recibirse antes de mediodía de el viernes anterior a la reunion. Llame a Derek Evans (415) 554-5184. PAUNAWA: Ang mga kahilingan ay kailangang matanggap sa loob ng 48 oras bago mag miting upang matiyak na matutugunan ang mga hiling. Mangyaring tumawag kay sa (415) 554-5184.

Disability Access

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翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7719

Know Your Rights Under the Sunshine Ordinance

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils, and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

For more information on your rights under the Sunshine Ordinance (San Francisco Administrative Code, Chapter 67) or to report a violation of the ordinance, contact by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102; phone at (415) 554-7724; fax at (415) 554-7854; or by email at soft@sfgov.org.

Citizens may obtain a free copy of the Sunshine Ordinance by printing San Francisco Administrative Code, Chapter 67, at <http://www.sfbos.org/sunshine>.

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code, Section 2.100, et. seq.] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at: 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102; telephone (415) 581-3100; fax (415) 252-3112; website www.sfgov.org/ethics.



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03.06.2017

Alternative Project Delivery Selection for the Sewer System Improvement Program (SSIP)

**Karen Kubick, P.E. Wastewater Enterprise Capital Program Director
Revenue Bond Oversight Committee**



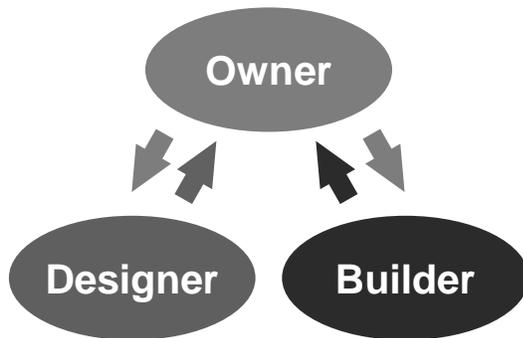
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ALTERNATIVE PROJECT DELIVERY (APD)

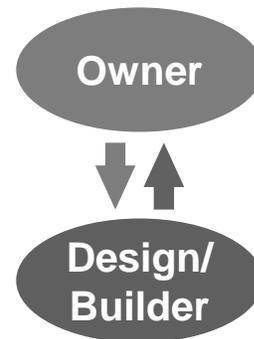
METHODS OVERVIEW

Using Alternative Project Delivery

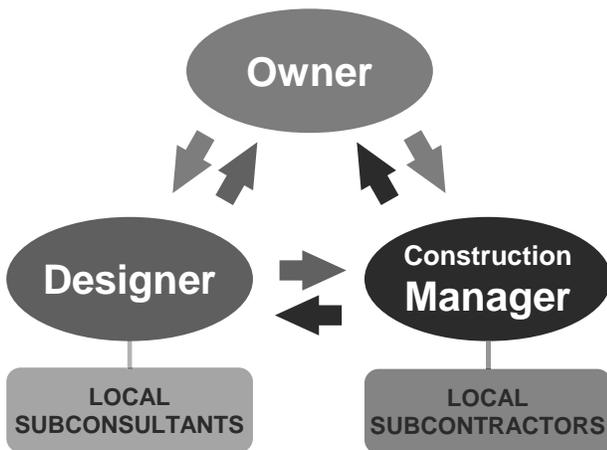
Design-Bid-Build (DBB)



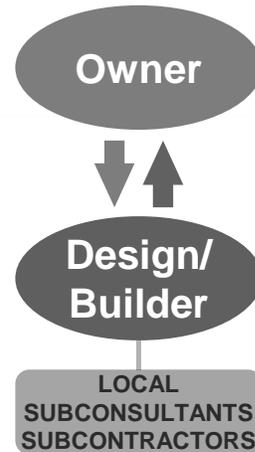
Design-Build



CM/GC (aka CMAR)

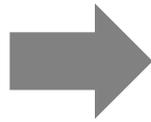


“Progressive” Design-Build

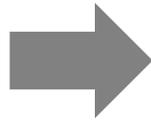


Alternative Project Delivery: Analysis

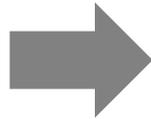
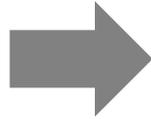
- Reviewed advantages and disadvantages of each method
- Reviewed CCSF and SFPUC Regulations
- Interviewed SFPUC staff and City Attorneys
- Reviewed past performance on other City projects



1. Developed Lessons Learned

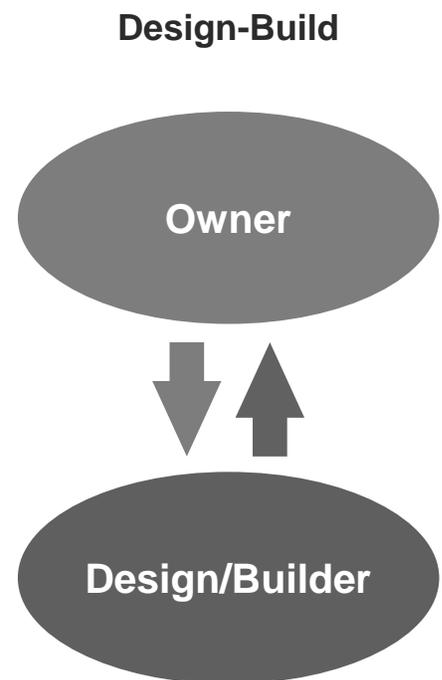


2. Recommended criteria for identifying APD suitable projects



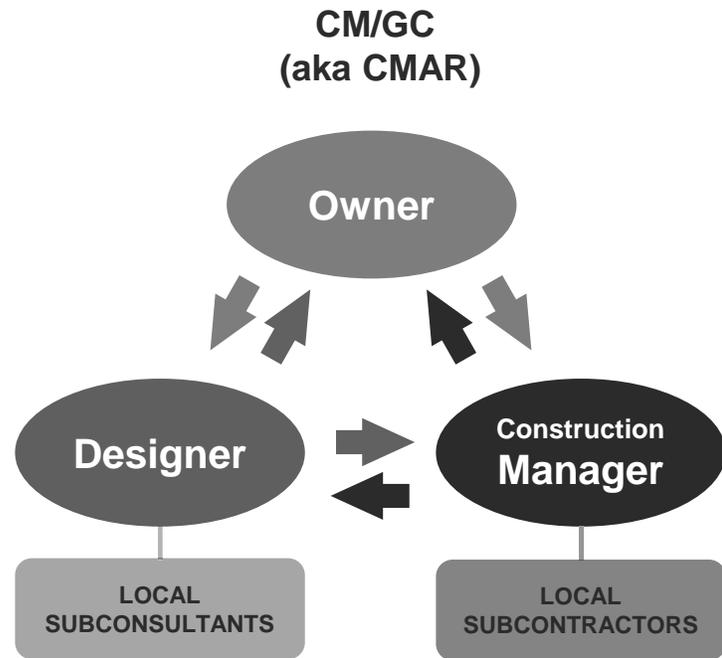
Design-Build Advantages

- Single source accountability for the Design and Construction
- Accelerated schedule
- Allows for innovation
- Improved risk management
- Reduced change orders and claims
- Best value selection solutions
- Performance guarantee



CM/GC Advantages

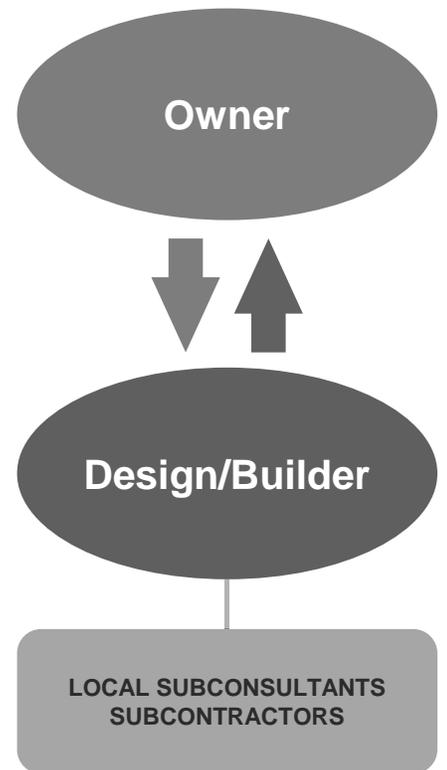
- Owner/Designer/Contractor collaboration
- Allows maximum local participation
- Owner sees all bid costs
- Best of DB and DBB (control + concurrency)
- Accelerated schedule for long-lead items and early-out packages (i.e. sitework)



"Progressive DB" = DB + CM/GC

- Contract administration similar to CM/GC
- One Entity responsible for design & construction
- Involvement during the earliest stages of project development
- Performance Guarantee (DB) but progressive authorizations
- Price(s) set with benefit of completed design

"Progressive" Design-Build



San Francisco Administrative Code Requirements – Chapter 6, Article IV

- Two step process (Prequalification and Proposal)
 - One step allowed as of 2015
- RFQ Evaluation Criteria (DB and CMAR):
 - Qualifications to perform work
 - Financial capacity
 - Experience on similar projects
 - Liquidated damages and claims history
 - Reputation with Owners of prior project



San Francisco Administrative Code Requirements

- **Final Selection Evaluation Criteria (DB):**
 - Quality of proposed designs
 - Plan for Expediency
 - Lifecycle cost to SF

Cost criterion shall not be less than 40% of overall evaluation weightings (DB and CMGC)





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ALTERNATIVE PROJECT ON PREVIOUS SFPUC PROJECTS

SEP Cogeneration – Lessons Learned

APD Procurement: DB



- Ensure clearly defined scope and budget
- Ensure market capacity and interest
- Ensure high level advocate to drive project
- Apply lessons learned to next generation APD

- Design-Build-Operate (DBO)
- Waste Gas to Energy Project
- Build in early 2000's



Tesla WTP – Lessons Learned

ADP Procurement: DBO

- Comprehensive Design Development Report
- Be prescriptive with "must haves"
- O&M input and participation is critical
- Timely design decisions needed and bring discipline to process



- Design-Build-Operate (DBO)
- Build in early 2000's

SFPUC Headquarters Project Overview

Project Cost: **\$201.6M**

Construction Cost: **\$146.5M**

Scope:

- 277,500ft² city office building



SFPUC Headquarters – Lessons Learned

ADP Procurement: CMAR

- First CMAR for the City
- Constructability did inform design
- Made up time with phased bidding
- Early high bids allowed for course correction through VEs
- Imbalanced early risk sharing due to no GMP
- Established Lump Sum (GMP) mid-way through construction



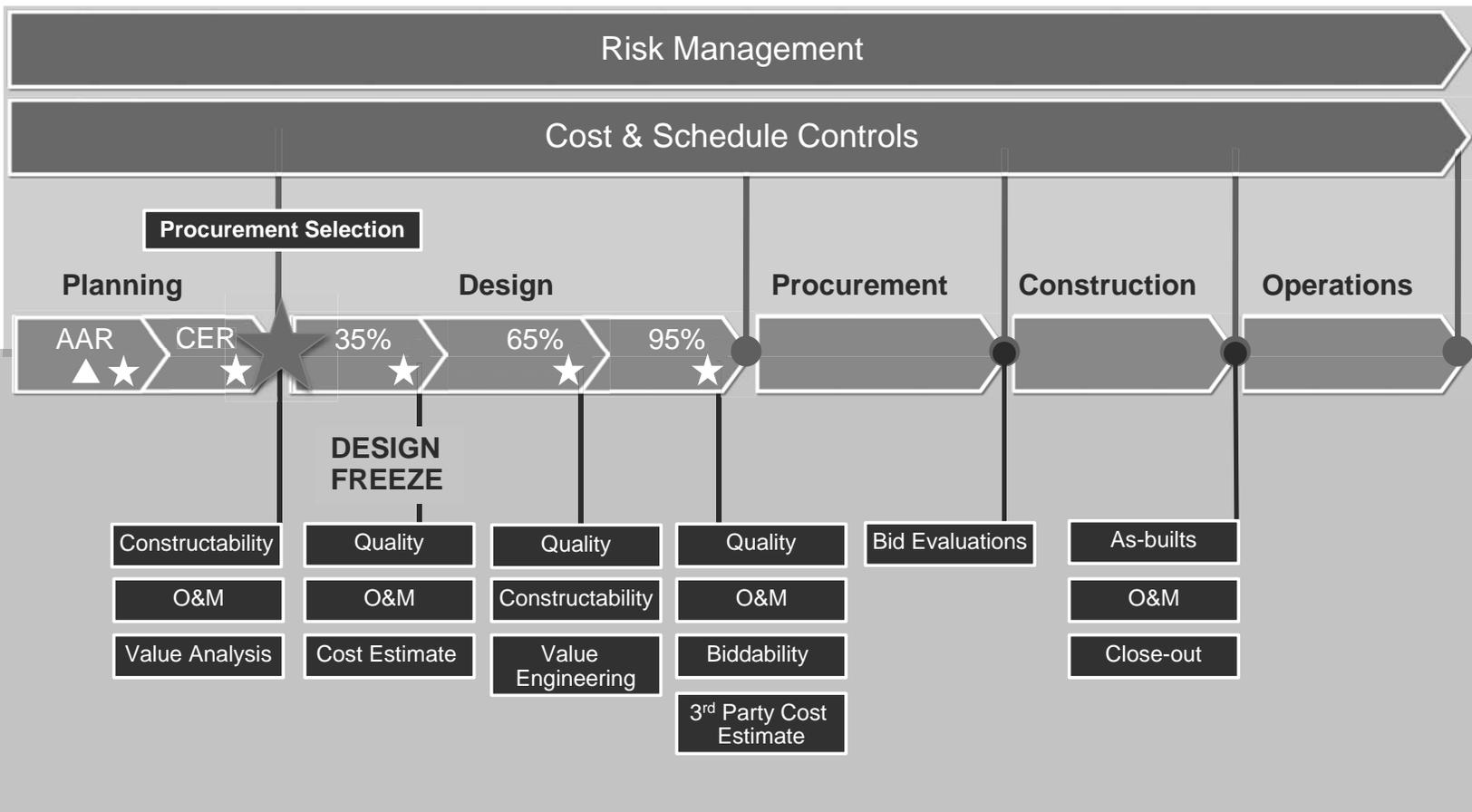


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APD ON SSIP PROJECTS

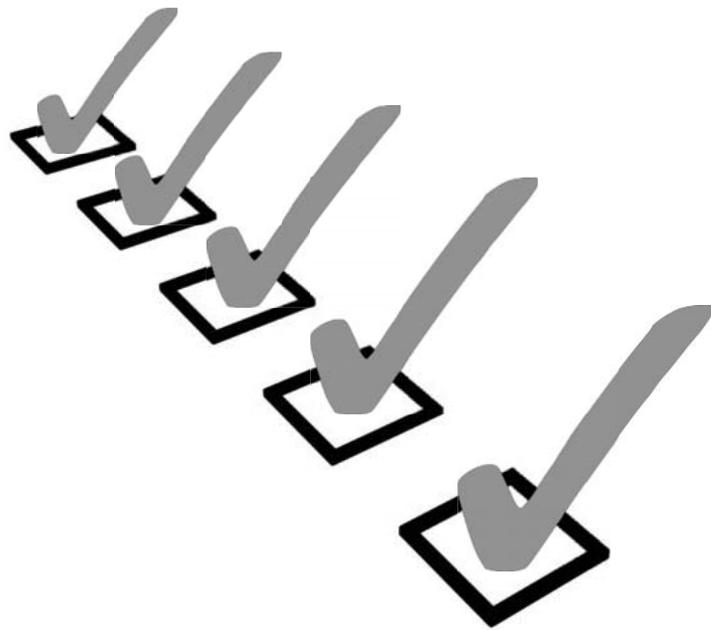
Project Development & Review

★ TSC: Technical Steering Committee
 ▲ TBL: Triple Bottom Line



Identifying APD Candidate Projects

- Schedule
(need to accelerate?)
- Single Source Accountability
- Looking for Performance Guarantee?
- Looking for Price Certainty Earlier in Program?
- Greenfield versus Renovation
- Specialized Design Requirements
- Local Hiring Goals



APD Selection Criteria

| | Design-Bid-Build | Design Build | CM/GC |
|--------------------------------------|---|---|---|
| Contractual Structure |  |  |  |
| Simultaneous Design & Construction | 3 | 1 | 1 |
| Early Cost Identification | 3 | 1 | 2 |
| Designer/Constructor Collaboration | 3 | 2 | 1 |
| Owner Risk Shed | 3 | 1 | 2 |
| Owner Ability to Control Design | 1 | 3 | 1 |
| Ease of Permitting | 1 | 3 | 2 |
| Ability to Accelerate Schedule | 3 | 1 | 2 |
| Maximizes Innovation | 3 | 1 | 1 |
| Innovation Savings Returned to Owner | 3 | 3 | 1 |
| Open Book Contract Administration | 3 | 3 | 1 |
| Claims Avoidance | 3 | 1 | 3 |
| | 2.63 | 1.81 | 1.54 |



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APD DECISIONS FOR SSIP PROJECTS

SEP Existing Digester Roof Repairs

Project Overview

Project Cost: **\$16M**

Construction Cost: **\$13M**

Active Phase: **Completed
(March 2016)**

Scope: **Repair and
replacement of existing
floating roofs**



SEP Existing Digester Roof Repairs

ADP Procurement: Design-Build

- Single source accountability
- Accelerated schedule for repeatable solution
- Reduced change orders and claims
- Best value selection solutions
- Performance guarantee



SEP New Headworks (Grit) Replacement Project Overview

Project Cost: **\$358M**

Construction Cost: **\$266M**

Construction: **Jan 2017 – Jun 2022**

Active Phase: **Design**

Scope:

- New all-weather 250 MGD Headworks facility



SEP New Headworks (Grit) Replacement

APD Procurement: CM/GC

- Ability to overlap early sitework construction with completion of full design
- Flexibility in packaging and sequencing will help maintain operations and meet discharge permits
- Designer/Contractor coordination
- Construction claims minimization



SEP New Headworks (Grit) Replacement Conceptual Rendering



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SEP Distributed Control System (DCS) Upgrades Project Overview

Project Cost: **\$63M**

Construction Cost: **\$37M**

Construction: **May 2018 to August 2022**

Active Phase: **Planning**

Scope: Hardware and software upgrades



SEP Distributed Control System (DCS) Upgrades

APD Procurement: Progressive DB

- Efficient delivery method
- Facilitates coordination between PUC and the Design Builder
- Faster start on design standards and “as-is” condition verification
- Open book pricing allows for coordination among multiple facilities
- Single source accountability



Biosolids Digester Facilities Project

Project Overview

Project Cost: **\$1.276B**

Construction Cost: **\$950M**

Construction Schedule:
Aug 2018 - May 2024

Active Phase: **Design**

Scope: New solids processing facilities; biogas handling, energy generation and recovery; odor control



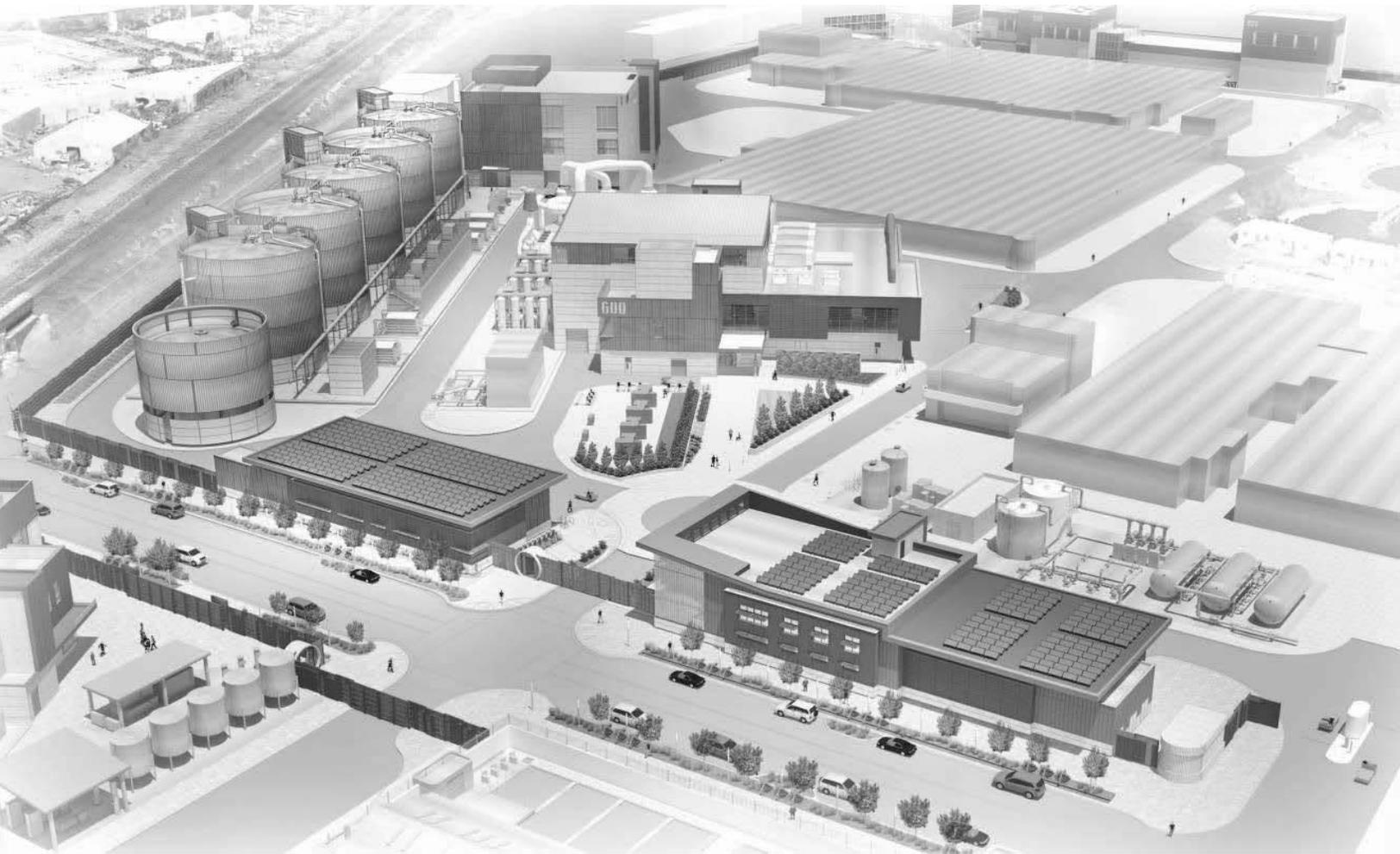
Biosolids Digester Facilities Project

APD Procurement: CM/GC

- Early design and construction coordination
- Schedule and packaging flexibility to meet schedules
- Allows maximum local participation
- Cost analysis from contractors perspectives for accurate budgeting
- Early-out Packaging (i.e. sitework)
- Solutions for tight site conditions and maintaining operations will benefit from contractors early input



Biosolids Digester Facilities Project \$950M



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Bay Corridor Transmission and Distribution Project Overview

DB Project Cost: **\$18M**

Construction: **April 2017 to April 2018**

Active Phase: **Design/Procurement**

Scope:

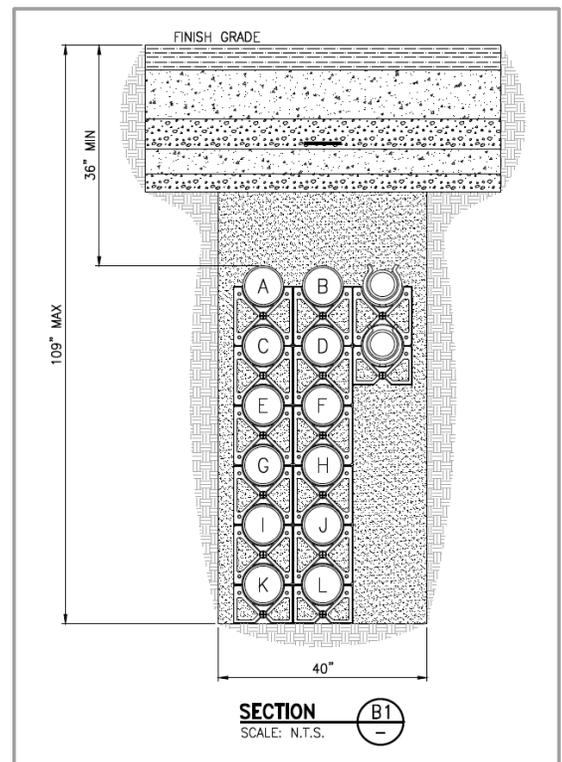
- Provide power to various customers along the San Francisco Peninsula.



Bay Corridor Transmission and Distribution

APD Procurement: DB

- Compressed Schedule
- Wanted to procure DB team as 35% design completed
- DB only way to meet project intent and schedule



Treasure Island – Wastewater Facilities

Project Overview

Project Cost: **\$67 Million**

Construction Cost: **\$42M**

Construction: **March 2020 to May 2022**

Current Status: **Planning**

Scope:

- Provide a replacement wastewater treatment plant and recycled water capability



Treasure Island – Wastewater Facilities

ADP Procurement: Design-Build

- Design Builder/Owner Collaboration
- Schedule Acceleration to meet TIDA and Regulatory requirements
- Concurrent site improvement while finalizing design
- Project Cost Control
 - DB efficiencies
- Innovation in selecting best treatment process within budget
- Cost and CO control



Key Takeaways

- Be specific with must-haves in bridging documents
- Let project needs guide delivery method
- Create a balanced risk approach for best experience
- APD can be compatible with your local hire and LBE requirements



Identifying APD Candidate Projects

- Schedule (need to accelerate?)
- Single Source Accountability
- Looking for Performance Guarantee?
- Looking for Price Certainty Earlier in Program?
- Greenfield versus Renovation
- Specialized Design Requirements
- Local Hiring Goals





San Francisco
Water Power Sewer

THANK YOU.



@sfwater

sfwater.org/ssip

ssip@sfwater.org

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CAPITAL FINANCING POLICY

The San Francisco Charter Section 8B.125 requires the SFPUC to be a financial steward by establishing “rates, fees and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures... and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice.” To most effectively meet this requirement, the SFPUC will utilize financial policies that foster financial stability, support fiscal discipline, and maintain credit ratings at or above levels equivalent to highly rated utilities. Institutionalized policies signal to rating agencies and the capital markets that an entity is well managed and committed to prudent financial practices.

The Water, Wastewater and Power Enterprises of the SFPUC own and operate infrastructure that provides essential services to the residents and businesses of the San Francisco Bay Area. Maintaining this infrastructure in a state of good working order requires ongoing repairs and capital improvements, which represent a large portion of the SFPUC’s total expenditures. Balancing the mix of funding sources needed to pay for these improvements is a prudent way to protect both ratepayer affordability and the high-grade credit ratings of the three enterprises.

To finance its capital programs, the SFPUC relies mainly on revenue and debt funding. The use of revenue to pay for the recurring portion of the capital budget, such as repair and replacement projects, promotes financial sustainability by minimizing financing costs. Debt funding is an important tool for large, capital-intensive projects with long useful lives, or to meet the agency’s near-term needs. However, an over-reliance on debt limits future financial flexibility by imposing additional debt burden, and can put negative pressure on credit ratings. The appropriate mix of revenue versus debt funding depends, in part, on the capital investment lifecycle of each enterprise.

In light of these considerations, it is a policy of this Commission that over the 10-year financial planning horizon, **a minimum of 15%-30%** of each enterprise’s capital budget will be funded by current revenues.

To monitor compliance with this policy, SFPUC Finance staff will present this information to the Commission as part of the annual 10-Year Financial Plan and Quarterly Budget Status Report.

DEBT SERVICE COVERAGE POLICY

The San Francisco Charter Section 8B.125 requires the SFPUC to be a financial steward by establishing “rates, fees and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures... and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice.” To most effectively meet this requirement, the SFPUC will utilize financial policies that foster financial stability, support fiscal discipline, and maintain credit ratings at or above levels equivalent to highly rated utilities. Institutionalized policies signal to rating agencies and the capital markets that an entity is well managed and committed to prudent financial practices.

Debt issuance is a significant funding source for the SFPUC’s capital programs. Pursuant to SFPUC bond covenants entered into with bondholders, enterprise revenues are pledged for the repayment of debt service and must meet the following minimum ratios.

Indenture Coverage must equal a minimum of 1.25x; calculated as follows:

$$\frac{(Annual\ Revenues - Operating\ Expenses) + Unappropriated\ Fund\ Balance}{Debt\ Service}$$

Current Coverage must equal a minimum of 1.00x; calculated as follows:

$$\frac{(Annual\ Revenues - Operating\ Expenses)}{Debt\ Service}$$

To protect the high-grade ratings of each enterprise and to ensure adequate resources remain available for contingencies, it is imperative to adopt and adhere to financial policies that impose higher standards than the minimum legal requirements. Therefore, for each enterprise, the SFPUC will adopt budgets, rates and financial plans to generate annual net revenues that exceed the minimum legal requirements as follows:

Indenture Coverage must equal a minimum of 1.35x

Current Coverage must equal a minimum of 1.10x

To monitor compliance with this policy, SFPUC Finance staff will present this information to the Commission as part of the annual 10-Year Financial Plan and Quarterly Budget Status Report.



Financial Policy Review: Debt Service Coverage and Capital Financing Policies

2018 Water and Sewer Rates Study
Revenue Bond Oversight Committee
March 6, 2017
Richard Morales, Debt Manager



Agenda

1. Financial Policy Review Context
2. Policy Objectives
3. Debt Service Coverage Policy
 1. Background
 2. Considerations
 3. Recommendations
4. Capital Financing Policy
 1. Background
 2. Considerations
 3. Recommendations
5. Discussion



Introduction

Financial Policy Review

- Financial sustainability: key goal of 2020 Strategic Plan
- ‘Off-budget year’ enables fiscal policy review
- Changes will impact rates set during 2018 Water & Sewer Rate Study
- Financial policies support:
 - Prudent financial management
 - Continuous service during periods of volatility
 - Organizational accountability
 - Consistent decision-making
 - Strong bond ratings



Introduction

Financial Policy Review: Timeline

| Policy | Advisory Bodies Review Dates | Commission Review Date |
|--|---|------------------------|
| Fund Balance Reserves Policy | CAC: January 17 RBOC: February 13 RFB: February 17 | February 28 |
| → Debt Service Coverage Policy (New) Capital Financing Policy (New) | CAC: February 21 RBOC: March 6 RFB: March 10 | March 28 |
| Debt Management Policies & Procedures | RBOC: May 8 RFB: April 21 | May 23 |
| Rates & Ratepayer Assurance Policy | RFB: April 21 | May 23 |



Debt Service Coverage and Capital Financing Policy Objectives

- Promote SFPUC Strategic Plan of Financial Sustainability
- Manage unbudgeted changes in revenues/expenses
 - Revenues—drought, wet weather, recession
 - Expenses—commodity prices, unplanned repairs
- Support strong AA bond ratings—lowers borrowing costs
- Provide guidance for long-term planning and rate setting



Debt Service Coverage Policy

What is Debt Service Coverage?

- Debt Service Coverage (“DSC”) covenant set forth in bond indenture as legal “promise” to bondholders to set Rates & Charges to meet minimum DSC requirements
 - Failure to meet minimum DSC can lead to “event of default”
 - May lead to bond rating downgrade and loss of investor confidence
- DSC measures capacity to pay debt service in any given year from Net Revenues of system
- Demonstrates financial performance and margin of protection for debt repayment
- Used by rating agencies and investors to gauge an entity’s fiscal health, especially during times of fiscal stress



Debt Service Coverage Policy SFPUC's DSC Requirements

- All three Enterprises' Indentures have two DSC requirements, referred to as "Indenture Coverage" and "Current Coverage"
 - Indenture Coverage ratio must be minimum of 1.25x, calculated as follows:
$$\frac{(\text{Annual Revenues} - \text{Operating Expenses}) + \text{Unappropriated Fund Balance}}{\text{Debt Service}}$$
 - Current Coverage ratio must be minimum of 1.00x, calculated as follows:
$$\frac{(\text{Annual Revenues} - \text{Operating Expenses})}{\text{Debt Service}}$$
- Rates & Charges must be set in each year to meet minimum DSC Indenture requirements
 - DSC used in determining rates in financial planning process
 - Appropriated fund balance can be used in Current Coverage calculation to meet 1.00x minimum
- Current Coverage metric most widely used by rating agencies and investors; SFPUC's 1.00x minimum deemed weak



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Debt Service Coverage Policy Weaknesses of SFPUC DSC Requirements

- Indenture Coverage methodology: atypical and viewed as permissive by rating agencies and investors
- Current Coverage primarily used by rating agencies and investors in determining fiscal health of an entity
- Recent lessons from DSC weaknesses
 - Drought impact on water sales



Debt Service Coverage Policy Water Enterprise DSC

| | FY 2014-15 | FY 2015-16 | |
|--------------------------------------|----------------------|----------------------|-------------------|
| | Without Fund Balance | Without Fund Balance | With Fund Balance |
| Net Revenue (Cash Basis) | \$ 196,635 | \$ 205,166 | \$ 205,166 |
| (+) Appropriated Fund Balance | N/A | N/A | 23,994 |
| Bond Debt Service | \$ 192,312 | \$ 219,195 | \$ 219,195 |
| DSC (min. 1.00x) | 1.02x | 0.94x | 1.05x |



Debt Service Coverage Policy Recommendations

- Create new, separate Debt Service Coverage Policy to address both Current and Indenture Coverage for all three enterprises:

| | Water | Wastewater | Power |
|-----------|--------------------------|------------|-------|
| Basis | Minimum Coverage Targets | | |
| Current | 1.10x | 1.10x | 1.10x |
| Indenture | 1.35x | 1.35x | 1.35x |



Capital Financing Policy Background

- The SFPUC has major 10-Year Capital Plans for all enterprises:

| Enterprise | FY 2018-27 |
|--------------------|-------------------------|
| Water | \$ 1,316,893,000 |
| Wastewater | \$ 5,617,676,000 |
| Hetch Hetchy | \$ 1,012,691,997 |
| SFPUC TOTAL | \$ 7,947,260,997 |

- Goal: funding maximizes value and mitigates ratepayer impact
- Funding options:
 - **Revenue funding** = current rate revenues (aka “pay as you go”)
 - **Debt funding** = bonds and other form of debt, repaid by rates



Capital Financing Policy

Pros and Cons of Revenue vs Debt

| | Revenue Funding | Debt Funding |
|----------------------|---|---|
| Uses | <ul style="list-style-type: none"> Projects with recurring and predictable funding requirements | <ul style="list-style-type: none"> Major improvements and one-time large projects |
| Fiscal Impact | <ul style="list-style-type: none"> Saves money by eliminating financing costs, the need for reserves | <ul style="list-style-type: none"> Adds interest, reserve requirement costs to the ratepayer |
| Rate Impact | <ul style="list-style-type: none"> Can cause rate spikes, put pressure on affordability | <ul style="list-style-type: none"> Long payback period, more gradual rate increases |
| Timeline | <ul style="list-style-type: none"> Current ratepayers pay for the entire project | <ul style="list-style-type: none"> Spreads the costs of a project across generations |



Capital Financing Policy Peer Group Study Findings

- Average capital plan for Peer Group is \$1.8B
- 14 of 33 agencies have policies that target specific funding mix between debt and revenue funding
- Most similarly rated agencies fund approximately 1/3 of capital from revenues and the balance from debt



Capital Financing Policy Recommendations

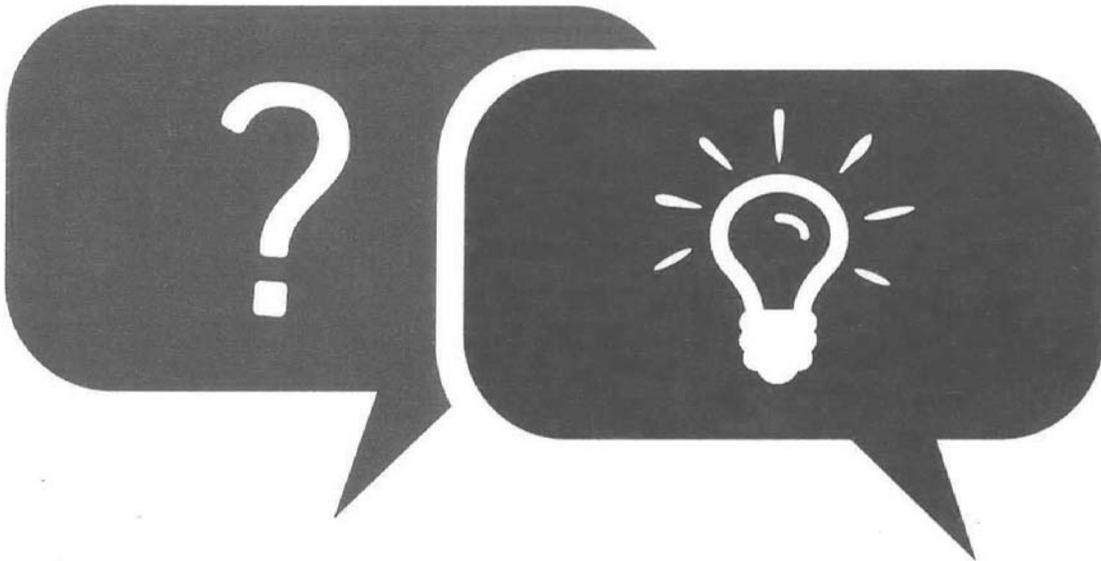
- Financial advisors recommended targeting revenue funding at minimum of 20% over planning period
- **Staff recommends minimum of 15%-30% for revenue funding over planning period**





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Discussion



Appendix



Debt Service Coverage Policy DSC Requirements: FY 2015-16

- Indentures mandate:

| Coverage Basis | Water | Wastewater | Power |
|-----------------|---------------------------------------|-------------------------------------|-------------------------------------|
| 1.00x Current | <input checked="" type="checkbox"/> * | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 1.25x Indenture | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

**Excluding appropriated fund balance in FY 2015-16.*



Debt Service Coverage Policy

DSC Ratios in Current Draft 10-Year Plans

Current Coverage Ratios

| | FYE 2017 | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 | FYE 2023 | FYE 2024 | FYE 2025 | FYE 2026 | FYE 2027 |
|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Water | 1.28 | 1.15 | 1.11 | 1.13 | 1.12 | 1.13 | 1.14 | 1.18 | 1.18 | 1.19 | 1.17 |
| Wastewater | 2.55 | 2.97 | 2.74 | 2.98 | 2.30 | 1.78 | 1.45 | 1.28 | 1.27 | 1.29 | 1.31 |
| Power | 15.68 | 6.25 | 3.82 | 3.79 | 4.52 | 4.03 | 2.67 | 2.16 | 1.74 | 1.42 | 1.30 |

Indenture Coverage Ratios

| | FYE 2017 | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 | FYE 2023 | FYE 2024 | FYE 2025 | FYE 2026 | FYE 2027 |
|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Water | 1.81 | 1.81 | 1.74 | 1.63 | 1.50 | 1.46 | 1.43 | 1.45 | 1.47 | 1.49 | 1.46 |
| Wastewater | 4.81 | 5.82 | 5.25 | 5.51 | 4.08 | 2.97 | 2.31 | 2.04 | 1.76 | 1.62 | 1.58 |
| Power | N/A* | 33.39 | 17.86 | 14.28 | 15.44 | 11.63 | 7.34 | 5.87 | 4.85 | 3.72 | 3.34 |

*First debt service payment on Senior Lien Power Revenue Bonds due in FY 2017-18.



Capital Financing Policy

Current Revenue-Funded Share

Percent Revenue-Funded Capital in Current 10-Year Plans

| | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 | FYE 2023 | FYE 2024 | FYE 2025 | FYE 2026 | FYE 2027 | FY 18-27 |
|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Water | 17.6% | 22.5% | 11.2% | 31.2% | 30.2% | 29.4% | 57.3% | 67.7% | 73.0% | 87.3% | 33.3% |
| Wastewater | 5.6% | 4.1% | 8.1% | 17.8% | 32.5% | 17.3% | 27.1% | 30.3% | 36.7% | 32.6% | 16.1% |
| Power | 54.7% | 40.0% | 6.5% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 33.4% |



PUBLIC UTILITIES REVENUE BOND OVERSIGHT COMMITTEE CITY AND COUNTY OF SAN FRANCISCO MINUTES - DRAFT

Public Utilities Commission Building
525 Golden Gate Ave., 2nd Floor
Yosemite Conference Room
San Francisco, CA 94102

February 13, 2017 - 9:00 AM

Regular Meeting

Mission: The purpose of the Revenue Bond Oversight Committee (RBOC) is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrade and expansion of the SFPUC's water, power and sewer infrastructure. The RBOC's goal is to ensure that specific SFPUC revenue bond proceeds are spent appropriately and according to authorization and applicable laws. The RBOC provides oversight to ensure transparency and accountability in connection with expenditure of the proceeds. The public is welcome to attend RBOC meetings and provide input.

1. Call to Order and Roll Call

Seat 1 Holly Kaufman (Holdover status)
Seat 2 Kevin Cheng, Chair (Holdover status)
Seat 3 Robert Leshner
Seat 4 Tim Cronin
Seat 5 Travis George
Seat 6 Christina Tang, Vice Chair
Seat 7 Jadie Wasilco

Chair Cheng called the meeting to order at 9:07 a.m. On the call of the roll, Chair Cheng, Vice Chair Tang, Members Cronin, George and Kaufman were noted present. Members Leshner and Wasilco were noted not present. There was a quorum.

Member Leshner was noted present at 9:32 a.m.

2. Agenda Changes

There were no agenda changes.

3. Public Comment: Members of the public may address the Revenue Bond Oversight Committee (RBOC) on matters that are within the RBOC's jurisdiction but are not on today's agenda.

Public Comment. Speakers: There were none.

4. **Strategic Planning Follow Up:** 2017 Strategic Issues, 2017 Work Plan and Schedule, Strategic Planning Summary and Next Steps

Chair Cheng introduced strategic planning facilitator Carmen Clark, who provided a review of the strategic planning meeting and discussing strategic issues/directions for the committee, the schedule for 2017, and upcoming meeting discussions, including the following: (1) succession planning; (2) staff report on assurance of project expenditure compliance with bond requirements; (3) staying informed of Mountain Tunnel project development and costs; (4) monitoring Calaveras Dam progress; (5) scope and budget for Wastewater issues (e.g., protection of flood prone areas and Bayside tunnel capacity); (6) alternative project delivery methods including design/build; (7) green infrastructure implementation and status; (8) ensuring appropriate project eligibility and how the project supports the agency's mission; (9) depth and breadth of oversight needed by RBOC; (10) capital planning and managing credit rating/debt costs, ratio of cash/debt funding; and (11) rate design presentation.

Public Comment. Speakers: None.

5. **San Francisco Public Utilities Commission (SFPUC) Staff Report:** Mountain Tunnel 101 Presentation, including overview of the issue, how it is being addressed, project update, project scope and budget, why Mountain Tunnel was not included as part of WSIP, possibility of inclusion in WSIP, project going forward

Steven Ritchie, Assistant General Manager of Water Enterprise (SFPUC); provided an update of the Mountain Tunnel project, including the following: overview of regional water system; wholesale customers; Mountain Tunnel background; Mountain Tunnel update summary and overview; Priest Portal opening; tunnel inspection work completed; tunnel adits and access improvements; interim repairs; January/February calendar for improvements, inspection support and interim repairs; and decision on long-term improvements. Dan Wade, WSIP Director; and Richard Morales, Debt Manager (SFPUC); provided information and responded to questions raised throughout the discussion.

Public Comment. Speakers: None.

6. **San Francisco Public Utilities Commission (SFPUC) Staff Report:** Environmental Justice Update

Mike Brown (SFPUC); responded to questions raised throughout the discussion and further requested additional instruction from the Committee for presentation.

Public Comment. Speakers: None.

7. **San Francisco Public Utilities Commission (SFPUC) Staff Report:** Recent Water Bond Sales Results

Richard Morales, Debt Manager; and Mike Brown (SFPUC); discussed the results of recent water bond sales, including the following: two water bond sales in 2016; AB

water revenue bond refunding; marketing the AB bonds; historically low rates; challenging market conditions; refunding debt service savings; series 2016C water revenue bonds (green bonds); and water credit ratings. Charles Perl, Deputy Chief Financial Officer (SFPUC); and Mark Blake, Deputy City Attorney; provided information and responded to questions raised throughout the discussion.

Public Comment. Speakers: None.

8. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Fund Balance Reserves Policy**

Charles Perl, Deputy Chief Financial Officer (SFPUC); provided a presentation on proposed changes to the fund balance reserves policy, including the following: a background and review of the financial policy; financial policy review timeline; reserve policy objectives; existing fund balance reserve policy; peer group study findings; peer survey for operating reserve targets; proposed changes to fund balance reserve policy; and reserves in current 10-year plan. Richard Morales, Debt Manager, and Mike Brown (SFPUC); Mark Blake, Deputy City Attorney; provided information and responded to questions raised throughout the discussion.

Public Comment. Speakers: None.

*Member Cronin was noted absent at 11:25 a.m.
Member Kaufman was noted absent at 11:32 a.m.*

9. **Approval of Minutes: January 23, 2017, Meeting Minutes**

Public Comment. Speakers: None.

By unanimous consent the Committee moved that the January 23, 2017, Meeting Minutes be APPROVED. The motion passed by the following vote:

Ayes: 4 - Cheng, George, Leshner and Tang

Absent: 3 - Cronin, Kaufman, and Wasilco

10. **2016 Annual Report Finalization and Approval**

Public Comment. Speakers: None.

By unanimous consent the Committee moved that the 2016 Annual Report be APPROVED. The motion passed by the following vote:

Ayes: 4 - Cheng, George, Leshner and Tang

Absent: 3 - Cronin, Kaufman, and Wasilco

11. **Election of Officers**

Public Comment. Speakers: None.

By unanimous consent the Committee moved that the Election of Officer be CONTINUED to the March 6, 2017, RBOC meeting. The motion passed by the following vote:

Ayes: 4 - Cheng, George, Leshner and Tang
Absent: 3 - Cronin, Kaufman, and Wasilco

12. **Announcements, Comments, Questions, and Future Agenda Items**

The Committee approved by finalization of the annual report the following regular meeting schedule for calendar year 2017:

1. Monday, January 23, 2017
2. Monday, February 13, 2017
3. Monday, March 6, 2017
4. Monday, April 10, 2017
5. Monday, May 8, 2017
6. Monday, June 12, 2017
7. Monday, July 17, 2017
8. Monday, August 7, 2017
9. Monday, September 18, 2017
10. Monday, October 16, 2017
11. Monday, November 6, 2017
12. Monday, December 11, 2017

Results are included in these minutes of the poll conducted by Derek Evans, Assistant Clerk of the Board of Supervisors, with RBOC Members to determine member leads on 2017 issues of interest to the Committee

Public Comment. Speakers: None.

13. **Adjournment**

There being no further business, the meeting adjourned at 11:45 a.m.

N.B. The Minutes of this meeting set forth all actions taken by the Revenue Bond Oversight Committee on the matters stated but not necessarily in the chronological sequence in which the matters were taken up.

Agenda Item Information

Each item on the agenda may include: 1) Department or Agency cover letter and/or report; 2) Public correspondence; 3) Other explanatory documents. For more information concerning agendas, minutes, and meeting information, such as these documents, please contact RBOC Clerk, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 – (415) 554-5184.

Audio recordings of the meeting of the Revenue Bond Oversight Committee are available at: http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=97

For information concerning San Francisco Public Utilities Commission please contact by e-mail RBOC@sfgov.org or by calling (415) 554-5184.

Meeting Procedures

Public Comment will be taken before or during the Committee’s consideration of each agenda item. Speakers may address the Committee for up to three minutes on that item. During General Public Comment, members of the public may address the Committee on matters that are within the Committee’s jurisdiction and are not on the agenda.

Procedures do not permit: 1) persons in the audience to vocally express support or opposition to statements by Commissioners by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) bringing in or displaying signs in the meeting room; and 4) standing in the meeting room.

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

LANGUAGE INTERPRETERS: Requests must be received at least 48 hours in advance of the meeting to help ensure availability. Contact Peggy Nevin at (415) 554-5184. AVISO EN ESPAÑOL: La solicitud para un traductor debe recibirse antes de mediodía de el viernes anterior a la reunion. Llame a Derek Evans (415) 554-5184. PAUNAWA: Ang mga kahilingan ay kailangang matanggap sa loob ng 48 oras bago mag miting upang matiyak na matutugunan ang mga hiling. Mangyaring tumawag kay sa (415) 554-5184.

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翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7719

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Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils, and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

For more information on your rights under the Sunshine Ordinance (San Francisco Administrative Code, Chapter 67) or to report a violation of the ordinance, contact by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102; phone at (415) 554-7724; fax at (415) 554-7854; or by email at sotf@sfgov.org.

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Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code, Section 2.100, et. seq.] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at: 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102; telephone (415) 581-3100; fax (415) 252-3112; website www.sfgov.org/ethics.

2017 STRATEGIC PLANNING ISSUES – Member Leads

Member leads volunteered at the strategic planning session to spearhead these issues by (1) providing how it is addressed, and (2) providing next steps.

1. Succession planning for RBOC – need for continuity and predictable turnover; maintain short list of candidates, encourage early notice of resignation, possible commitment to two terms **(CHENG)**
2. Report to RBOC from staff to show assurance of project expenditure compliance with bond requirements **(GEORGE)** **(LESHNER)**
3. Mountain Tunnel project – how to keep informed on project development and costs **(CHENG)** **(TANG)**
4. Calaveras Dam – monitoring progress **(CHENG)** **(TANG)**
5. Wastewater Issues – need scope and budget for protection of flood prone areas in the city, Bayside tunnel capacity **(LESHNER)** **(WASILCO)**
6. Alternative project delivery methods including design/build **(CRONIN)** **(WASILCO)**
7. Green infrastructure – implementation status **(KAUFMAN)** **(CRONIN)**
8. How to insure appropriate project eligibility and how the project supports the agency's mission **(GEORGE)** **(LESHNER)**
9. Depth and breadth of oversight needed by RBOC – purpose is to avoid significant non-performance or cost overruns, including expected performance of completed projects **(TANG)** **(CRONIN)**
10. Seminar on capital planning – managing credit rating/debt costs, ratio of cash/debt funding, possible changes to financial strategy in fixed rate/variable rate mix **(GEORGE)**
11. Rate design presentation needed from staff **(GEORGE)** (Mike Brown to present on this)
12. Environmental Justice **(KAUFMAN)** **(CRONIN)**