

## DEBT SERVICE COVERAGE POLICY

The San Francisco Charter Section 8B.125 requires the SFPUC to exercise prudent financial stewardship of SFPUC assets 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 these objectives, the SFPUC will adopt financial policies that foster financial stability, supports fiscal discipline, and maintains credit ratings at or above levels equivalent to highly rated utilities. Strong financial 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 pledged for the repayment of debt service must meet the following financial ratios.

*Indenture Coverage:* Net Revenues must equal a minimum of 1.25 x annual debt service; calculated as follows:

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

*Current Coverage:* Annual Revenues must equal a minimum of 1.00 x annual debt service; calculated as follows:

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

To ensure that the SFPUC maintains access to low-cost capital and retains financial flexibility for contingencies, it is important to adopt and implement financial policies that impose higher standards than the minimum indenture requirements. Therefore, for each enterprise, the SFPUC will adopt budgets, rates and financial plans that generate revenues such that:

**Indenture Coverage** shall be at least **1.35x**

**Current Coverage** shall be at least **1.10x**

To monitor compliance with this policy, SFPUC Finance staff will present this information to the Commission as part of the biennial budget process and the annual 10-Year Financial Plan.

*Adopted by Resolution 17-0060 on March 28, 2017*