



# Comprehensive Annual Financial Report Financial Authority and Policies

## TABLE OF CONTENTS

	Page
1) Public Utilities Commission. (SF Charter Sec. 8B.121.).....	1
2) Goals and Objectives Related to Water and Clean Water. [Wastewater] (SF Charter Sec. 8B.122.).....	1-2
3) Planning and Reporting. (SF Charter Sec. 8B.123.).....	2
4) Water and Clean Water Revenue Bonds. (SF Charter Sec. 8B.124.).....	2-3
5) Rates. (SF Charter Sec. 8B.125.).....	3-4
6) Contracting and Purchasing. (SF Charter Sec. 8B.127.).....	4
7) Biennial and Multi-Year Budgets. (SF Charter Sec. 9.101.).....	4-5
8) Revenue Bonds. (SF Charter Sec. 9.107.).....	5
9) Lease Financing. (SF Charter Sec. 9.108.).....	6
10) Refunding Bonds. (SF Charter Sec. 9.109.).....	6
11) Mission-Driven Budget. (SF Charter Sec. 9.114.).....	6
12) Utility Revenues and Expenditures. (SF Charter Sec. 16.103.).....	7
13) Environmental Justice Policy. (SFPUC Commission Resolution No. 09-0170.).....	7-8
14) Fund Balance Reserve Policy. (SFPUC Commission Resolution No. 10-0027.).....	8-9
15) Community Benefits Policy. (SFPUC Commission Resolution No. 11-0008.).....	9-10
16) Rates Policy. (SFPUC Commission Resolution No. 12-0027.).....	10-11
17) Framework for Land Management and Use. (SFPUC Commission Resolution No. 12-0042.).....	11-16
18) Technology Policy. (SFPUC Commission Resolution No. 12-0165.).....	16-17
19) Ratepayer Assurance Policy. (SFPUC Commission Resolution No. 12-0196.).....	17-19
20) Debt Management Policies and Procedures. (SFPUC Commission Resolution No. 13-0050.).....	19-24

## Financial Authority and Policies

San Francisco Charter and the San Francisco Public Utilities Commission (SFPUC) Resolutions which pertain to the requirements and parameters of activities in which the SFPUC engages, including the development, content, and approvals of budgets, rates, debt, contracts as well as the capital, financial, and strategic plans.

### *1) PUBLIC UTILITIES COMMISSION. (SF CHARTER SEC. 8B.121.)*

- (a) Notwithstanding Charter section 4.112, the Public Utilities Commission (SFPUC or the Commission) shall have exclusive charge of the construction, management, supervision, maintenance, extension, expansion, operation, use and control of all water, clean water and energy supplies and utilities of the City as well as the real, personal and financial assets that are under the Commission's jurisdiction or assigned to the Commission under Section 4.132.
- (b) The Commission may enter into Joint Powers Agreements with other public entities in furtherance of the responsibilities of the Commission.
- (c) Except to the extent otherwise provided in this Article, the Commission shall be subject to the provisions of Charter sections 4.100 et seq. generally applicable to boards and commissions of the City and County of San Francisco.
- (d) The General Manager of the SFPUC shall have the authority to organize and reorganize the department. The General Manager shall adopt rules and regulations governing all matters within the jurisdiction of the department subject to section 4.102 as applicable.
- (e) Ownership or control of any public utility or any part thereof under the jurisdiction of the Commission may not be transferred or conveyed absent approval by the Commission and approval by a vote of the electors of the City at the election next ensuing not less than 90 days after the adoption of such ordinance, which shall not go into effect until ratified by a majority of the voters voting thereon. Voter approval shall not be required for sales or transfers of real property declared surplus to the needs of any utility by the Commission or to leases or permits for the use of utility real property approved by the Commission.

(Adopted November 2002)

### *2) GOALS AND OBJECTIVES RELATED TO WATER AND CLEAN WATER [WASTEWATER]. (SF CHARTER SEC. 8B.122.)*

The Commission shall develop, periodically update and implement programs to achieve goals and objectives consistent with the following:

- (1) Provide water and clean water services to San Francisco and water service to its wholesale customers while maintaining stewardship of the system by the City;
- (2) Establish equitable rates sufficient to meet and maintain operation, maintenance and financial health of the system;
- (3) Provide reliable water and clean water services and optimize the systems' ability to withstand disasters;
- (4) Protect and manage lands and natural resources used by the Commission to provide utility services consistent with applicable laws in an environmentally sustainable manner. Operate hydroelectric generation facilities in a manner that causes no reasonably anticipated adverse impacts on water service and habitat;
- (5) Develop and implement priority programs to increase and to monitor water conservation and efficiency system-wide;
- (6) Utilize state-of-the-art innovative technologies where feasible and beneficial;
- (7) Develop and implement a comprehensive set of environmental justice guidelines for use in connection with its operations and projects in the City;

- (8) Create opportunities for meaningful community participation in development and implementation of the Commission's policies and programs; and
- (9) Improve drinking water quality with a goal of exceeding applicable drinking water standards if feasible.

(Adopted November 2002)

### 3) *PLANNING AND REPORTING. (SF CHARTER SEC. 8B.123.)*

#### (a) Planning and Reporting

The SFPUC shall annually hold public hearings to review, update and adopt:

- (1) A Long-Term Capital Improvement Program, covering projects during the next 10-year period; including cost estimates and schedules.
- (2) A Long-Range Financial Plan, for a 10-year period, including estimates of operation and maintenance expenses, repair and replacement costs, debt costs and rate increase requirements.
- (3) A Long-Term Strategic Plan, setting forth strategic goals and objectives and establishing performance standards as appropriate.

The Capital Improvement Program and Long-Term Financial Plan shall serve as a basis and supporting documentation for the Commission's capital budget, the issuance of revenue bonds, other forms of indebtedness and execution of governmental loans under this Charter.

#### (b) Citizens' Advisory Committee

The Board of Supervisors, in consultation with the General Manager of the Public Utilities Commission, shall establish by ordinance a Citizens' Advisory Committee to provide recommendations to the General Manager, the SFPUC Commission and the Board of Supervisors.

(Adopted November 2002)

### 4) *WATER AND CLEAN WATER REVENUE BONDS. (SF CHARTER SEC. 8B.124.)*

Notwithstanding, and in addition to, the authority granted under Charter Section 9.107, the Commission is hereby authorized to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, 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 or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the SFPUC Commission.

Any legislation authorizing the issuance of revenue bonds (except for refunding bonds) under this section shall be subject to the referendum requirements of Section 14.102 of this Charter. The ordinance authorizing the issuance of such revenue bonds shall not become effective until 30 days after its adoption.

Notwithstanding any other provision of this Charter or of any ordinance of the City, the Board of Supervisors may take any and all actions necessary to authorize, issue and repay such bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds, subject to the following conditions:

#### (a) Certification by an independent engineer retained by the Commission that:

- (1) The projects to be financed by the bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and
- (2) That estimated net revenue after payment of operating and maintenance expenses will be sufficient to meet debt service coverage and other indenture or resolution requirements, including debt service on the bonds to be issued, and estimated repair and replacement costs.

- (b) Certification by the San Francisco Planning Department that facilities under the jurisdiction of the Commission funded with such bonds will comply with applicable requirements of the California Environmental Quality Act.

Except as expressly provided in this Charter, all revenue bonds may be issued and sold in accordance with state law or any procedure provided for by ordinance of the Board of Supervisors.

(Adopted November 2002)

#### 5) *RATES. (SF CHARTER SEC. 8B.125.)*

Notwithstanding Charter sections 2.109, 3.100 and 4.102 or any ordinance (including, without limitation, Administrative Code Appendix 39), the SFPUC shall set rates, fees and other charges in connection with providing the utility services under its jurisdiction, subject to rejection within 30 days of submission by resolution of the Board of Supervisors. If the Board of Supervisors fails to act within 30 days the rates shall become effective without further action.

In setting retail rates, fees and charges the Commission shall:

1. Establish 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, (including, without limitation, increases necessary to pay for the retail water customers' share of the debt service on bonds and operating expenses of any state financing authority such as the Regional Water System Financing Authority), and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice;
2. Retain an independent rate consultant to conduct rate and cost of service studies for each utility at least every five years;
3. Set retail rates, fees and charges based on the cost of service;
4. Conduct all studies mandated by applicable State and Federal laws to consider implementing connection fees for water and clean water facilities servicing new development;
5. Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable State and Federal laws;
6. Adopt annually a rolling 5-year forecast of rates, fees and other charges; and
7. Establish a Rate Fairness Board consisting of seven members: the City Administrator or his or her designee; the Controller or his or her designee; the Director of the Mayor's Office of Public Finance or his or her designee; two residential City retail customers, consisting of one appointed by the Mayor and one by the Board of Supervisors; and two City retail business customers, consisting of a large business customer appointed by the Mayor and a small business customer appointed by the Board of Supervisors.

The Rate Fairness Board may:

- i. Review the five-year rate forecast;
- ii. Hold one or more public hearings on annual rate recommendations before the SFPUC Commission adopts rates;
- iii. Provide a report and recommendations to the SFPUC Commission on the rate proposal; and
- iv. In connection with periodic rate studies, submit to the Public Utilities Commission rate policy recommendations for the SFPUC Commission's consideration, including recommendations to reallocate costs among various retail utility customer classifications, subject to any outstanding bond requirements.

These provisions shall be effective January 3, 2003 for the setting of retail rates, fees and charges related to the clean water system. If the voters approve bonds for the SFPUC's Capital Improvement Program at the November 5, 2002 election then the provisions of this section shall take effect on July 2, 2006 for the setting of retail rates, fees and charges related to the

water system. If the voters do not approve such bonds then this section will take effect on January 3, 2003.

(Adopted November 2002)

**6) *CONTRACTING AND PURCHASING. (SF CHARTER SEC. 8B.127.)***

Notwithstanding Charter Section 9.118 or any ordinance, the SFPUC shall have the sole authority to enter into agreements for the purchase of water; the sale of water to wholesale customers; and agreements necessary to implement Joint Powers Agreements with any wholesale water customer.

In order to promote labor stability and to ensure the Capital Improvement Program is completed expeditiously and efficiently, the SFPUC is authorized, to the extent legally appropriate, to enter into project labor agreements, with appropriate Building Construction and Trades Councils, covering significant capital projects.

**7) *BIENNIAL AND MULTI-YEAR BUDGETS. (SF CHARTER SEC. 9.101.)***

- (a) The Mayor shall submit to the Board of Supervisors each year a proposed biennial budget, ordinances and resolutions fixing wages and benefits for all classifications and related appropriation ordinances.
- (b) The proposed biennial budget shall include:
  - (1) Estimated revenues and surpluses from whatever sources, to the extent feasible, for the forthcoming two fiscal years and the allocation of such revenues and surpluses to various departments, functions and programs to support expenditures. Proposed expenditures may include such necessary and prudent reserves as recommended by the Controller; and
  - (2) A summary of the proposed biennial budget with a narrative description of priorities, services to be provided and economic assumptions used in preparing the revenue estimates.
- (c) The proposed biennial budget and appropriation ordinances shall be balanced for each fiscal year so that the proposed annual expenditures of each fund do not exceed the estimated annual revenues and surpluses of that fund. If the proposed budget contains new revenue or fees, the Mayor shall submit to the Board of Supervisors the relevant implementing ordinances at the same time the biennial budget is submitted.
- (d) Until the appropriation ordinances are adopted by the Board of Supervisors, the Mayor may submit to the Board of Supervisors revisions to the proposed biennial budget, appropriation ordinances, and ordinances and resolutions fixing wages and benefits.  
The Mayor may instruct the Controller to prepare the draft appropriation ordinances.
- (e) The Mayor shall file a copy of the proposed biennial budget at the Main Library and shall give notice of the budget summary, including making copies available to the public. Upon final approval of the budget by both the Board and the Mayor, notice shall be given of the final budget summary.
- (f) The Board of Supervisors by ordinance may require multi-year budget plans and other budget planning strategies to be performed by the several departments and offices of the City and County.
- (g) No later than February 1 of any even-numbered fiscal year, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years. With respect to the designated City departments and offices, the Board will not adopt a new budget for the second fiscal year of such fixed budgetary cycle or cycles, except as provided in subsection (h), below. But the City shall adjust the biennial budget for the second year of any fixed budget cycle if certain conditions exist, using the following process:
  - (1) If, during the first year of any fixed budgetary cycle, the Controller projects that the City will experience significant increases or decreases in revenues or expenditures during the second year of such budgetary cycle, the Controller shall submit a report to the Mayor and the Board of Supervisors identifying those increases or decreases.

- (2) The Mayor shall prepare and submit to the Board of Supervisors a proposed amendment to the biennial budget responding to the Controller's report. The Board may approve or amend the Mayor's proposed budget amendment subject to the limitations that apply to the approval of the budget in Section 9.103. The Mayor's proposed budget amendment shall be deemed approved by operation of law unless the Board finally adopts an amendment to the biennial budget on second reading no later than July 15.
- (3) The Board's resolution declaring that an upcoming budgetary cycle or cycles shall be fixed, shall include a definition of the term "significant increases or decreases in revenues or expenditures," a deadline for the Controller's submission of a report identifying such increases or decreases, and a deadline for the Mayor to submit to the Board a proposed amendment to the biennial budget in response to the Controller's report.
- (h) Nothing in this section shall limit the ability of the Mayor or a member of the Board of Supervisors to introduce at his or her discretion an amendment to a biennial budget at any time during the budgetary cycle.

(Amended by Proposition A, Adopted November 5, 2009)

#### 8) *REVENUE BONDS. (SF CHARTER SEC. 9.107.)*

The Board of Supervisors is hereby authorized to provide for the issuance of revenue bonds. Revenue bonds shall be issued only with the assent of a majority of the voters upon any proposition for the issuance of revenue bonds, except that no voter approval shall be required with respect to revenue bonds:

1. Approved by three-fourths of all the Board of Supervisors if the bonds are to finance buildings, fixtures or equipment which are deemed necessary by the Board of Supervisors to comply with an order of a duly constituted state or Federal authority having jurisdiction over the subject matter;
2. Approved by the Board of Supervisors prior to January 1, 1977;
3. Approved by the Board of Supervisors if the bonds are to establish a fund for the purpose of financing or refinancing for acquisition, construction or rehabilitation of housing in the City and County;
4. Authorized and issued by the Port Commission for any Port-related purpose and secured solely by Port revenues, or authorized and issued for any Airport-related purpose and secured solely by Airport revenues;
5. Issued for the purposes of assisting private parties and not-for-profit entities in the financing and refinancing of the acquisition, construction, reconstruction or equipping of any improvement for industrial, manufacturing, research and development, commercial and energy uses or other facilities and activities incidental thereto, provided the bonds are not secured or payable from any monies of the City or its commissions;
6. Issued for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the SFPUC Commission, when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors;
7. Approved and authorized by the Board of Supervisors and secured solely by an assessment imposed by the City;
8. Issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation;

Except as expressly provided in this Charter, all revenue bonds may be issued and sold in accordance with state law or any procedure provided for by ordinance.

(Amended November 2001)

9) *LEASE FINANCING. (SF CHARTER SEC.9.108.)*

The City and County may enter into lease financing agreements only with the assent of the majority of the voters voting upon any proposition for the authorization of the lease financing. As used in this section, lease financing shall mean any lease or sublease made between the City and County and any public agency or authority, a nonprofit corporation or a retirement system for the purpose of financing the acquisition, construction or improvement by the City and County of real property or equipment.

The requirements of this section do not apply to:

1. Any lease financing which was approved in fact or in principle by a resolution or ordinance adopted by the Board of Supervisors prior to April 1, 1977; provided, that if the resolution or ordinance approved the lease financing only in principle, the resolution or ordinance must describe in general terms the public improvements or equipment to be financed; or
2. The amendment or the refunding of a lease financing which is expected to result in net savings in rental payments to the City and County on a present value basis, calculated as provided by ordinance; or
3. Lease financing involving a nonprofit corporation established for the purpose of this subsection for the acquisition of equipment, the obligations or evidence of indebtedness with respect to which shall not exceed in the aggregate at any point in time a principal amount of \$20 million, such amount to be increased by five percent each fiscal year commencing with fiscal year 1990-1991; provided, however, that prior to each sale of such obligations or evidence of indebtedness, the Controller certifies that in his or her opinion the net interest cost to the City will be lower than other financings involving a lease or leases.

10) *REFUNDING BONDS. (SF CHARTER SEC. 9.109.)*

The Board of Supervisors is hereby authorized to provide for the issuance of bonds of the City for the purpose of refunding any general obligation or revenue bonds of the City then outstanding. No voter approval shall be required for the authorization, issuance and sale of refunding bonds, which are expected to result in net debt service savings to the City on a present value basis, calculated as provided by ordinance.

11) *MISSION-DRIVEN BUDGET. (SF CHARTER SEC. 9.114.)*

Each departmental budget [including SFPUC] shall describe each proposed activity and the cost of that activity. In addition, each department shall provide the Mayor and the Board of Supervisors with the following details regarding its budget:

1. The overall mission and goals of the department;
2. The specific programs and activities conducted by the department to accomplish its mission and goals;
3. The customer(s) or client(s) served by the department;
4. The service outcome desired by the customer(s) or client(s) of the department's programs and activities;
5. Strategic plans that guide each program or activity;
6. Productivity goals that measure progress toward strategic plans;
7. The total cost of carrying out each program or activity; and
8. The extent to which the department achieved, exceeded or failed to meet its missions, goals, productivity objectives, service objectives, strategic plans and spending constraints.

Departmental budget estimates shall be prepared in such form as the Controller, after consulting with the Mayor, directs in writing.

(Amended by Proposition A, Adopted November 5, 2009)

## *12) UTILITY REVENUES AND EXPENDITURES. (SF CHARTER SEC. 16.103.)*

- (a) Receipts from each utility operated by the Public Utilities Commission shall be paid into the City and County treasury and maintained in a separate fund for each such utility. Appropriations from such funds shall be made for the following purposes for each such utility in the order named:
  - (1) For the payment of operating expenses, pension charges and proportionate payments to such compensation and other insurance and accident reserve funds as the Commission may establish or the Board of Supervisors may require;
  - (2) For repairs and maintenance;
  - (3) For reconstruction and replacements as hereinafter described;
  - (4) For the payment of interest and sinking funds on the bonds issued by the Public Utilities Commission pursuant to this charter;
  - (5) For extensions and improvements; and
  - (6) For a surplus fund.

For any utility with outstanding bonds for which the indenture requires different payment priorities, the bond priorities will control over the priorities set forth in this section.

- (b) For the purpose of providing funds for reconstruction and replacements due to physical and functional depreciation of each of the utilities under the jurisdiction of the Commission, the Commission must create and maintain a reconstruction and replacement fund for each such utility, sufficient for the purposes mentioned in this section, and in accordance with an established practice for utilities of similar character, which shall be the basis for the amount necessary to be appropriated annually to provide for said reconstruction and replacements.
- (c) If, at the end of any fiscal year, the Controller certifies that excess surplus funds of a utility exist, from hydropower assets or water or clean water assets in excess of 25 percent of the total expenditures of such utility in the previous fiscal year for costs of operation, repair, maintenance and debt service coverage and required debt service reserves, the Public Utilities Commission may transfer that surplus revenue, in whole or in part, to any other utility system under the Commission's jurisdiction on the operative date of this section.
- (d) Any surplus revenue which the Public Utilities Commission unanimously finds is not required for utility purposes pursuant to sections (a) and (b) of this section may be transferred to the General Fund by the Public Utilities Commission with the concurrence of three-fourths of the Board of Supervisors upon making all of the following findings of fact and judgment:
  - (1) That a surplus exists or is projected to exist after meeting the requirements of this section;
  - (2) That there is no unfunded operating or capital program or required reserve that by its lack of funding could jeopardize bond ratings, health, safety, water supply or power production;
  - (3) That there is no reasonably foreseeable operating contingency that cannot be funded without General Fund subsidy; and
  - (4) That such a transfer of funds in all other respects reflects prudent utility practice.

The Commission shall make such findings having received reports and an affirmative recommendation from the General Manager and a public hearing, which shall have received no less than 30 days of public notice.

- (e) The provisions of subsection (c) above shall not be applied in a manner that would be inconsistent with the provisions of any outstanding or future indentures, resolutions, contracts or other agreements of the City and County relating to bonded indebtedness issued in connection with the utility, or with any applicable State or Federal laws.

(Amended November 2002)

## *13) ENVIRONMENTAL JUSTICE POLICY. (SFPUC Commission Resolution No. 09-0170.)*

The San Francisco Public Utilities Commission affirms and commits to the goals of environmental justice to prevent, mitigate, and lessen disproportionate environmental impacts of its activities on communities in all SFPUC service areas and to insure that public benefits are shared across all communities.



The SFPUC defines environmental justice as the fair treatment of people of all races, cultures, and incomes and believes that no group of people should bear a disproportionate share of negative environmental consequences resulting from the operations, programs, and/or policies of the SFPUC.

The SFPUC acknowledges that enforcement of environmental laws, rules, regulations, and best practices that apply to its resource supply, operations and delivery of water, wastewater, and power services is core to the fair treatment of the people we serve and the stewardship of our lands.

The SFPUC believes that everyone has the right to a job and reaffirms its commitment as an equal opportunity provider.

In application of this policy to SFPUC projects and activities, SFPUC staff shall:

- Develop and implement training in SFPUC environmental justice issues in conjunction with staff orientation and continuing education efforts.
- Recognize community need for employment through continuation and expansion of workforce development strategies, including green job opportunities in community historically disproportionately burdened by pollution.
- Identify new and continue to implement existing initiatives to avoid or eliminate disproportionate impacts of SFPUC decisions and activities in all service areas.
- Develop diverse and culturally appropriate communication strategies to ensure that stakeholders can participate in decisions and actions that may impact their communities.
- Work with stakeholders, including the SFPUC's Citizens Advisory Committee (CAC) and CAC Environmental Justice Subcommittee, to:
  - (a) Develop a concise checklist of environmental justice guidelines or best practices that may be useful in assessing how SFPUC actions are improving or can improve specific proposed SFPUC projects, in addition to the enforcement of applicable environmental laws, rules, regulations and the above standards.
  - (b) Identify SFPUC projects that best demonstrate the implementation of this policy and useful best practices.
  - (c) Identify SFPUC projects that may have additional environmental impacts on communities already affected by disproportionate environmental impacts and work to minimize those impacts.
  - (d) Continue to identify and partner with organizations in order to prioritize, establish and fund appropriate activities to improve environmental justice performance in communities already affected by disproportionate environmental impacts of SFPUC activities.

(Adopted October 13, 2009)

#### ***14) FUND BALANCE RESERVE POLICY. (SFPUC Commission Resolution No.10-0027.)***

The SFPUC will prudently manage operations in a manner that achieves and maintains high investment grade credit ratings, provides sufficient capacity to bridge shortfalls in cash flow and covers unanticipated expenditures, while at the same time reducing susceptibility to emergency rate increases due to revenue shortfalls and considering ratepayer impact and fairness. Consistent with this policy and the San Francisco Charter, the SFPUC will adopt budgets and establish rates that provide for adequate ratepayer protection in the form of unreserved, undesignated fund balance reserves for each utility operating fund under its jurisdiction.

Specifically, for the time period covered in the SFPUC's Charter-mandated, 10-Year Financial Plan, operating and capital plans, budgets and rates will be projected and proposed for adoption such that all bond indenture requirements are met or exceeded and that Operating Fund Balance Reserves, by the end of the 10-Year Financial Plan, meet one or more of the following:

- Total at least 15% annual revenues,
- Total at least 15% of annual expenditures,
- Result in Debt Service Coverage, on an Indenture Basis including fund balance reserves available to pay debt service, of at least 1.25 times.

In the event the fund balance reserves become greater than 25% of operating revenues or operating expenditures or exceed 2.00 times annual debt service coverage at the end of any fiscal year, the excess will be first considered for investment in:

- Rate stabilization reserves or the reduction of customer rates,
- One-time uses, which do not increase recurring operating costs, including the prefunding or coverage of debt service, and/or
- The establishment of or increase in, drought, emergency, litigation and rainy day reserve funds.

To timely track SFPUC progress in meeting the Operating Fund Balance Reserve Policy objectives, SFPUC Finance staff will present the measures outlined above as part of the Quarterly Budget Status Report to the Commission. The Operating Fund Balance Reserve Policy measures will also be reported as part of the annual update to the SFPUC's Charter-mandated, Ten-Year Financial Plan.

(Adopted February 11, 2010)

#### **15) COMMUNITY BENEFITS POLICY. (SFPUC Commission Resolution No.11-0008.)**

The San Francisco Public Utilities Commission affirms and commits to the goal of developing an inclusive and comprehensive community benefits program to better serve and foster partnership with communities in all SFPUC service areas and to ensure that public benefits are shared across all communities.

The SFPUC acknowledges its responsibility to develop a community benefits program that is intentional in its participation and support programs and projects that are designed to benefit the community, is centrally coordinated within the SFPUC, applies to all of SFPUC's operations and its activities in all SFPUC service areas, and which is sustainable, transparent, measurable, and accessible by stakeholders and SFPUC staff.

The SFPUC defines community benefits as those positive effects on a community that result from the SFPUC's operation and improvement of its water, wastewater and power services. The SFPUC seeks to be a good neighbor to all whose lives or neighborhoods are directly affected by its activities. The SFPUC has adopted a "triple bottom line" analysis to guide its decisions, balancing the SFPUC's economic, environmental and social equity goals, to promote sustainability and community benefits.

The SFPUC will devote sufficient resources and authority to SFPUC staff to achieve outcomes including:

- (a) Stakeholder and community involvement in the design, implementation and evaluation of SFPUC programs and policies;
- (b) Workforce development, including coordination of internal and external workforce programs and strategic recruitment, training, placement, and succession planning for current and future SFPUC staff to ensure a skilled and diverse workforce;
- (c) Environmental programs and policies which preserve and expand clean, renewable water and energy resources, decrease pollution, reduce environmental impacts, and reward proposals for innovative and creative new environmental programs;
- (d) Economic development resulting from collaborative partnerships which promote contracting with local companies, hiring local workers, and providing efficient, renewable energy at reduced costs;
- (e) Support for arts and culture related to the SFPUC's mission, goals and activities;
- (f) Educational programs;
- (g) Use of land in a way that maximizes health, environmental sustainability and innovative ideas;
- (h) Diversity and inclusion programs and initiatives;
- (i) In-kind contributions and volunteerism; and
- (j) Improvement in community health through SFPUC activities, services and contributions.

In application of this policy to SFPUC's operations, projects and activities, SFPUC staff shall:

- Develop processes to effectively engage stakeholders and communities in all SFPUC service areas.
- Develop and update a budget and staffing plan to implement and sustain the Community Benefits Program.

- Develop an implementation strategy to review, analyze and coordinate community benefits initiatives and integrate these initiatives into an agency-wide Community Benefits Program.
- Implement the Environmental Justice Policy that the SFPUC adopted on October 13, 2009.
- Develop and implement guidelines, metrics, and evaluation methodologies for existing and future community benefits initiatives.
- Develop diverse and culturally competent communication strategies to ensure that stakeholders can participate in decisions and actions that may impact their communities.
- Develop performance measures to evaluate the Community Benefits Program and report the results.
- Develop new and continue to implement existing initiatives to avoid or eliminate disproportionate impacts of SFPUC decisions and activities in all service areas.

(Adopted January 11, 2011)

### *16) RATES POLICY. (SFPUC Commission Resolution No. 12-0027.)*

The San Francisco Public Utilities Commission (SFPUC) is an enterprise department of the City and County of San Francisco. Our department receives no support from the San Francisco General Fund. Our cost of providing utility service is covered by ratepaying customers through:

- service based rates;
- fees and charges; and
- non-operating revenues (i.e. land leases)

Rates are set by the SFPUC Commission (Commission) pursuant to the authority and provisions set forth by the San Francisco Charter (Section 8B.125) and the Water Supply Agreement with our wholesale water customers.

All budgets, rates, fees, and charges presented by SFPUC staff to the Commission will conform to the SFPUC Rates Policy. Any deviations from this policy will be reported to the Commission along with their impact to ratepayers and departmental operations.

The four key principles of the SFPUC Rates Policy are:

1. Affordability
2. Compliance
3. Sufficiency
4. Transparency

#### **1. Affordability** – In order to keep rates affordable to the SFPUC’s retail and wholesale customers:

- Rates will be set such that retail and wholesale customers pay for benefits and services that they receive;
- Budgets will provide for fund balance reserves to mitigate cost and revenue uncertainties and stabilize rates to minimize large rate changes;
- Rate setting will include comparative information of neighboring and other California utilities;
- Capital and program decision making will be based on both annual and total life-cycle costs;
- Rate setting will include consideration of affordability for low-income customers.

#### **2. Compliance** – Rate-funded budgets will comply with:

- All applicable State and Federal laws;
- San Francisco Charter, ordinances, resolutions and other policy directives;
- Regulations and permits;
- Contract commitments;
- Bond covenants; and
- Other laws as well as Commission policies and objectives including, but not limited to:
  - Budget Law and Policies
  - Debt Law and Policies
  - Ratepayer Accountability

- Community Benefits Policy
  - Environmental Justice Policy
  - Sustainability and Resource Conservation
  - Land Use Policy
  - Local Hire Ordinance
  - Electric Resource Plan
  - Technology Adoption & Implementation Best Practices
  - Asset Management Best Practices
3. **Sufficiency** – Rates will be sufficient to recover the full cost of providing the SFPUC’s essential utility services and mission, including:
- Adopted levels of service for Water, Power and Sewer;
  - Adopted and best practice levels of service for asset Repair and Replacement to ensure the maintenance of assets in a state of good repair;
  - All anticipated operating and capital costs, including personnel costs changes and other operating cost inflation; and
  - Funding to carry out adopted Commission policies, including prudent reserves sufficient to mitigate unplanned rate changes, revenue uncertainty and operating contingencies for the duration of the rate adoption period.
4. **Transparency** – Rate making will be transparent and include:
- Open and timely public meetings and review of rate setting alternatives and timing;
  - Public information designed to provide clear explanation of rate changes and trends, including average bill impact illustrations;
  - A description of both operating and capital costs to ensure that ratepayers know the component costs of their utility service and related programs;
  - Rate-setting Oversight, including communications with the:
    - Customers, Retail and Wholesale,
    - Citizens’ Advisory Committee,
    - Rate Fairness Board,
    - Revenue Bond Oversight Committee,
    - San Francisco Public Utilities Commission,
    - Board of Supervisors,
    - Mayor’s Office.

(Adopted February 14, 2012)

**17) FRAMEWORK FOR LAND MANAGEMENT AND USE. (SFPUC Commission Resolution No. 12-0042.)**

By adoption of this Framework for Land Management and Use, the Commission is seeking to advance the analytical and decision-making process surrounding the administration of real estate assets under the San Francisco Public Utilities Commission’s (SFPUC) exclusive jurisdiction. Properties under the jurisdiction of the Commission shall first and foremost serve the mission of the SFPUC to provide our customers with high quality, efficient and reliable water, power, and sewer services in a manner that is inclusive of environmental and community interests, and that sustains the resources entrusted to our care.

In connection with the operation of its water, wastewater and power systems, the SFPUC has jurisdiction over a wide range of property types both inside and outside the City and County of San Francisco. In total, the SFPUC has jurisdiction over:

- 210 miles of water pipelines rights-of-way, owned in fee title or by easement;
- 280 miles of electrical transmission lines;
- 900 miles of sewer lines and 1200 miles of water distribution lines;

- Facilities including impounding and distribution reservoirs, dams, powerhouses, treatment plants, maintenance yards and warehouses, pump stations, tanks, electric substations, administration buildings, and various properties acquired for, or formerly used for these purposes;
- Tuolumne River and Bay Area Watersheds;
  - In the Tuolumne River Watershed, the SFPUC owns some land in fee but operates water and power facilities primarily under right-of-way easements granted by the United States under the Raker Act of 1913. Primary responsibility for managing these lands lies with the National Park Service and the United States Forest Service, as described in agreements with the SFPUC (below). The SFPUC coordinates with and assists the National Park Service in its management of the 459-square-mile Tuolumne River watershed and the 79-square-mile Eleanor Creek watershed located in Yosemite National Park; and similarly coordinates with and assists the Stanislaus National Forest in its management of the 114-square-mile Cherry Creek watershed located within the National Forest boundaries.
  - In the Bay Area (Alameda and Peninsula Watersheds), the SFPUC manages approximately 60,000 acres of land acquired by the City and County of San Francisco (City) primarily from the Spring Valley Water Company in 1930. The SFPUC manages these watershed lands pursuant to adopted Watershed Management Plans that incorporate policies for the purpose of protecting these watershed lands that surround the local water supply, to ensure a reliable and high quality drinking water for the Bay Area customers, and also address public use, secondary use, and acquisition and disposition of lands.
- Lake Merced Tract
  - Lake Merced is located in the southwest corner of San Francisco near Skyline and Lake Merced Boulevards. It consists of four inter-connected freshwater lakes: North Lake, South Lake, East Lake and Impound Lake that are fed by rain water and seepage from historic springs and creeks. Lake Merced is an emergency source of water for the City of San Francisco to be used for firefighting or sanitation purposes if no other sources of water are available. The San Francisco Recreation and Park Department manages the recreational areas of the Lake under a 1950 agreement with the SFPUC. The SFPUC manages the water aspects of the Lake.

#### **Existing Policies Related to Land Management**

The SFPUC has managed most of these lands for decades, and the Commission has established a broad range of policy guidance specifically for their use and administration, including:

- A. **Water Enterprise Environmental Stewardship Policy** adopted by the Commission in June 2006 to acknowledge responsibility for the protection of natural resources that affect or are affected by operation of the SFPUC water system. The Watershed and Environmental Improvement Program (WEIP) is an important Stewardship Policy implementation strategy – the WEIP will provide \$50 million over 10 years to protect and restore natural resources within SFPUC watershed lands, including the acquisition of easements and/or title to additional watershed lands for protection of source quality water.
- B. **Hetch Hetchy Watershed Protection 5-Year Agreement** with the National Park Service, initially adopted by the Commission in June 2005 and again as revised in August 2010, to meet federal and state criteria for source water protection instead of providing filtration. The Agreement sets priorities and schedules for water quality protection, environmental stewardship, and security activities in the Tuolumne River Watershed within Yosemite National Park by the Park Service using funding provided by Hetch Hetchy Water and Power.
- C. **Wild and Scenic River Management Plans.** The National Park Service is preparing a wild and scenic management plan for the Tuolumne River within the National Park, and is scheduled to release a draft plan for public comment in 2012. The US Forest Service completed their plan for the reach of the Tuolumne River in the Stanislaus National Forest in 1988.
- D. **Alameda Watershed Management Plan.** This comprehensive Plan thoroughly examines all aspects of land management in the Alameda Watershed, and was adopted by the Commission in 2000. The

primary goal of the Plan is the protection and enhancement of source water quality. The purpose of the Plan is to provide a policy framework for the SFPUC to make consistent decisions about the activities, practices, and procedures that are appropriate on Alameda Watershed lands. The Plan divides the watershed between the primary watershed (areas tributary to the SFPUC's drinking water sources) and the secondary watershed (areas downstream of drinking water intakes, primarily the Sunol Valley). The Sunol Valley Resource Management Element of the Plan guides the SFPUC's quarry leasing activities in Sunol Valley. Finally, the SFPUC is developing a 50-year habitat conservation plan to protect certain sensitive species in the SFPUC's Alameda Watershed lands while allowing operation, maintenance, repair and replacement of water supply facilities.

- E. **Peninsula Watershed Management Plan.** This comprehensive Plan thoroughly examines all aspects of land management in the Peninsula Watershed, and was adopted by the Commission in 2001. The primary goal of the Plan is the protection and enhancement of source water quality. The purpose of the Plan is to provide a policy framework for the SFPUC to make consistent decisions about the activities, practices, and procedures that are appropriate on Peninsula Watershed lands. The Peninsula Watershed is also covered in large part by two scenic easements administered by the United States Department of the Interior through the Golden Gate National Recreation Area. The scenic easements prohibit certain activities in the watershed and generally seek to preserve open space values.
- F. **Right-of-Way Encroachment Policy.** In 1999 the SFPUC adopted a Right-of-Way Encroachment Policy intended to safeguard the water, power and sewer utilities and other related appurtenances on rights-of-way through lands controlled by the SFPUC or the City. The Right-of-Way Encroachment Policy provides guidance for the types of secondary uses and legal arrangements that should be authorized in these situations. The Commission amended the policy in 2007 to further address situations raised by the construction of projects under the Water System Improvement Program regarding permitted uses, or encroachment on the Rights-of-Way, by adjacent property owners.
- G. **Vegetation Management Policy.** This Policy was adopted by the Commission in 1999 to establish guidance for secondary uses of the Right-of-Way with respect to permissible vegetation incorporated in third party landscaping and gardening uses. For example, the Policy generally prohibits the planting of trees on the right-of-way to protect the pipelines. The Commission also adopted site specific mitigation measures when it approved the various WSIP pipeline improvement programs (e.g. Bay Division, San Joaquin Pipeline) that specify the types of permissible vegetation for use in post-construction restoration of the right-of-way.
- H. **Real Estate Services Guidelines.** Currently there are approximately 100 properties under lease and another approximately 300 properties where permits are issued. Leases and permits for certain uses on SFPUC lands are managed by SFPUC Real Estate using the Real Estate Services Guidelines. These Guidelines, and the Commission approved forms of specific lease or permit agreements, reflect policies for the protection of land and facilities, as well as the SFPUC's financial interests.
- I. **Environmental Mitigation and Monitoring Plans.** The Commission, in approving the Water System Improvement Program, projects within the WSIP, and other construction projects by all SFPUC enterprises, also has adopted environmental mitigation and monitoring plans or approved project related regulatory permit conditions that may include provisions for the protection of habitat, cultural resources, and water quality related to that specific project or property under construction.
- J. **MOU/MOAs.** The Commission has authorized Memorandum of Understanding or Agreement (MOU/MOA) with other governmental agencies, or city departments, concerning certain properties that incorporate policies for the use and management of those SFPUC lands. For example, there is an MOU between SFPUC and the Recreation and Park Department for the use and management of the Reis Tract, a pipeline right-of-way in Visitacion Valley, relating to surface improvements for community use. Another MOU with San Mateo County addresses use and access to the Sawyer Camp Trail System. An MOU between SFPUC and the Recreation and Park Department for the Lake Merced Watershed is under development and review by the Commission as a replacement for the 1950 resolutions of the two departments that generally assign responsibility for managing surface recreational uses to the Recreation and Park Department.

K. **Policies of General Applicability.** Many other Commission policies of general applicability also guide the administration and use of SFPUC lands – including Community Benefit, Environmental Justice, Sustainability, and Stormwater Management Plan.

The Board of Supervisors has also established policies applicable to the management of all City owned properties, including the Recreation and Open Space Element of the San Francisco General Plan, Green Building Ordinance, Pesticide Ordinance, Graffiti Removal, among others. In addition, the Charter and San Francisco Administrative Code contain policies and procedures governing land acquisition, disposition, leases and permits.

### **Focus on Land Management Guidance for Secondary Uses, Acquisitions and Disposition of SFPUC Lands**

As detailed above, the Commission has established a number of land management policies, and nothing in this Framework is intended to amend or revise those policies currently in place. The focus of this document is on SFPUC land management in three key areas for lands not otherwise subject to specific policy guidance (e.g. Alameda and Peninsula Watershed Management Plans): I) Leases or Permits for Secondary Uses on SFPUC Land, II) Disposition of SFPUC owned Lands; and III) Acquisition of Land by the SFPUC.

#### **I. Leases or Permits for Secondary Uses on SFPUC Land**

The primary use of SFPUC land is for the delivery, operation, maintenance and protection of its water, power, and sewer systems. Secondary uses of lands devoted to these purposes may be permitted if those uses do not in any way interfere with, endanger or damage existing or future operations or the security of those systems, and there is a benefit to the SFPUC in permitting that use.

Due to the diverse nature of the SFPUC properties, each property must be evaluated individually to determine the appropriateness for secondary uses. To determine if a secondary use is allowed, the SFPUC staff will evaluate the use in light of the following additional economic, environmental, and community considerations.

#### **ECONOMIC: Leases or permits for secondary uses may be allowed when:**

1. There is no other primary SFPUC use for which the land is required at the time, and the use is compatible with the existing or anticipated future SFPUC use of the land;
2. Fair market rent or fees are received, except as provided in the SFPUC Real Estate Services Guidelines (“RES Guidelines”), and such use is at least revenue neutral;
3. The terms of the lease or permit are consistent with the SFPUC RES Guidelines, including provisions related to the forms of agreements approved by the Commission;
4. The use is subject to conditions that preclude improvements that would adversely affect the SFPUC’s ongoing use of the land;
5. The use does not displace secondary uses that are more consistent with the SFPUC’s mission and policies;
6. The use requires no ongoing maintenance by the SFPUC, unless specifically described and agreed to in the lease or permit;
7. The use creates no new legal liability for the SFPUC;
8. The use does not rely on use of any other SFPUC land to function; and
9. Following the secondary use, the SFPUC may use the parcel for other SFPUC uses or purposes, without remediation, in a timely manner.

#### **ENVIRONMENTAL: Secondary uses may be allowed when:**

1. The use is consistent with existing SFPUC policies;
2. The use is subject to appropriate environmental review so that the environmental effects of the use, if any, can be considered and mitigated to the extent feasible; and
3. The use does not pose unacceptable health or safety risks for SFPUC employees or others on or near the land.

COMMUNITY: Secondary uses may be allowed when:

1. The use is consistent with the SFPUC's Environmental Justice and Community Benefit policies and objectives;
2. The applicant is required to obtain all required permits and authorizations from the local jurisdiction;
3. If the proposed use involves a change of use from the existing condition, the applicant is first required to obtain SFPUC authorization to seek any necessary approvals of the local jurisdiction, and approval of the permit or lease is subject to SFPUC first considering the adjacent community's or local jurisdiction's concerns; and
4. The use does not hamper emergency access to any surrounding SFPUC parcels.

**II. Disposition of SFPUC Lands**

In certain instances, land owned by the SFPUC may no longer serve a primary utility purpose, nor an anticipated future purpose, for use by any of the utilities under the SFPUC jurisdiction (water, sewer, power). Parcels that may be subject to a determination by the Commission that the property in question is surplus to the needs of any utility may be sold or transferred to another city department. The sale or transfer of surplus property must achieve fair market value compensation for the benefit of ratepayers, and is subject to bond covenant provisions protecting the bondholders' security for SFPUC indebtedness. Sales of property and interdepartmental jurisdictional transfers are also subject to Board of Supervisors approval, and that of the receiving department, consistent with the City Charter and ordinances.

The SFPUC's ratepayers bear the costs of significant seismic and operational upgrades to the SFPUC's utility systems. Revenues realized from the sale of surplus assets reduce the need to recover a comparable amount of funding from ratepayers through utility rates. Accordingly, the sale or transfer of a particular parcel under the jurisdiction of the SFPUC should be preferred over retention in instances where (i) such parcel is not currently being used for a primary utility purpose, (ii) staff has determined that there is not a reasonably foreseeable utility purpose for which the parcel would be uniquely suited by any of the utility enterprises under SFPUC jurisdiction, (iii) the sale or transfer of such parcel would achieve a financial return consistent with SFPUC's fiduciary duties to ratepayers and bondholders, and (iv) sale or transfer of such parcel would not result in the permanent loss of a significant asset to the cultural history of the City and County of San Francisco and the SFPUC. Additionally, the following economic, environmental, and community criteria should be considered:

ECONOMIC CRITERIA: Land may be sold or transferred when:

1. The sale or transfer does not jeopardize the future use or potential sale of functionally related and/or adjoining SFPUC land;
2. The sale or transfer will result in savings of operational costs expended to manage the property; and
3. The sale or transfer does not result in a change of use of the property that would increase SFPUC exposure to liability related to conditions in the soil or structures that are not warranted by the return to SFPUC from the sale or transfer.

ENVIRONMENTAL CRITERIA: Land may be sold or transferred when:

1. The sale or transfer is subject to appropriate environmental review, so that the SFPUC can consider the environmental effects, if any, and determine whether the sale or transfer is consistent with existing SFPUC policies.

COMMUNITY CRITERIA: Land may be sold or transferred when:

1. The sale or transfer is evaluated under SFPUC Community Benefit and Environmental Justice policies and objectives;
2. The sale or transfer would not significantly adversely affect the implementation of an adopted resource agency plan for the area;
3. The sale would not increase the risk of loss, injury or death to SFPUC employees or others on or near the parcel; and
4. Use of the land sold will not result in activities creating a nuisance.



### III. Property Acquisitions

From time to time the Commission actively seeks out or is presented with opportunities to acquire or exchange additional land, or an easement, that would be beneficial to the SFPUC's utility operations or objectives. In such instances staff shall perform an evaluation of the utility need or objectives that would be addressed by such proposed acquisition, including whether there are other feasible alternatives that would also achieve comparable objectives while mitigating the costs or liabilities associated with the property acquisition opportunity. Staff shall present the result of such evaluation to the Commission in connection with its consideration of the acquisition. The acquisition of property is also subject to approval by the Board of Supervisors, following a determination by the Planning Commission as to the consistency of such acquisition with the San Francisco General Plan. The following additional economic, environmental, and community criteria should be considered when making the decision to acquire property.

ECONOMIC CRITERIA: Land, or easements, may be acquired or exchanged when:

1. Acquisition of the land or easement provides additional resources to further the SFPUC objectives;
2. The price does not exceed fair market value;
3. Acquisition of the land or easement would mitigate against future SFPUC costs, for instance, where SFPUC utilities are located on property owned by third parties and thus subject to displacement;
4. Current uses of the land are not compatible with adjoining SFPUC land usage, in a manner that interferes with SFPUC utility objectives; and
5. A proposed exchange of surplus property for lands to be acquired can reduce the need for an appropriation of funding derived from ratepayers for the acquisition.

ENVIRONMENTAL CRITERIA: Land may be acquired when:

1. The acquisition is subject to appropriate environmental review, so that the SFPUC can consider the environmental effects, if any, and determine whether the acquisition of the land or easement furthers the SFPUC's existing policies (e.g., Water Enterprise Environmental Stewardship Policy, Alameda and Peninsula Watershed Management Plans);
2. There is no unwarranted site remediation the SFPUC would be required to undertake;
3. The acquisition and use can be found to be consistent with any adopted resource agency plan for the area; and
4. The acquisition enables the SFPUC to secure one or more resource agency permits for the construction or operation of utility facilities.

COMMUNITY CRITERIA: Land may be acquired when:

1. The acquisition is evaluated under SFPUC Community Benefit and Environmental Justice policies and objectives.

(Adopted March 13, 2012)

### 18) TECHNOLOGY POLICY. (SFPUC Commission Resolution No. 12-0165.)

The SFPUC is committed to high quality, sustainable, reliable, around-the-clock delivery of Water, Power, and Sewer utility service to our customers and ratepayers. To ensure customer service excellence that takes advantage of innovative technologies, consistent with the Commission's Budgetary and Ratepayer Assurance policies, practices and endorsed Level of Service (LOS) goals, we will consider both proven as well as explore new and emerging technologies. Beneficial technologies will be identified, researched, and analyzed, prior to proposal for full-scale implementation, where ratepayer benefit is demonstrated, along with consistency with Triple Bottom Line principles. The Technology Policy will both guide the management of and be implemented for operations and capital programs, covering physical plant assets, facilities, systems, processes and procedures. The key principles and criteria shall include:

#### Economic Principles & Criteria

- Manage risk through the timely adoption of proven technologies that meet the LOS goals;
- Consider small-scale demonstration projects and pilot studies prior to any large-scale proposals, when previously unproven technologies are involved;
- Assess compatibility of new technologies with existing facilities, and operations and maintenance capabilities;
- Assess costs using a total cost approach including transition costs and timing, capital cost, and projected long-term life cycle costs; and
- Explore grant funding for demonstration projects and larger-scale projects alike, including strategic partnerships with governmental and non-governmental agencies.

#### Environmental Principles & Criteria

- Seek technologies that optimize sustainability and the conservation of natural resources;
- Consider long-term environmental impacts of proposed technologies, including the mitigation of and adaptation to climate change and the wise use of our resources; and
- Seek technologies that achieve regulatory compliance with all public health, environmental standards, and operational permits.

#### Social Principles & Workforce Development Criteria

- Evaluate technology alternatives for their contribution to our Community Benefits Policy, including local jobs creation and retention in our service areas and community vitality, and to our Environmental Justice Policy;
- Provide staff development opportunities to ensure the SFPUC has well-trained and qualified staff to evaluate, implement and operate any new technology;
- Collaborate and partner with other utility professionals and organizations in the research, joint demonstration projects, and assessments related to new technologies; and
- Make the review and monitoring of new technologies a continuous part of staff development and job performance planning.

#### Leadership Principles & Transparency Criteria

- Identify the technologies in which the SFPUC has an interest;
- Invest staff and resources in innovative technology research, training, and industry initiatives;
- Participate in pilot studies to test and develop promising emerging technologies;
- Establish clear responsibility for keeping abreast of emerging technologies within each Enterprise and Bureau;
- Document pilot study findings including costs, limiting factors, anticipated short-term and long-term developments, benefits and applicability;
- Include a technology update for each Enterprise and Bureau as part of the capital planning and budget process;
- Incorporate a peer review process for critical technologies; and
- Provide a mechanism for submission of public comment and information requests, along with timely responsiveness and feedback.

(Adopted September 11, 2012)

### *19) RATEPAYER ASSURANCE POLICY. (SFPUC Commission Resolution No. 12-0196.)*

#### **PURPOSE**

The Ratepayer Assurance Policy provides assurance to ratepayers that their money will be spent wisely, and serves as guidance to the SFPUC General Manager and staff of the Commission's expectations regarding the wise use of ratepayer funds. SFPUC departments are ratepayer, self-supported enterprises that receive no support from San Francisco's General Fund. Our Water, Power & Sewer Enterprises are supported by service-based rates, fees and charges, as well as non-operating revenues such as rental income from land leases. Accountability to ratepayers is a central tenet that guides the management of

our self-supported enterprise, a tenet always considered when using any ratepayer monies to support critical stewardship of our utility systems and the management of our resources. Ratepayer-related SFPUC good management practice is guided by two Commission-adopted policy cornerstones: 1) the Rates Policy and 2) this Ratepayer Assurance Policy. We recognize that SFPUC revenue comes from the hard-earned money of our ratepayers and that we take seriously our commitment to provide affordable and reliable Water, Power and Sewer services.

Ratepayer resources pay for : 1) what we do, i.e. our essential-service water, power and sewer utilities, 2) when we do it, i.e. our 24/7 reliability, and 3) how we do it, through our commitment to sustainability and adherence to the Commission's Environmental Justice and Community Benefits policies. Some of these factors are mandated by federal, state or local law; others are guided by local policies established through San Francisco's public process and reflect our commitments to environmental and sustainability best practices. Some factors are also the product of managerial decision making and their recommendations to prioritization and timing of key capital improvements, to ensure reliability, and financial impacts, to ensure ratepayer affordability. This policy is particularly focused toward the latter factors and is intended to provide ratepayers with the assurance that management recommendations and Commission decisions are and will be made in the ratepayers' best interest. This policy promotes accountability and transparency by requiring a biannual, independently developed report card through which ratepayers and the Commission can see verifiable results that the ratepayer safeguards and policies are being implemented and yielding successful outcomes. The report card shall address the following:

#### **Mission Management**

The SFPUC must comply with all San Francisco Charter requirements, including the development of our budget, as well as our long-term capital, financial and strategic plans. This includes mission-driven budgets for SFPUC Enterprises which are timely considered, adopted and published. It is the policy of the Commission that the mission statement is reviewed early in the budget process and that any changes to the mission are adopted by the Commission prior to the cost of such changes being budgeted. It is further the policy of the Commission that each budget presented to the Commission contain an analysis of mission changes, in both function and degree, funded by the proposed budget.

#### **Personnel Management**

Personnel costs are driven by how we staff our operations and organize our workforce; this includes the number of staff and the position classifications we hire. Compensation and benefit rates are determined by labor agreements, the Civil Service Commission, the City's Retirement Board and the City's Health Service System. Position classifications and hiring authorizations include a review process that is governed by the Civil Service Commission as well as the City's Human Resources Department to ensure our hiring is appropriate for the work assigned.

In order to adjust to changing needs, and in order to capture productivity savings made possible by technology advances consistent with the Commission's Technology Policy, it is the policy of the Commission to meet new position needs by reassignment of existing positions or substituting new positions for existing ones wherever possible. The Commission will also review all proposed position changes in every budget it considers in order to assure compliance with this policy.

In order to encourage high quality, high morale, high satisfaction and economic fairness in the workforce, it is the policy of the Commission to structure its workforce to ensure that customer service is both effectively and efficiently achieved, while at the same time job content is fulfilling and compensation is just.

#### **Asset Management**

As a utility, a good portion of the SFPUC budget is allocated for the acquisition, construction, repair and replacement of critical, physical assets. Purchasing, construction and the contracting for repair services are subject to extensive legal and administrative regulation. Asset costs are ultimately driven by the assets acquired and the way in which they are maintained. In order to minimize the utility cost of service over time, it is the policy of the Commission to acquire, design, construct, repair and replace assets such that their life cycle cost is minimized, and to fund such activities accordingly.

It is the policy of the Commission to utilize vehicle pools and public transit wherever feasible and to acquire energy efficient and Green House Gas-free vehicles whenever practicable to do so. All vehicle purchases should be reviewed and approved through the budget process and be consistent with City policies as well as best practices promulgated by the General Manager.

It is the policy of the Commission, promulgated by the General Manager, to assure that assets (including, but not limited to, vehicles, computers and other electronic devices) assigned to individuals are selected and assigned to meet utility needs in a cost effective manner and that they are used for business purposes that benefit the ratepayers.

It is the policy of the Commission to support the development of promising technologies, including the consideration of prudent demonstration projects, and to implement proved technologies that will ensure utility reliability, performance effectiveness, cost minimization, and strive toward continued environmental impact improvements and the sustainability of our utility operations.

### **Sustainability**

It is the policy of the Commission to provide workplaces that are functional, economical, safe, secure, efficient and environmentally sustainable. Workspaces should be designed to facilitate the efficient use of our utility resources, including water, power and wastewater, as well as encourage recycling of waste products, and the promotion of environmentally sustainability practices such as ride-sharing and the use of public transportation.

### **Operating Cost Containment**

To the extent that operating costs are determined by PUC actions and choices, it is the policy of the commission to limit operating cost increases, exclusive of debt service and cash funded capital investment, to no more than the cost of inflation. Any budget that increases the operating budget above this level will be supported by findings of necessity, adopted by the commission, that detail the specific reasons and needs for increases above the rate of inflation.

### **Report Card**

The elements noted above shall be reviewed at least biannually as part of the budget cycle and recorded in an independently verified Ratepayer Assurance Report Card.

(Adopted October 23, 2012)

## ***20) DEBT MANAGEMENT POLICIES AND PROCEDURES. (SFPUC Commission Resolution No. 13-0050.)***

### **I. Scope and Application**

The SFPUC has established these Debt Management Policies and Procedures for debt financings associated with the Water, Wastewater and Power Enterprises. These Policies are intended to enable the SFPUC to effectively manage its debt issuance and debt management practices. To the extent that any of the Policies contained herein conflict with the terms and conditions of the existing or subsequently adopted SFPUC legal requirements or agreements, such legal requirements or agreements will control. These Policies will be reviewed regularly, and revised or amended, as appropriate or desirable, with Commission approval.

This policy shall govern the issuance and management of all bonds and other forms of indebtedness of the SFPUC, together with any credit, liquidity, or other security instruments and agreements that may be executed in connection with the issuance of bonds and other forms of indebtedness (“Bonds”).

These policies will be on file with the Commission, SFPUC’s Finance Department (Financial Planning Group), the Public Utilities Commission Revenue Bond Oversight Committee (RBOC) and posted on the website of the SFPUC ([www.sfwater.org](http://www.sfwater.org)) with copies delivered to the Office of Public Finance (OPF), the City Treasurer, the City Controller, and the Clerk of the Board of Supervisors (BOS).

## II. SFPUC's Debt Management Mission

SFPUC's debt management mission is to serve, within the financial objectives and parameters established by the Commission, the capital financing needs of the respective enterprises in a cost effective, risk-appropriate and flexible manner, through the implementation of sound financial decision-making and the use of prudent debt management practices.

## III. Debt Management Objectives

- a. Finance capital projects of SFPUC's enterprises in a timely and cost-effective manner.
- b. Manage debt effectively within Commission objectives and parameters.
- c. Achieve and maintain the highest practicable credit ratings to minimize total borrowing costs of SFPUC debt.
- d. Retain financial flexibility.
- e. Maintain compliance with all relevant laws, reporting, and disclosure requirements.

## IV. Types and Purposes of Debt

The SFPUC may issue debt to finance the acquisition and/or construction of capital improvements, unless otherwise decreed by court order or adjudicated settlement. Debt financings are not to be used to fund SFPUC operating costs.

- a. SFPUC revenue bonds are secured by a pledge that the rates of the applicable enterprise will generate net revenues sufficient to pay the principal of and interest on indebtedness.
- b. The SFPUC may issue the following types of taxable or tax-exempt debt:
  - i. Fixed rate bonds - long-term securities with serial and term maturities. Interest rates are determined when the bonds are sold and are fixed to maturity.
  - ii. Fixed rate notes - securities with short-term maturities (i.e. 1 to 5 years). Interest rates are determined when the notes are sold and fixed to maturity.
  - iii. Variable rate bonds - long-term securities that bear interest at variable rates adjusted at agreed upon intervals, such as daily, weekly or monthly. The holder of the variable rate security may be allowed to "put" the security to the SFPUC or to a liquidity provider retained by the SFPUC.
  - iv. Commercial paper - short-term (1-270 days) security with fixed interest rates. Customarily, commercial paper is secured by a junior pledge of net revenues, a letter of credit, or a liquidity facility. Commercial paper is designed to provide flexible, low-cost financing for capital projects and will be ultimately refunded with the issuance of long-term indebtedness.
  - v. Refunding bonds - issued to realize debt service savings, or for other debt restructuring purposes. Absent significant non-economic factors, the Commission's policy is that refunding transactions should produce aggregate net present value debt service savings of at least 3% of the par value of the refunded bonds, calculated using the refunding issue's true interest cost (TIC) as the discount rate.
  - vi. State Revolving Fund (SRF) Loan program –
    1. Managed by the California Water Resources Control Board, SRF loans provide alternative capital financing for certain facilities of the Wastewater Enterprise. The lien status will be determined at the time such loans are considered.
    2. Managed by the California Department of Public Health, SRF loans provide alternative capital financing for certain facilities of the Water Enterprise. The lien status will be determined at the time such loans are considered.
  - vii. Tax Credit Financings
    1. Clean Renewable Energy bonds (CREBs) – no- or low-interest bonds administered by the Federal government to finance renewable energy projects of the Power Enterprise. CREBs are part of the 2009 American Reinvestment and Recovery Act (ARRA) legislation designed to stimulate state and local government capital project construction and improvements.
    2. Qualified Energy Conservation Bonds (QECCBs) – also part of 2009 ARRA, this program authorized local communities to use some or all of their QECCB allotment for

- funding municipal solar and energy efficiency projects, including capital expenditures of the Power Enterprise that reduce energy consumption on publicly-owned buildings by at least 20%, and implementing green community programs.
- viii. Build America Bonds (BABs) – also part of the 2009 ARRA, this program allows state and local governments to issue taxable bonds for capital projects and to receive a new direct federal subsidy payment for a portion of their borrowing costs. Authorization for this program expired on December 31, 2010.
- ix. Capital Lease Financing – equipment or facility lease financing as allowed by the Charter and Administration code.

## V. Debt Financing Authorization

### a. Charter

- i. Section 8B.124 Revenue Bonds (Proposition E, approved by voters November 2002): Authorizes the SFPUC to issue revenue bonds or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities when authorized by ordinance approved by a two-thirds vote of the BOS.
  - 1. Required Certification: Bonds issued against Prop E require the certification of a Qualified Independent Consultant that estimated net revenues of the applicable enterprise will sufficiently meet debt service coverage and other Indenture requirements, as well as certification from an Independent Engineer that the projects to be financed by the bonds meet utility standards.
- ii. Section 9.107 Revenue Bonds (Proposition A, approved by voters November 2002): Authorizes the SFPUC, subject to BOS approval, to issue up to \$1.628 billion in revenue bonds or other forms of indebtedness to finance the acquisition and construction of improvements to the City's water system.
- iii. Section 9.107(8) Revenue Bonds (Proposition H, approved by voters November 2001): Authorizes the issuance of revenue bonds to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.
- iv. Section 9.109 Refunding Bonds: Authorizes the issuance of refunding bonds that achieve aggregate net debt service savings on a present value basis without voter approval. Refunding bonds must be approved by the BOS.
  - 1. Water Refunding Bonds – Preauthorization of up to \$500 million in refunding of Water Revenue Bonds made before June 30, 2017(BOS Resolution No.151-12)

### b. Commercial Paper Authorization

- i. Wastewater Enterprise \$300 million program:
  - 1. Voter authorized under Proposition E (Charter Sec. 8B.124, approved by voters November 2002)
  - 2. \$150 million authorized by SFPUC Resolution No. 06-0164 and BOS Ordinance Nos. 266-06/270-06.
  - 3. Authorization to increase Wastewater CP issuance from \$150 million to \$300 million (SFPUC Resolution No. 11-0197, BOS Ordinance No. 91-12)
- ii. Water Enterprise \$500 million program
  - 1. \$250 million voter authorized under Proposition A (Sec. 9.107, approved by voters November 2002)
  - 2. \$250 million voter authorized under Proposition E (Charter Sec. 8B.124, approved by voters November 2002)
  - 3. Authorization to issue up to \$150 million (SFPUC Resolution No. 99-084 and BOS Ordinance No. 451-99)
  - 4. Authorization to increase water CP issuance from \$150 million to \$250 million (SFPUC Resolution No. 00-0234 and BOS Ordinance No. 953-00)
  - 5. Authorization to increase water CP issuance from \$250 million to \$500 million (SFPUC Resolution Nos. 08-0202/09-0175 and BOS Ordinance No. 311-08)

- c. Power Bonds – Proposition H
- d. San Francisco Administrative Code
  - i. Article V of Chapter 43 of Part I enacted by Ordinance No. 203-98 adopted on June 8, 1998 by the BOS and amended in December 2006 establishes a procedure for the SFPUC to issue commercial paper.
  - ii. Appendix 54 Revenue Bonds (Proposition B, approved by voters November 2001): Authorizes the issuing, subject to BOS approval, of up to \$100 million in revenue bonds or other forms of indebtedness to finance solar energy, energy conservation, or renewable energy facilities and equipment.

## VI. Debt Financing Approval Process

- a. Voter Authorization and Ballot Procedure – SFPUC may, pursuant to Charter Section 9.107, seek voter approval for revenue bond issuance. Prior to placing any measure on the ballot, the SFPUC must submit the item to the Capital Planning Committee (CPC) for its review. Legislation requesting the submission of a proposal for the issuance of revenue bonds to the voters of the City must be submitted in the form of a resolution by the SFPUC at a regularly scheduled BOS meeting in sufficient time prior to the due date to the Department of Elections to account for a 30-day review period at the BOS and BOS Finance Committee meetings.
- b. SFPUC – Two Commission approvals in the form of a resolution is required for all SFPUC debt financings, as follows:
  - i. Bonding Authorization resolution approved by the Commission at the time of project appropriation.
  - ii. Transaction Authorization resolution approved by the Commission at the time of the bond sale. The resolution incorporates the legal documents of the transaction.
- c. Capital Planning Committee (CPC) – Pursuant to the City’s Administrative Code, Section 3.2, the CPC must review and submit a recommendation to the BOS on all proposed new long-term financing transactions for capital improvements.
- d. Budget Analyst Review – Any financing-related item submitted for BOS approval must first be reviewed and analyzed by the Budget Analyst who prepares a report and recommendation for the BOS.
- e. Board of Supervisors – BOS approval in the form of a resolution or ordinance is required for SFPUC financings, as follows:
  - i. Pursuant to voter-approved debt (e.g., Proposition A, Proposition B), a resolution passed by a majority of the BOS is required.
  - ii. Pursuant to Charter Section 8B.124 (Proposition E), an ordinance passed by two-thirds vote of the BOS is required and is subject to referendum requirements of Charter Section 14.102. The ordinance does not become effective until 30 days after its adoption.
  - iii. Resolution passed by majority vote of the BOS is required to approve transaction details and legal documents in advance of the bond sale.
- f. Certification pursuant to administrative code section 8B.124, as follows:
  - i. Certification by an independent engineer retained by the SFPUC that:
    - 1. Projects to be funded by the bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and
    - 2. Estimated net revenue after payment of operating and maintenance expenses will be sufficient to meet debt service coverage and other indenture or resolution requirements, including debt service on the bonds to be issued, and estimated repair and replacement costs.
  - ii. Certification by the San Francisco Planning Department that facilitates under the jurisdiction of the Public Utilities Commission that projects funded with such bonds will comply with applicable requirements of the California Environmental Quality Act.
- g. Revenue Bond Oversight Committee (RBOC) may review anticipated bond sales in advance of the issuance of the proposed financing transaction, including details with respect to amount, timing, and purpose of the issuance (Sec. 5A.30-36, Proposition P, approved by voters,

November 2002). RBOC is scheduled to sunset on December 31, 2016, pursuant to extension legislation (Ordinance No. 236-12) by the Board of Supervisors on December 4, 2012.

#### VII. Debt Limitations

- a. The Commission has adopted financial policies and/or is subject to legal agreements and requirements that effectively limit the amount of debt that can be issued. These include:
  - i. Debt service coverage requirement: for senior lien bonds, net revenues equal to at least 125% of annual debt service.
  - ii. Fund Balance Reserve Policy: establishes minimum levels of fund balance reserves from an operations perspective. (SFPUC Resolution No. 10-0027, approved February 11, 2010)
  - iii. Rate policy: predictable and financially prudent rate increase policy (SFPUC Resolution No. 12-0027, approved February 14, 2012).
  - iv. Ratepayer Assurance Policy: ensure accountability to ratepayers in all aspects of SFPUC operations and management (SFPUC Resolution No. 12-0196, approved October 23, 2012).
- b. Additional Bonds Test—(Sec. 8B.124) SFPUC legal documents require an independent certification that debt coverage of 1.25 will be maintained for 3 years after issuance of additional bonds.
- c. Current SFPUC financing documents require that net revenues plus unappropriated fund balance equal 1.25 times annual debt services. On a current basis, without fund balance, the requirement is that the revenues equal a minimum of 1.00 times annual debt service. From time to time, utility user rates may have to be increased to comply with financing document covenants.

#### VIII. Ongoing Debt Administration

- a. Continuing Disclosure – In connection with financings, the SFPUC will provide timely information to the marketplace, as required by law. Disclosure information will be tracked in an annual binder, along with submission verification details.
  - i. Ongoing disclosure requirements established per continuing disclosure certificates and other financing documents and agreements shall be promptly met.
  - ii. Annual Disclosure Report – SFPUC covenants to provide its annual disclosure report no later than 270 days following the end of the fiscal year. However, SFPUC shall use its best efforts to issue the Annual Disclosure Report as soon as practical following the issuance of the City’s annual Comprehensive Annual Financial Report (CAFR). The SFPUC will use its best efforts to issue the Annual Disclosure Report electronically, post it on its web site ([www.sfwater.org](http://www.sfwater.org)), the Electronic Municipal Market Access (EMMA) site of the Municipal Securities Rulemaking Board (MSRB), the Main Library, and file with the Commission, the Office of Public Finance, the City Treasurer, the City Controller, and the Clerk of the Board of Supervisors. The report shall include CUSIPs, trustee and issuer contacts, and all other information as required pursuant to continuing disclosure certificates.
  - iii. Material Event – A material event notice will be filed, in accordance with the provisions of SEC Rule 15c2-12, on EMMA. Prior to the issuance of any material event notice, the SFPUC will convene a meeting of the Commission, the Office of Public Finance, the City Treasurer, the City Controller, the City Attorney and outside professionals as appropriate, to discuss the materiality of the event and the process for equal, timely and appropriate disclosure to the public and investment community.
  - iv. Official Statements – Existing continuing disclosure obligations shall be included in all official statements, which may exceed obligations enumerated in SEC Rule 15c2-12.
- b. Arbitrage Rebate Compliance – The SFPUC shall calculate arbitrage annually in each year that the related project fund (or equivalent) has had an outstanding balance. Thereafter, the SFPUC shall calculate arbitrage on the fifth anniversary of the bond issuance in accordance with IRS recommended practices. Any arbitrage liabilities will be reflected in the SFPUC financial statements.
- c. Direct Pay Bond Compliance - This SFPUC shall comply with rules and regulations relating to Direct Pay Bonds, including Build America Bonds (“BABs”) authorized under the American Recovery and Reinvestment Act.
- d. Credit Ratings – SFPUC’s policy is to secure underlying ratings on all newly issued obligations from at least one nationally recognized rating agency, though two is preferred.



- i. Annual Meetings – The SFPUC will meet (or formally communicate) with credit rating agencies when rating any outstanding obligations at least annually unless such meeting is deemed unnecessary by the rating agencies.
  - ii. Reporting – The SFPUC will promptly make available to rating agency the following documents:
    - 1. Annual Audited Financial Statements
    - 2. Adopted budgets (Annual or Bi-annual)
    - 3. Other relevant documents
- e. Citywide Ratings Notification – Any changes in ratings will be promptly noticed to the Commission, the Mayor, the Office of Public Finance, the Mayor’s Budget Director and Press Secretary, the City Controller, City Treasurer, President of the Board of Supervisors, Chair of the Finance Committee of the Board of Supervisors, as relevant.
- f. Public Utilities Revenue Bond Oversight Committee (RBOC) - Provides oversight to ensure that the proceeds from revenue bonds authorized by the BOS and/or the voters after November 2002 are expended in accordance with the authorizing bond resolution and applicable law. (Administrative Code Chapter 5A and Proposition P, passed by voters in November 2002)
  - i. Reports at least annually to the Mayor, the BOS and the Commission regarding the SFPUC’s expenditure of revenue bond proceeds. Such reports are filed with the Commission, the Clerk of the BOS and the Main Library.
  - ii. May prohibit further issuance or sale of authorized revenue bonds, pursuant to:
    - 1. Independent audit of actual expenditures of revenue bond proceeds.
    - 2. Consultation with the City Attorney.
    - 3. Determination that proceeds are being or have been expended for unauthorized or illegal purposes.
    - 4. Majority vote of all its members.
      - a. Determination may be appealed to the BOS within 30 days of the RBOC’s decision.
      - b. BOS may overturn the decision of the RBOC by resolution approved by two-thirds vote of all its members.
  - iii. SFPUC will provide notice to the RBOC in advance of the issuance of a proposed financing transaction, including details with respect to the amount, timing and purpose of the issuance.
  - iv. To the extent permitted by law, one-twentieth of one percent of revenue bond proceeds fund the costs of the RBOC, except that costs associated with clerical, technical and administrative assistance in furtherance of its purposes and any compensation due the members are to be paid by the BOS. These amounts are subject to the applicable IRS rules associated with issuance of tax-exempt debt and generally must be spent within three years of issuance.

(Approved April 9, 2013)