

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 16, 2012
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN
EXEMPT FACILITY PROJECT

Prepared by Richard C. Fischer.

Applicant: San Francisco Public Utilities Commission (SFPUC)

Allocation Amount Requested: \$58,700,000

Phase I allocation of \$56,000,000 awarded on July 20, 2011

Project Name: Water System Improvement Program Phase II

- Various locations as noted in the following Exhibit A

Project Sponsor Information:

Name: San Francisco Public Utilities Commission
Address: 1155 Market Street
San Francisco, California 94103
Contact: Charles Perl
Phone: (415) 487-5262

Project Financing Information:

Bond Counsel: Sidley Austin LLP
Bond Rating: Moody's Aa3; Standard & Poor's AA-
Bond Sale: Public Competitive Sale
Bond Interest Rate: Fixed Rate

Project Sponsor's principal activity: According to the application, one the applicant's principle activities is the delivery of reliable, affordable and high quality drinking water to its customers.

First Tier Business (Yes/No): No

Authority: The principal amount of the 2012 Water System Improvement Program (2012 Bonds) is reasonably expected to be at or near \$687,000,000. It is expected that the amount of private use will exceed \$15,000,000, though the SFPUC will assure, through the contribution of non-tax-advantaged funds, that the amount of private use allocated to the 2011 Bonds will stay under the 10% private use limit. In order to avoid (i) private activity bond status, and (ii) the need to contribute non-tax-advantaged funds to finance the excess of 10% of the 2011 Bonds over \$15,000,000, the SFPUC is requesting an allocation of volume cap from CDLAC in an amount sufficient to cover such expected excess. The calculation of the projected excess would be as follows: Assuming the Bonds are issued in the principal amount of \$687,000,000 and sold at par, the 10% private use limit would be \$68,700,000 (10% x \$687,000,000). The excess \$68,700,000 over \$15,000,000 is \$53,700,000. As sizing of the 2012 Bonds has not been fully determined, and in order to account for the possible sale of Bonds at a slight original issue premium, the SFPUC requests an allocation of volume cap in the amount of \$58,700,000. The 2012 Series ABC Bonds are being issued under a resolution adopted by the SFPUC governing body on March 27, 2012.

Sources of Funds:

Tax-Exempt Bond Proceeds	\$ 58,700,000
Other Sources	<u>\$ 633,300,000</u>
Total Sources	\$ 692,000,000

Uses of Funds:

Bond Issuance Expenses (including discount)	\$ 3,900,000
Interest During Construction	\$ 67,000,000
Project Fund & Reserve Fund	<u>\$621,100,000</u>
Total Uses	\$692,000,000

Description of Proposed Project: According to the application, the proposed project proceeds will be used to fund a portion of the Water System Improvement Program (WSIP). The WSIP is a multi-billion dollar multi-year program to upgrade the San Francisco Public Utilities Commission's (SFPUC) water system. The WSIP will deliver capital improvements that enhance the SFPUC's ability to provide reliable, affordable, high quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara and San Mateo Counties, and to 800,000 retail customers in the City and County of San Francisco, in an environmentally sustainable manner. The Proposed WSIP is structured to cost-effectively meet water quality requirements, improve seismic and delivery reliability, and meet water supply goals.

Environmental impact: See Exhibit A

- 1) Air Quality: None indicated.
- 2) Water Quality: According to the application, to cost-effectively meet water quality requirements, improve seismic and delivery reliability, and meet water supply goals.
- 3) Energy Efficiency: None indicated.
- 4) Recycling of Commodities: None indicated.
- 5) Safety and Compliance: None indicated.
- 6) Consumer Costs Savings and Efficiencies: Yes.

Local government support: The Applicant indicates that it has authority and support granted by the Charter of the City and County of San Francisco, through Proposition E, approved by the voters of the City on November 5, 2002.

Legal Questionnaire: No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Recommendation: Staff recommends transfer of \$58,700,000 from the Undesignated Reserve Pool to the Exempt Facility Pool and that the Committee approve \$58,700,000 in tax-exempt bond allocation to fund the Water System Improvement Project.