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# SAN FRANCISCO PUBLIC UTILITIES COMMISSION



San Francisco  
**Water**  
**Power**  
**Sewer**

Services of the San Francisco Public Utilities Commission

## DEBT MANAGEMENT POLICIES & PROCEDURES

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## OVERVIEW

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### Introduction

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

### Background

The 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.

### Purpose

The SFPUC has established these Debt Management Policies and Procedures (Policies) for debt financings associated with the Water, Wastewater and Power Enterprises.<sup>1</sup> The purpose of these Policies is to provide SFPUC officials and staff a comprehensive guide to SFPUC's issuance and use of debt to fund capital projects or to refund/refinance/restructure outstanding debt. The Policies primarily address debt instruments/securities issued by the SFPUC in public and/or private bond markets. This is consistent with examples of debt policies of other comparable municipalities, Government Finance Officers Association (GFOA) best practices, and rating agency guidelines.

**These Policies shall govern the issuance and management of all revenue bonds and other forms of indebtedness (Debt) of the SFPUC, such as State and federal loans (as more fully described later), together with any credit, liquidity, or other security instruments and agreements that may be executed in connection with the issuance of Debt. The Commission and Board of Supervisors may, in their sole discretion, approve Debt that deviates from these Policies, upon the recommendation of the Chief Financial Officer (CFO). Notwithstanding anything in these Policies to the contrary, the failure of the SFPUC to comply with any provisions of these Policies shall not affect the authorization, validity or enforceability of any Debt or other forms of indebtedness that are otherwise issued in accordance with law.**

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<sup>1</sup> The Policies shall apply to each SFPUC enterprise, unless otherwise noted.

Further, these Policies are intended to comply with applicable regulatory requirements including California Government Code Section 8855 which requires any issuer of public debt to provide the California Debt Investment Advisory Commission (CDIAC) with certain reports and information related to the issuance of public debt. SB 1029, which went into effect on January 1, 2017, amends California Government Code Section 8855 and expands the additional reporting requirements related to the issuance of debt by a local agency. SB 1029 also requires issuers to certify before any debt is issued, and as part of its report of proposed debt issuance submitted to CDIAC, that it has adopted a local debt policy concerning the use of debt proceeds and that the debt policy includes the following:

- The purpose for which the debt proceeds may be used;
- The types of debt that may be issued (Appendix A);
- The relationship of the debt to and integration with the issuer's capital improvement program or budget;
- Policy goals related to the issuer's planning goals and objectives; and
- Internal control procedures that the issuer has implemented to ensure that the proceeds of the debt issuance will be directed to the intended use (Appendix D and Appendix E).

The SFPUC's Policies comply with the provisions of SB 1029.

## Objectives

The aim of the established policies and procedures is to assist the SFPUC in furthering the following goals and objectives related to debt financing activities:

- Maintain cost-effective access to capital markets through prudent debt management policies and practices;
- Ensure that the SFPUC's Debt is consistent with the SFPUC's long-term financial planning goals and objectives and capital improvement program or budget, as applicable;
- Finance significant capital acquisitions or improvements in a timely and cost-effective manner;
- Ensure that judicious debt service commitments are made through effective financial planning, budgeting and cash management;
- Maintain the highest practical credit ratings to ensure efficient access to capital markets at the lowest prevailing interest rates;
- Support strong internal controls through support of bond oversight committees;
- Structure long-term financings to minimize transaction specific risk and total debt portfolio risk to the SFPUC;
- Maintain user friendly and publicly accessible electronic portal for the timely dissemination of material information concerning the financial condition of the SFPUC; and
- Promote financial sustainability by adhering to sound debt management practices that are consistent with the SFPUC's mission and guiding principles.

## General Scope

The SFPUC shall issue Debt solely for the purpose of financing the cost of environmental review, design, acquisition, and/or construction of the SFPUC's water, wastewater, and power system improvements or other improvements in accordance with the SFPUC's Capital Improvement Program or other Commission-approved needs or for the refunding of prior Debt.

## Permitted Debt

The SFPUC may issue both short-term and long-term Debt to finance the acquisition and/or construction of capital improvements, unless otherwise decreed by court order or adjudicated settlement.<sup>2</sup> Debt financings are not to be used to fund SFPUC operating costs.

SFPUC Debt are secured by a revenue pledge that enterprise rate-setting will generate net revenues sufficient to pay the principal of and interest on indebtedness, pursuant to the provisions of the respective enterprise Indenture.

The SFPUC may issue the following types of tax-exempt or taxable Debt:

1. Long-Term Debt – Securities that are generally structured where the amortization of the debt approaches the expected useful life of a long-lived asset. Long-term Debt may be issued on a fixed or variable rate basis.
2. Short-Term Debt – Securities may take several forms, including notes, commercial paper, direct bank loans and other short-term products with either fixed or variable rates, that are secured by a pledge of net revenues that is subordinate in lien to the pledge of net revenues for senior lien debt. These products are designed to provide flexible, low-cost financing to meet the interim encumbrance and expenditure needs of capital projects.
3. Refunding bonds – issued to realize debt service savings, or for other debt restructuring purposes.
  - a. Absent significant non-economic factors, refunding transactions must 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.
  - b. Advance or Current Refunding transactions in aggregate must also meet the 3% minimum debt service savings requirement. In addition, advance refunding transactions must have a minimum 50% refunding efficiency. Refunding efficiency is defined as the ratio between the net present value savings and the refunding escrow negative arbitrage. Pursuant to the federal Tax Cuts and Jobs Act of 2017 that took effect on January 1, 2018, Advance Refundings on a tax-exempt basis are prohibited, with only Current Refundings allowed on a tax-exempt basis. However, Advance Refundings are permitted on a taxable basis. Such taxable Advance Refundings must still meet the refunding thresholds as set forth above in this section.

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<sup>2</sup> Pursuant to Proposition P, the Revenue Bond Oversight Committee (RBOC) has the authority to prohibit the SFPUC from issuing authorized public utility revenue bonds if it determines that revenue bond proceeds are being or have been expended for purposes not authorized by the authorizing bond resolution or otherwise amount to an illegal expenditure within the meaning of the law. See Section 4.2.4, "Oversight."

4. Other Types of Debt – The SFPUC may issue various types of debt as noted and may also utilize Green Bonds, State Revolving Fund (SRF) Loans and federal Water Infrastructure Finance and Innovation Act (WIFIA) loans, and other federally-authorized bonds or loans that may be available (including Tax Credit Bonds and Build America Bonds)..

Additional details on each type of authorized debt are included in Appendix A.

### **Professional Assistance**

The SFPUC shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. The Debt Manager shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize costs. The SFPUC will maintain high standards of integrity in selecting professional service providers and conducting its debt management activities in a manner consistent with all applicable regulations as well as the City and County of San Francisco’s Conflict of Interest Code. Such services, depending on the type of financing, may include municipal advisory, underwriting, trustee, verification agent, escrow agent, and arbitrage consulting. The City Attorney’s Office shall be responsible for selection of bond, note or loan counsel and for publicly issued debt, disclosure counsel. Additionally, the City Attorney’s Office will be responsible for the selection of disclosure counsel in those circumstances where the City Attorney’s Office determines it to be necessary or desirable to retain disclosure counsel to generally advise the SFPUC with respect to its obligations under state and federal securities laws. The goal in selecting service providers, whether through a competitive process or when appropriate, a sole-source selection, is to achieve an appropriate balance between service and cost. The roles and responsibilities of key professional consultants/advisors are further described in Section 1.4.3, “Financing Team.”

### **Roles and Responsibilities**

The primary responsibility for oversight of this Debt Policy shall lie with the Commission. The Debt Manager, acting on behalf of the CFO, shall be responsible for the administration and implementation of the Policy, and will have day-to-day responsibility and for structuring, implementing, and managing the SFPUC’s debt program.

### **Debt Management**

The Capital Finance Group will be responsible for managing and coordinating all activities related to the issuance and administration of debt, including the implementation of internal control procedures to ensure that the proceeds of Debt will be directed to the intended use. The Debt Manager is the designated administrator of the Policy and is responsible for the oversight of the Capital Finance Group’s debt-related undertakings. In this role, he or she has the authority to select the financing team, coordinate the administration and issuance of debt, communicate with the rating agencies, and fulfill the pre-issuance and post-issuance disclosure information. Responsibilities of the Debt Manager are summarized below.

- Provide for the issuance of SFPUC debt at the lowest possible cost and risk;
- Determine the available debt capacity of each Enterprise;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures on a timely basis;



- Recommend to the SFPUC’s Commission the method and manner of sale;
- Monitor opportunities to refund and recommend such refunding as appropriate to reduce costs or to achieve other policy objectives;
- Comply with all Internal Revenue Service (IRS), Municipal Securities Rulemaking Board (MSRB), and Securities and Exchange Commission (SEC) rules and regulations governing the issuance of debt;
- Maintain a current database with all outstanding SFPUC Debt;
- Provide for the timely payment of principal and interest on all SFPUC Debt;
- Comply with all terms and conditions and disclosure required by the legal documents governing the Debt issued;
- Distribute to appropriate repositories information regarding the SFPUC’s financial condition and affairs at such times and in the form required by law, regulation and general practice;
- Provide for the frequent distribution of pertinent information to the rating agencies;
- Provide for the ongoing management of bond proceed spending; and
- Apply and promote prudent fiscal practices.

A detailed operational overview of the SFPUC’s debt issuance and administration process can be found in Appendix B and Appendix C.

## Financing Team

The SFPUC must assemble a Financing Team that will provide advice and support for the best execution of each transaction. The following applies to members of the Financing Team:

1. May consist of multiple parties with distinct responsibilities and is generally comprised of both SFPUC staff and outside professional consultants. These outside professional consultants include:
  - a. Municipal Advisors – SFPUC shall utilize the services of independent municipal advisors (MAs) in connection with Debt-related issuances or projects. The MAs shall be selected via a competitive Request for Proposals (RFP) process or via the City- wide approved pool of certified MAs, and the services to be provided shall be documented by contract. Compensation shall be capped. MAs will not serve as underwriters on negotiated bond sales of the SFPUC.
  - b. City Attorney’s Office – SFPUC shall utilize the services of the City Attorney’s Office when appropriate for legal support on financing-related matters to ensure all City and Charter requirements are fully met.
  - c. Bond/Note/Loan Counsel – Depending on the Debt transaction, SFPUC, with the City Attorney’s Office recommendation, shall select bond or note or loan counsel for each transaction. Such counsel shall be responsible for developing the legal documents required for each transaction and to ensure that all state and federal tax requirements are met. Such counsel will render a

legal opinion for each transaction certifying that the transaction has met all such legal requirements.

- d. Disclosure Counsel – On publicly-offered transactions, SFPUC shall utilize the services of a disclosure counsel for each transaction, with the City Attorney’s Office’s recommendation. Disclosure counsel shall be responsible for assisting the SFPUC to prepare the Preliminary and Final Official Statements and any other disclosure documents.
  - e. Underwriters – Such firms shall be solicited pursuant to a competitive RFP basis utilizing the Underwriter’s Pool of the City’ Controller’s Office of Public Finance. Selection will be based on a formal, scored evaluation process in consultation with the transactions MAs.
  - f. Dealers, Auction Agents and Remarketing Agents – Such firms shall be selected on a competitive RFP basis and performance will be monitored regularly. SFPUC shall retain the right to replace any such firm with due notice at any time.
  - g. Trustees – Trustee shall be selected on a competitive RFP basis and have a combined capital and surplus of at least \$50 million and be subject to supervision or examination by relevant Federal or State regulatory bodies.
  - h. Letter of credit, liquidity facility and direct loan providers – Selected via competitive RFP solicitation utilizing the SFPUC’s Credit Bank Pool of qualified banks.
  - i. Investment agreement counterparties – Selected from a pool approved by the City Controller's Office of Public Finance, if one exists. If no pool exists, selected on the basis of a competitive bid process, with bidders subject to approval by the City’s Human Rights Commission (HRC).
  - j. Arbitrage Rebate Consultant – Selected via competitive RFP process.
  - k. Independent pricing verification agent – An MA not involved in a transaction, but engaged in negotiated transactions to provide an independent pricing report and comparative sales details to reassure that the negotiated sale provided best possible pricing for the ratepayers.
  - l. Other professional assistance may be secured as necessary or desirable.
2. The SFPUC will select members of the financing team through a competitive process. However, the SFPUC may also directly engage consultants on a case-by-case basis, if it is determined to be in the best interest of the SFPUC.
  3. The SFPUC requires that its consultants and advisers provide objective advice and analysis, maintain the confidentiality of the SFPUC’s financial plans, and be free from any conflicts of interest or violate any City contracting requirements.

All Financing Team Members will be required to provide full and complete disclosure, relative to agreements with other Financing Team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm’s ability to provide independent advice which is solely in the SFPUC’s best interests or which could reasonably be perceived as a conflict of interest.

## GOVERNING PRINCIPLES

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### Legal & Statutory Authority

In connection with the issuance and management of debt, the SFPUC shall comply with all legal requirements and conditions imposed by federal, state, and local law. The following section highlights key governing documents and certain debt limitations.

#### Governing Law

Charter of the City and County of San Francisco – The SFPUC has authority to issue debt payable from revenues of the applicable enterprise pursuant to Section 8B.124 of the Charter of the City (Charter), subject to approval by a two-thirds vote of the Board of Supervisors of the City (BOS). The SFPUC is authorized to issue revenue bonds without voter approval pursuant to Sections 9.107, 9.108 and 9.109 of the Charter.

All Debt of the SFPUC shall be issued in accordance with applicable provisions of the Charter and federal and state laws, rules and regulations.

Federal Tax Law - The SFPUC shall issue and manage debt in accordance with the limitations and constraints imposed by the Internal Revenue Code of 1986, as amended by federal tax law, to maximize the eligibility for tax-exempt debt.

Securities Law - The SFPUC shall comply with the requirements of federal and state securities laws in offering SFPUC debt and the SFPUC shall comply with securities law requirements in providing ongoing disclosure to the securities markets.

#### Debt Financing Authorization

##### a. Charter

- i. Section 8B.124 Revenue Bonds (Proposition E, approved by the voters in November 2002; and Proposition A, approved by the voters in June 2018): Authorizes the SFPUC to issue revenue bonds or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities, clean water facilities, and power facilities when authorized by ordinance approved by a two-thirds vote of the BOS.

Required Certification: Debt issued against 2002 Proposition E and 2018 Proposition A 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 debt-financed projects meet utility standards.

- ii. Section 9.110 Power Revenue Bond Election by Initiative (Proposition B, approved by voters November 2001): Subject to BOS approval, authorizes the issuance 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.
- iii. Section 9.110 Water Revenue Bond Election by Initiative (Proposition A, approved by voters November 2002): Subject to BOS approval, authorizes the SFPUC 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.

- iv. Section 9.107(6) Water and Power Revenue Bonds: Authorizes the SFPUC to issue revenue bonds or other forms of indebtedness for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combined water and power facilities when authorized by resolution approved by three-fourths vote of the BOS.
- v. Section 9.107(8) Power 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.
- vi. 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 Commission, and the Clerk of the BOS must be provided a report as more fully described in Section VI (e)(iii).

**b. Short-Term Borrowing Authorization**

- i. Wastewater Enterprise \$750 million Interim Funding Program:
  - a. \$150 million authorized by SFPUC Resolution No. 06-0164 and BOS Ordinance Nos. 266-06/270-06.
  - b. Authorization to increase authorization from \$150 million to \$300 million (SFPUC Resolution No. 11-0197, BOS Ordinance No. 91-12).
  - c. Authorization to increase authorization from \$300 million to \$500 million (SFPUC Resolution No. 14-0139, BOS Resolution No. 378-14).
  - d. Authorization to increase authorization from \$500 million to \$750 million (SFPUC Resolution No. 17-0086, BOS Ordinance No. 193-17).
- ii. Water Enterprise \$500 million Interim Funding Program
  - a. \$150 million authorized by SFPUC Resolution No. 99-084 and BOS Ordinance No. 451-99.
  - b. Authorization to increase authorization from \$150 million to \$250 million (SFPUC Resolution No. 00-0234 and BOS Ordinance No. 953-00).
  - c. Authorization to increase authorization from \$250 million to \$500 million (SFPUC Resolution Nos. 08-0202/09-0175 and BOS Ordinance No. 311-08).
- iii. Power Enterprise \$250 million Commercial Paper Program
  - a. \$90 million authorized by SFPUC Resolution No. 15-0183 and BOS Resolution No. 427-15.
  - b. Authorization to increase authorization from \$90 million to \$250 million (SFPUC Resolution No. 18-0188 and BOS Ordinance No. 002-19).

**c. San Francisco Administrative Code**

- i. Article V of Chapter 43 of Part I (Ordinance No. 203-98 adopted by BOS on June 8, 1998 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): Subject to BOS approval, authorizes the issuance 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.

### 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. Commission approval in the form of a resolution is required for all SFPUC debt financings.
- c. Capital Planning Committee (CPC) – Pursuant to the City’s Administrative Code Section 3.21, the CPC must review and submit a recommendation to the BOS on all proposed new long-term financing transactions for capital improvements. The SFPUC completes this CPC review during capital plan development.
- d. Board of Supervisors – BOS approval in the form of a resolution or ordinance is required for SFPUC financings, as follows:
  - i. If pursuant to voter-approved debt (e.g., Proposition A, Proposition B), a resolution passed by a majority of the BOS is required.
  - ii. If 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.
  - iii. BOS Budget Analyst Review – The BOS Budget Analyst prepares a report and recommendation for the BOS on any item submitted for consideration.
- e. Pursuant to administrative code section 8B. 124, the following certifications are filed with the Clerk of the BOS:
  - i. Certification by an independent engineer retained by the SFPUC that:
    - a. Projects to be funded by the Debt, including the prioritization, cost estimates and scheduling, meet utility standards; and
    - b. 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 Debt to be issued, and estimated repair, replacement or expansion 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 (CEQA).

- iv. Pursuant to BOS Ordinances No. 111-16, 112-16, 113-16 and 143-18, within 30 days of a new money or refunding bond issuance, the SFPUC must file with the Clerk of the BOS the following:
  - a. New Money Bond Sale Report showing the results of the sale of the bonds, including (a) principal amount sold and method of sale, (b) true interest cost, (c) final maturity, (d) the facilities constructed and/or improved, and (e) a statement about the remaining bonding authorization under the applicable financing budget ordinance.
  - b. Refunding Bond Savings Report prepared by the SFPUC's financial advisor that reflects at least a 3% net present value debt service savings, together with a copy of the final Official Statement for the refunding bonds.
- f. 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 January 1, 2025, pursuant to extension legislation (Ordinance No. 309-18) by the Board of Supervisors on December 11, 2018.

## Limitations on Debt Issuance

The SFPUC 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:

### A. Financial Policies

1. Fund Balance Reserve Policy

Establishes a Fund Balance Reserve that totals a minimum of 90 days or 25% of Operations and Maintenance Expenses (including programmatic projects, and excluding debt service and revenue-funded capital) throughout the SFPUC's 10-Year Financial Plan forecast period (SFPUC Resolution No. 17-0044, approved February 28, 2017).

2. Debt Service Coverage Policy

Imposes higher standards than the Bond's minimum indenture requirements in order to maintain access to low-cost capital and retain financial flexibility for contingencies (SFPUC Resolution No. 17-0060, approved March 28, 2017). For each Enterprise, the SFPUC will adopt budgets, rates, and financial plans that generate revenues such that:

- Indenture Coverage shall be at least 1.35x
- Current Coverage shall be at least 1.10x

3. Capital Financing Policy

Establishes a balanced mix of funding sources needed to maintain enterprise infrastructure in a state of good repair and fund ongoing maintenance and capital improvements. A minimum ranging between 15% and 30% of each Enterprise's capital budget will be paid for by current revenues (SFPUC Resolution No. 17-0061, approved March 28, 2017).

4. Ratepayer Assurance Policy



The Ratepayer Assurance Policy serves as guidance to the SFPUC General Manager and staff of the Commission's expectations regarding a) prudent use of ratepayer funds, b) establishment of rates and charges, and c) transparency in budgeting and rate-setting processes. (SFPUC Resolution 17-0198, approved September 12, 2017).

5. Derivatives Policy

Sets forth parameters and processes when evaluating feasibility of derivative products (Appendix F).

A complete list of these and other SFPUC adopted policies are accessible from the SFPUC's website at: <http://www.sfwater.org/index.aspx?page=999>. See appendices for separate policy documents.

**B. Legal Covenants**

1. Additional Bonds Test

City Charter Section 8B.124 requires an independent certification that Indenture Coverage of 1.25 will be maintained for 3 years after issuance of additional bonds.

2. Debt Service Coverage Requirements

Pursuant to SFPUC bond covenants entered into with bondholders, enterprise revenues pledged for the repayment of debt service must meet the following financial ratios.

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

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

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

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

**Long-Range Financial Sustainability**

The SFPUC is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. Regularly updated Debt Policies, in conjunction with the SFPUC's Capital Improvement Plan, the Ten-Year Financial Plan, the Capital Financing Policy and the Debt Service Coverage Policy, serve as important tools that support the use of SFPUC resources to meet its financial commitments to maintain sound financial management practices.

**Capital Planning and Budgeting**

The SFPUC's borrowing decisions in terms of timing, amount, structure and alternative products will be made in the context of the SFPUC's Capital Improvement Plan (CIP)

and the SFPUC's Capital Budget. As the SFPUC's CIP is developed in the context of the SFPUC's Strategic Plan and 10-Year Financial Plan, borrowing decisions will be made in the appropriate strategic context to ensure that any proposed borrowing is directly supporting the goals and objectives of the SFPUC. While the CIP represents the unconstrained (i.e., unconstrained by available revenues) plan for the SFPUC, the Capital Budget expenditures are constrained based upon the amount of realistic revenues resulting in balanced budgets for all fiscal years to which they apply. Developing financing strategies in this context ensures that any proposed borrowing both supports the long-term goals of the SFPUC and its affordability from a budgetary perspective.

The SFPUC shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Debt Manager, together with the Financial Planning Director, shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected fund balances, including the Operating Fund, the Wholesale Coverage Reserve Fund, Pay-As-You-Go Fund, Debt Proceeds Fund, and Debt Service Reserve Fund, if any;
- Historic and projected debt service coverage;
- The most efficient mix of funding sources (long-term debt; short-term debt, and cash);
- Projected revenue requirements; and
- Projected rates and charges.

## **TRANSACTION-SPECIFIC GUIDELINES**

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### **Method of Sale**

The SFPUC may employ a variety of financing methods in order to sell bonds and enter into other debt agreements such as negotiated sales, competitive sales, direct loans, and other bilateral agreements. The SFPUC will determine, along with bond counsel and its financial advisor, the appropriate method of sale.

The SFPUC will adhere to all relevant federal tax regulations pertaining to the sale of bonds, including regulations related to the determination of issue price for the purposes of calculating arbitrage and any other arbitrage rules that apply to the sale of tax-exempt bonds. See Section 3.3 for a description of New Issue Price Regulations effective June 2017. The SFPUC will monitor federal tax law as it applies to arbitrage restrictions and maintain adequate records to comply with arbitrage reporting, rebate requirements and any other required documentation or certifications that pertain to the establishment of issue price or actual sale results. See Appendix C for additional details on the SFPUC's procedures to ensure compliance with the requirements for tax-exempt bonds.



- a. General
  - i. Marketing – Bond sales shall be advertised, and the Preliminary Official Statement be distributed, as broadly as possible and receive a rating from at least one nationally recognized rating agency, with two ratings preferred. The financial advisors and/or the underwriters, if applicable, for each transaction shall undertake to market the bonds to prospective bidders and investors as appropriate or relevant.
  - ii. Amendments – Terms of the bonds shall be subject to amendment as late as practicable in the issuance process.
- b. Competitive Sale – New money and refunding fixed rate revenue bonds should be issued by competitive sale unless (i) there is significant deterioration in the SFPUC’s overall credit rating or outlook, (ii) there are market issues specific to a transaction that are outside of the SFPUC’s credit profile such as significant market volatility, or changes in taxation or sector risks, (iii) there is a financing structure that is not conducive to a successful competitive sale, or (iv) there are other factors which mitigate or make the use of the competitive sale process less attractive or likely to ensure a successful sale with the lowest total borrowing costs. The SFPUC may take bids in person, by facsimile or by electronic means, which is the preferred approach.
  - i. Cancellation – Bond sales shall be subject to cancellation at any time prior to the time bids are to be received.
  - ii. Award – The bonds shall be awarded to the bidder whose conforming bid represents the lowest true interest cost (TIC) to the SFPUC. The SFPUC’s financial advisor will confirm the calculation of the TIC before any bonds are awarded. The SFPUC’s bond counsel will confirm that the bids conform to the requirements of the Notice of Sale. The SFPUC may then restructure the bonds in accordance with the Official Notice of Sale. The General Manager or his/her designee shall award the sale of SFPUC bonds.
  - iii. Rejection - The SFPUC shall reserve the unfettered right to reject all bids or waive bid irregularities.
- c. Negotiated Sale – Bonds, including fixed rate bonds, variable rate demand notes, put bonds, commercial paper, etc. may be issued by negotiated sale, at the discretion of the SFPUC General Manager, if deemed necessary for a successful offering. One or more underwriters may be selected by the SFPUC for a negotiated bond sale pursuant to a competitive RFP solicitation process or from the approved Underwriter Pool of the City Controller’s Office of Public Finance. An independent pricing verification agent (“Independent Pricing Consultant”) should also be selected to assist the SFPUC in a negotiated sale in providing further ratepayer assurance of lowest cost borrowing success. The SFPUC may retain one or more remarketing agents for each issuance of variable rate or put bond debt, or one or more dealers for each enterprise’s commercial paper program. The SFPUC shall reserve the right to replace a dealer or remarketing agent with notice at any time for any reason in its sole discretion.
  - i. Independent Pricing Consultant-for each negotiated bond sale, the SFPUC will retain an Independent Pricing Consultant (IPC) to monitor the pricing process and provide a letter to the SFPUC certifying whether the

pricing results were fair and reasonable to the SFPUC in light of prevailing market conditions. The IPC will act separate and independently from the SFPUC's MAs on the transaction.

- d. Private Placement –The General Manager may issue obligations by means of a private placement pursuant to a bond purchase contract and placed with an accredited investor in Rule 501(a) of Regulation D (or such other investor restrictions appropriate to the transaction), subject to the General Manager finding that such a sale method would result in a lower overall cost than would be achieved by selling bonds at a public sale.

## Structural Elements

The following Standard Terms will apply to the SFPUC's transactions, as appropriate. Individual terms may change as dictated by the marketplace and/or by the unique characteristics of a given transaction.

- a. Fixed Rate Revenue Bonds
  1. Term: Up to 40 years per issue (may be longer under certain unique circumstances, as long as it is certified by the Chief Financial Officer).
  2. Maximum Interest Rate: Not to exceed 12% (statutory).
  3. Maximum Premium or Discount: Case by case as recommended by SFPUC MA(s).
  4. Payment Dates:<sup>3</sup>
    - i. Water and Power Revenue Bonds: November 1 for annual principal and semi-annual interest; May 1 for semi-annual interest.
    - ii. Wastewater Revenue Bonds: October 1 for annual principal and semi-annual interest; April 1 for semi-annual interest.
    - iii. SRF Loans: Principal and interest paid annually on each December 31<sup>st</sup>.
    - iv. Power Tax Credit Bonds: December 15 for annual 2008 CREBs payments; December 15 and June 15 for semi-annual QECBs payments; April 25 and October 25 for semi-annual 2012 and 2015 NCREBs payments.
  5. Call Provisions:
    - i. Shortest possible optional call consistent with optimal pricing and portfolio flexibility; no more than 30 days' notice.
    - ii. Make–Whole call or non-callable structures permitted if warranted by market conditions.
  6. Structure of Debt: Level debt service unless an alternative structure is advantageous, such as deferral of principal so as to achieve level overall enterprise debt service – principal payments may be serial and/or term bonds.

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<sup>3</sup> The first payment of any revenue bond issue may be extended beyond the first November or October after the bond sale, if it is advantageous.

7. Reserve Funds: The lesser of what is required, including no reserve requirement, pursuant to indenture requirements, and as governed by current tax law, or acceptable to the marketplace; surety or other credit instrument may also be used; assuming availability.
  8. Capitalized Interest: Up to three years or such other lower amount as may be legally permissible and advantageous.
  9. Good Faith Deposit: 1% of par amount, which may be satisfied by cash, surety or equivalent.
  10. Other, Federal, and State: Unique structures as appropriate such as federal subsidies or stimulus funding, as in the case of Build America Bonds, CREBs, NCREBs, and QECCBs.
- b. Variable Rate Obligations – The SFPUC may elect to issue variable rate obligations, including variable rate demand obligations, put bonds, auction rate securities and commercial paper.
1. Purpose: Lower net borrowing costs; match assets to liabilities; diversify debt portfolio.
  2. Portfolio allocation: No more than 25% of each enterprise's outstanding debt shall be variable rate.
  3. Term: Up to 40 years per issue (except as otherwise permitted), except commercial paper which has a maximum maturity of 270 days.
  4. Maximum interest rate: 12% (statutory)
  5. Budgeting: SFPUC will recommend an annual budget of debt service on any variable rate obligations at a minimum of 1.5 times the rolling 3-year average of the Securities Industry and Financial Markets Association municipal swap index, or other appropriate index over a similar period.
  6. Monitoring: SFPUC will monitor all variable rate bonds on a regular basis and shall determine, from time to time, whether to change modes, alter hedging strategies and/or replace a dealer or remarketing agent.
  7. Remarketing Inventory Obligation: SFPUC will actively manage the performance of remarketing agents, dealers or remarketing credit support providers and will retain the right to terminate or replace such arrangements at its sole discretion. SFPUC may also require a provision in agreements that the dealer or agent, in the event of a failed remarketing, inventory the securities, at prevailing interest rates, for up to 30 days.
  8. Call/Conversion Provision: On any date without penalty; no more than 20 days' notice or the minimum period allowed by the Depository Trust Company (DTC).
  9. Liquidity: A bank credit facility, in the form of either a liquidity facility or letter of credit, will be obtained for all long-term variable rate obligations as market conditions may require; Liquidity or letter of credit providers will maintain short-term ratings in the Tier 1 level of short-term ratings (P-1 and A-1 or higher). Banks with ratings below the Tier 1 category may be used, however such banks will only be limited to securing CP against

which project contracts can be certified or encumbered, as opposed to actually issuing CP to fund projects.

10. Wastewater Indenture Amendments (pending): In July 2018, the Wastewater Bond Indenture, pursuant to the Sixth Supplemental Indenture, was amended to provide the Wastewater Enterprise with more commonly market-accepted provisions for issuing Variable Rate Obligations. These provisions will become effective when consent is received from 51% of the holders of outstanding Wastewater senior lien Debt (as of the adoption of this 2019 updated Debt Policy, the amendments had not yet become effective). The following is a summary of the pending amendments:

- Excluded Principal – This provision allows variable rate bond principal, with a remaining term of less than 60 months, which is paid from moneys other than Net Revenues, to be excluded from the calculation of Annual Debt Service, Average Annual Debt Service and Maximum Annual Debt Service, each as defined in the Indenture.
- Variable Rate Indebtedness – (1) The interest rate of Variable Rate Indebtedness is calculated as the greater of (a) 150% of the average SIFMA Index rate over the past 3 years, or (b) 4.00%; and (2) Variable Rate Indebtedness can also be treated as fixed rate indebtedness for any period for which the interest rate is fixed and known.
- Balloon Indebtedness – (1) Balloon Indebtedness principal will be amortized at the discretion of the SFPUC; (2) can have a maximum amortization of 40 years from the original date of issuance; (3) the interest rate on fixed rate Balloon Indebtedness will be the fixed rate equal to the rate the SFPUC could borrow for such period; (4) the interest rate on variable rate Balloon Indebtedness will be calculated as described in Variable Rate Indebtedness above; and (5) can be treated as “Excluded Principal” at the option of the SFPUC.

Mode: Variable rate obligations, except for commercial paper, may be issued as “multi-modal.”

## New Issue Price Regulations

The SFPUC will comply with the IRS issue price regulations, effective on June 7, 2017, (Issue Price Rules) and which apply to all tax-exempt bonds sold after such date. Under the Issue Price Rules, the bonds’ price will be defined as the price that the bonds are sold to the public, versus determining the issue price using a reasonable expectation standard. The value of a bonds’ price is used in determining the bonds’ yield for IRS arbitrage compliance purposes. In advance of each bond sale, the SFPUC will work with its bond counsel and financial advisor to provide the necessary documentation, including underwriter certifications, notice of sale, and pricing wires, necessary to establish the issue price for such bond sale per the Issue Price Rules.

## DISCLOSURE AND COMMUNICATION

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### Disclosure

Each publicly offered SFPUC debt issuance will meet the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sale takes place. Whether a document or other communication is a Disclosure Document (Disclosure Document), as defined under SEC Rule 15c2-12 (the Rule), shall be determined by SFPUC Officers and Staff in consultation with the City Attorney's Office and Disclosure Counsel. The SFPUC will endeavor to use best practices and uniform procedures, and attorneys, consultants, and other experts, as necessary, to ensure primary and secondary disclosure is timely and completed in full compliance with SEC regulations.

### Primary Offering Disclosure

The Preliminary Official Statement (POS) (distributed to investors prior to the sale of the Bonds) and the Official Statement (OS) (delivered to purchasers once final terms have been determined) are prepared in order to provide a reasonable investor with the information necessary to make an informed investment decision. The OS describes the terms of the SFPUC's Bonds and the sources of repayment (i.e. water enterprise revenues, wastewater enterprise revenues or power enterprise revenues) for the Bonds and discloses information about the SFPUC and its operations and financial prospects germane to the ability of SFPUC to make timely payments of principal of and interest on the Bonds. The OS is not a "sales" document. The OS is the SFPUC's disclosure document and it is essential that the OS not contain material misstatements or omissions. Inadequate disclosure can result in the imposition of civil and criminal penalties, investor lawsuits and an inability to access the capital markets for additional financing.

Prior to the distribution of all primary disclosure documents, which are part of the bond offering documents (e.g. the POS and the OS), the substantially final drafts to be approved by the Commission will have been thoroughly and critically reviewed by SFPUC officers and staff (in consultation with the SFPUC's professional advisors, including Disclosure Counsel) to reflect the best and most current material information available at the time. The SFPUC will also provide ongoing disclosure in accordance with continuing disclosure requirements set forth in Appendix C.

### Ongoing (Continuing) Disclosure

Continuing disclosure information is intended to reflect the financial or operating condition of an issuer as it changes over time, as well as specific events occurring after issuance, that can have an impact on both the ability to pay amounts owed and the market value of the Bonds if bought or sold prior to maturity. Pursuant to SEC Rule 15c2-12 (the Rule), each new publicly-offered debt issuance will require a written agreement (which the SFPUC refers to as a "continuing disclosure certificate" or CDC), between the SFPUC and the original purchaser/underwriter for the benefit of holders of municipal securities, to provide certain annual financial information (Annual Disclosure Reports) and material event notices to the public. In accordance with changes made in 2009 to the Rule, those filings must be made electronically at the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) web dissemination portal ([www.emma.msrb.org](http://www.emma.msrb.org)). The SFPUC currently has outstanding

publicly-offered debt for its Water, Wastewater and Power Enterprises, with each enterprise's debt being subject to the Rule, and thereby having its own CDCs. The SFPUC's continuing disclosure requirements are summarized in Appendix C.

## **Voluntary Disclosure**

Although the Rule prescribes certain annual information and event-based disclosures that must be filed, issuers may determine that additional information would be of interest to investors. To this end, the SFPUC may choose to voluntarily disclose other information to the MSRB that goes beyond the requirements of the Rule. This information may include, but is not limited to, items such as monthly financial reports, updates on issues that could affect the SFPUC's budgetary, financial, or economic position, annual/biennial budgets, and changes in rating outlooks.

## **Other Disclosure**

In addition to continuing disclosure requirements as undertaken pursuant to the SFPUC's CDCs, the SFPUC also has certain disclosure obligations vis-à-vis specific agreements with certain debt issuance-related entities. These entities include the bond rating agencies, trustee bank, insurers, credit facility providers, commercial paper dealers, private placement lenders and others. At such time that the SFPUC no longer has an agreement with such an entity (i.e. through expiration or termination of the agreements), the disclosure requirements with that entity ends.

## **Training**

As part of the primary disclosure process, disclosure training shall be conducted on a regular basis or just prior to a new publically-offered bond sale. In coordination with Disclosure Counsel and the City Attorney's Office, formal disclosure training shall be provided to enterprise project managers/engineers and senior management. On a regular basis, disclosure training shall also be conducted with members of the Commission, the SFPUC's direct governing body. In addition, when a new Debt transaction is brought to the Commission for approval, the Commission shall be provided with a summary of key disclosure items related to the transaction. This shall assist Commissioners in understanding their responsibilities with respect to Disclosure Documents.

## **Communication**

### **Rating Agencies**

The SFPUC shall maintain its strong ratings through prudent fiscal management and consistent communications with the ratings analysts. The Debt Manager shall manage relationships with the rating analysts assigned to the SFPUC's credit, using both formal and informal methods to disseminate information. Communication with the rating agencies shall include:

- i. **Formal Meetings:** The SFPUC will meet (or formally communicate) with credit rating agencies, preceding a new debt issuance, or, at least annually unless such meeting is deemed unnecessary by the rating agencies. The meeting(s) will cover economic, financial, operational, and other issues that impact the SFPUC's credit.



- ii. Reporting: The SFPUC will promptly make Annual Audited Financial Statements, Adopted Budgets, and other relevant documents available to rating agency personnel.
- iii. 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.

## Underwriters

SEC Rule 15c2-12 requires underwriters, in a negotiated sale, to review issuers' official statements before underwriting municipal bonds and to reasonably determine that the issuer has contracted to disclose annual financial and operating information, as well as material event notices. In advance of circulating the Official Statement for a negotiated sale, the SFPUC will participate in a "due diligence" meeting with the underwriters and their counsel to address any questions they may have related to the SFPUC's financial condition and operations. In the case of a competitive sale, the SFPUC will similarly participate in a "due diligence" meeting conducted by disclosure counsel.

## Investors

Retail, Professional Retail and Institutional investors purchase SFPUC bonds. While both classes of investors rely on the formal credit ratings, Institutional investors generally do an independent review and approval of SFPUC's credit before making an investment decision. Information is critical for these investor classes and, in addition to providing a POS to the Underwriters, the SFPUC will endeavor to establish and maintain an Investor Relations Program in order to achieve the lowest cost of finance for a transaction, maintain a diversified investor base and keep investors continually informed of the SFPUC's current financial and operational position.

The SFPUC shall use disclosure as a tool for developing ongoing dialogue with investors. Communication with investors may consist of the following elements:

- i. Disclosure Reports – The SFPUC shall make disclosure reports readily available to key stakeholders, Investors, and the Rating Agencies.
- ii. Website – The SFPUC shall use its website as a tool for providing timely information to investors.
- iii. Marketing Campaigns – To reach certain Professional Retail and Institutional investors, the SFPUC can conduct marketing outreach campaigns for each transaction. The campaigns might include print and online advertising and radio ads, face-to-face meetings or internet road shows (eg. Net RoadShow).
- iv. Investor Conferences – From time to time, the SFPUC will attend industry investor conferences to make presentations to investors and/or to conduct direct one-on-one meetings with investors attending the conference.

## Oversight

The 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 and June 2018 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:
  - a. Independent audit of actual expenditures of revenue bond proceeds.
  - b. Consultation with the City Attorney.
  - c. Determination that proceeds are being or have been expended for unauthorized or illegal purposes.
  - d. Majority vote of all its members.<sup>4</sup>
- 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 new money revenue bond precedes fund the costs of the RBOC.

## ONGOING DEBT ADMINISTRATION

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### Financial Disclosure Compliance

#### SEC Rule 15c2-12

The SFPUC will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Securities and Exchange Commission (SEC) Rule 15c2-12. The Debt Manager shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The Debt Manager is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the SEC, and Generally Accepted Accounting Principles (GAAP). The SFPUC may also employ the services of firms that improve the availability of or supplement the SFPUC's EMMA filings.

The SFPUC will provide full and complete financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information using the appropriate channels/policies/procedures.

All disclosure information shall be reviewed and approved by the CFO. **Appendix C provides a summary of the SFPUC's continuing disclosure requirements.**

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<sup>4</sup> Determination may be appealed to the BOS within 30 days of the RBOC's decision. BOS may overturn the decision of the RBOC by resolution approved by two-thirds vote of all its members.



## Compliance with Other Bond Covenants

In addition to financial disclosure and arbitrage compliance (discussed below), once the bonds are issued, the SFPUC is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Taxes/fees are levied and collected where applicable
- Timely transfer of debt service/rental payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Compliance with all other bond covenants

Capital Financing staff, under the direction of the Debt Manager, will coordinate verification of covenant compliance and will work with the City Attorney's Office, Disclosure Counsel and all other responsible departments to monitor compliance with the aforementioned compliance requirements.

## Post-Issuance Tax Compliance

### IRS Tax Compliance

#### 1. Arbitrage Liability Management

The SFPUC shall minimize the cost of arbitrage rebate and yield restrictions while strictly complying with tax law. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the SFPUC shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations. The SFPUC will engage a qualified third-party for the preparation of the arbitrage rebate calculation.

The SFPUC will be responsible for monitoring the use of bond proceeds and investment earnings to ensure compliance with any covenants or restrictions established in connection with issued bonds. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. All investments of bond proceeds shall adhere to the City's Investment Policy approved periodically by the Treasury Oversight Committee. Further, the SFPUC will maintain copies of all relevant and material documentation related to all issued bonds and bond proceeds as described below under "Record Keeping Requirements."

#### 2. Use of Bond Proceeds and Bond-Financed or Refinanced Assets

The Debt Manager, in accordance with the Fixed Assets Supervisor and the Controller's Office, shall be responsible for:

- i. Monitoring the use of Bond proceeds and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in any tax agreement relating to the Bonds;
- ii. Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds, including a

final allocation of Bond proceeds as described below under “Record Keeping Requirements”;

- iii. Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds;
- iv. Maintaining records for any contracts or arrangements involving the use of Bond-financed or refinanced assets as described below under “Record Keeping Requirements”;
- v. Conferring at least annually with personnel responsible for Bond-financed or refinanced assets to identify and discussing any existing or planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds; and
- vi. To the extent that the SFPUC discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

The SFPUC has adopted written post-issuance Tax Compliance Procedures for Tax-Exempt Bonds found in Appendix D and Direct Pay Bond Compliance Procedures found in Appendix E. The SFPUC shall comply with such procedures to maintain the tax-exempt status of the SFPUC’s debt obligations or to maintain eligibility for direct pay subsidy payments, as applicable.

## Other IRS Compliance

### 1. Record Keeping

The Debt Manager, in coordination with the Record’s Keeping Manager, shall be responsible shall be responsible for maintaining the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- i. A copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds, including any elections made by the City in connection therewith;
- ii. A copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for Bond proceeds and evidence as to the amount and date for each draw down of Bond proceeds, as well as documents relating to costs paid or reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds, including a final allocation of Bond proceeds;
- iii. A copy of all contracts and arrangements involving the use of Bond-financed or refinanced assets; and

- iv. A copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.

# Appendix A

## SFPUC Types of Authorized Debt

**San Francisco Public Utilities Commission  
Types of Authorized Debt**

- i. Fixed rate bonds - long-term securities with serial and term maturities, including put-bonds. 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 do not bear a fixed interest rate to maturity, but instead bear 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 bank credit facility provider retained by the SFPUC.
- iv. Commercial paper - short-term (1-270 days) security with fixed interest rates set depending on the term of the commercial paper within the 270- day period. Customarily, commercial paper is secured by a pledge of net revenues that is subordinate in lien to the pledge of net revenues for senior lien revenue bonds. In order to further secure and have market access for the commercial paper, some form of credit facility, such as a letter or line of credit or a liquidity facility, must be obtained from a high-grade bank. Commercial paper is designed to provide flexible, low-cost financing to meet the interim encumbrance and expenditure needs of capital projects. Commercial paper is typically refunded with the issuance of long-term indebtedness.
- v. Direct Bank Loans – short-term security with interest rates based off a floating index (i.e. 1-Month LIBOR) plus a predetermined spread to the index. The SFPUC can make direct draws from the bank for a period determined by the SFPUC. Direct bank loans have fees based off of utilized and unutilized amounts of the facility.
- vi. Green Bonds - issued for any enterprise to fund qualified projects that have environmental and/or climate change mitigation or adaptation benefits. Proceeds from these bonds are earmarked for sustainability oriented green projects and allow investors to invest directly in bonds which finance environmentally beneficial projects. The SFPUC will comply with the following when issuing Green Bonds:
  1. For each issuance of Green Bonds, the SFPUC will make a determination whether to self-certify the Bonds, or retain an independent consultant to certify the Bonds.
  2. The SFPUC will only issue Green Bonds if, during the life of the Bonds, they in no way impede or restrict the ability of the issuing enterprise to use the Green Bond-funded projects for other future business purposes that are not in keeping with “Green Bond” principles.

3. The SFPUC will annually report on its website the status of spending of Green Bond proceeds during the construction period of the funded projects.
4. The SFPUC will conform with established Green Bond international standards as they develop, such as the recently-established Water Climate Bonds Standard.

vii. State Revolving Fund (SRF) Loans–

1. Managed by the California State Water Resources Control Board, Clean Water SRF loans provide alternative capital financing for certain facilities of the Wastewater Enterprise and certain Water Enterprise Recycled Water projects. The SFPUC will not enter into SRF loans with lien status senior to outstanding senior lien Wastewater Revenue Bonds.
2. Managed by the California State Water Resources Control Board, Drinking Water SRF loans provide alternative capital financing for certain facilities of the Water Enterprise. The SFPUC will not consider entering into SRF loans with lien status senior to outstanding senior lien Water Revenue Bonds.

viii. Water Infrastructure Finance and Innovation Act (WIFIA) Loans –

1. Managed by the United States Environmental Protection Agency, WIFIA loans provide alternative capital financing for certain facilities of the Wastewater Enterprise.

ix. Tax Credit Bonds

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.
3. New Clean Renewable Energy Bonds (NCREBs) - established by Congress as part of the Energy Improvement and Extension Act of 2008 and capped at \$2.4 billion by ARRA. These tax credit bonds

allow certain issuers to receive subsidies, in the form of reimbursements, from the federal government when financing qualified renewable energy facilities.

- x. 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. The SFPUC issued several BABs for the Water and Wastewater Enterprises in 2010. Federal authorization for this program expired on December 31, 2010.
- xi. Capital Lease Financing – equipment or facility lease financing as allowed by the Charter and Administration code.

## **Appendix B**

### SFPUC Debt Administration & Accounting Process Overview





## Debt Administration & Accounting Process Overview



### Objective

- Provide an operational overview of the SFPUC debt issuance and administration process;
- Describe compliance procedures for legal and regulatory requirements; and
- Describe accounting procedures and the work groups responsible to record debt issues and the repayment of principal and interest.

### Section One: Background

- I. The SFPUC Debt Unit has established the SFPUC Debt policy to:
  - A. Manage debt effectively;
  - B. Finance capital projects for the SFPUC enterprises in a timely and cost-effective manner;
  - C. Achieve and maintain high credit ratings;
  - D. Retain financial flexibility;
  - E. Maintain compliance with the City's policies and procedures, relevant laws, regulations, and disclosure requirements.
  - F. Policy Links:
    1. A complete copy of the SFPUC Debt Management Policies and Procedures is located at:  
<http://www.sfwater.org/modules/showdocument.aspx?documentid=9819>
    2. When the City issues debt for SFPUC projects, the City's Debt Policy (refer to section 11) may be applicable, and is located at:  
<https://sfemployeeportalsupport.sfgov.org/support/solutions/articles/22000216186-the-controller-s-office-accounting-policies-procedures>
- II. Authorization
  - A. Legal authorization for debt is provided by the City Charter, Section 9.107(6) Revenue Bonds (Proposition A in November 2002), Section 9.107(8) Revenue Bonds (Proposition H in November 2001), and Section 8B.124 Revenue Bonds (Proposition E in November 2002 and Proposition A in June 2018). All Propositions were passed by the voters of the City and County of San Francisco.

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- B. The Commission approves all debt financings.
  - C. The Capital Planning Committee (CPC) and the Mayor’s Budget Office review proposed debt issues prior to Board of Supervisors (BOS) approval.
  - D. The Revenue Bond Oversight Committee (RBOC) is notified regarding anticipated bond sales prior to issuance.
- III. The SFPUC issues debt for purposes of financing or refinancing the acquisition and/or construction of capital improvements. Debt financings are not to be used for operating costs. Types of debt that may be issued are further described in SFPUC Debt Management Policies and Procedures, as approved by the Commission in August 2017, and include the following:
- A. Fixed rate bonds;
    - 1. Revenue Bonds and Notes (tax exempt, taxable Build America Bonds (BABs), Green Bonds, etc.)
    - 2. Refunding Bonds
  - B. Variable Rate Bonds and Notes;
  - C. Commercial Paper (tax exempt, taxable, and Alternative Minimum Tax AMT);
  - D. Loans (State Revolving Loans (SRFs), California Energy Commission (CEC), Water Infrastructure Finance and Innovation Act (WIFIA), etc.);
  - E. Federal Subsidy Financings:
    - 1. Clean Renewable Energy Bonds (CREBs)
    - 2. New Clean Renewable Energy Bonds (NCREBs)
    - 3. Qualified Energy Conservation Bonds (QECBs)
  - F. Certificates of Participation (COPs); and
  - G. Capital Lease Financing.
- IV. The amount and purpose of the debt is determined through the annual budgeting process and the 10-year Capital and Financial Plans.

**Section Two: Trust Indenture**

- I. Revenue bonds issuance is subject to the provisions of a Trust Indenture, or a similar agreement, for the protection of the bondholders, which may require certain proceeds to be held in trust by a Trustee. The SFPUC has trustee agreements with US Bank dated on August 01, 2002 for the Water Enterprise, January 01, 2003 for the Wastewater Enterprise, and May 01, 2015 for the Power Enterprise.
- II. Bond proceeds may be held by the Trustee or the City (CCSF) Treasurer as required. Proceeds are invested pursuant to the Trust Indenture, SFPUC, and CCSF investment and debt management policies.
- III. The Trustee sets up funds pursuant to the respective Trust Indenture which are separately accounted for by bond issue and enterprise, and typically include the following fund types:
  - A. Principal;

- B. Interest;
- C. Debt Service Reserve;
- D. Capitalized Interest;
- E. Arbitrage Rebate;
- F. Revenue;
- G. Cost of Issuance;
- H. Escrow;
- I. Certificates of Participation (COPs) Working Capital.

IV. Trustee duties include:

- A. Providing a monthly accounting for each bond series and fund;
- B. Collecting funds from the SFPUC to hold for purposes of paying principal and interest when due;
- C. Investing idle funds;
- D. Monitoring compliance with the Trust Indentures;
- E. Paying the required principal and interest amounts when due to the Fiscal Agent pursuant to the Official Statements, Trust Indenture, and other bond issuance documents. The Fiscal Agent makes the payments to the bond holders.
- F. Filing Agent for Build America Bonds for semi-annual subsidy payment requests to the Treasury and receiving those funds on the SFPUC's behalf.

**Section Three – Accounting for Debt**

<b>Table of Key Personnel</b>	
<b>Title</b>	<b>Responsibilities</b>
<i>Controller's Office, Office of Public Finance (OPF)</i>	<ul style="list-style-type: none"> <li>▪ Manages the debt issuance process when the City's Office of Public Finance issues debt for SFPUC projects</li> </ul>
<i>Controller's Office</i>	<ul style="list-style-type: none"> <li>▪ Assists SFPUC in administrative set-up of funds, chart fields and accounts in PeopleSoft for new issuances</li> <li>▪ Approves journal entries relating to recording debt issues, transfer of funds to the trustee, and other debt related accounts transactions</li> </ul>

<b>Table of Key Personnel</b>	
<i>Debt Manager</i>	<ul style="list-style-type: none"> <li>▪ Primary contact for debt issuance, trustees, financial advisors, rating agencies, investors, and underwriters</li> <li>▪ Maintains master schedule for debt instruments</li> <li>▪ Manages arbitrage rebate analysis and reporting</li> <li>▪ Manages continuing disclosure requirements</li> <li>▪ Manages all legal settlements and payouts utilizing bond proceeds</li> <li>▪ Approves and coordinates all capital finance budgeting and long term financial planning issues related to debt</li> <li>▪ Responsible for debt service budget and coordinates with Budget Director operating fund transfers and related appropriation to debt services funds in accordance with approved budget</li> <li>▪ Approves all payments to lawyers, financial advisors, underwriters, trustees, credit banks, and all other suppliers, etc.</li> </ul>
<i>(Senior) Debt Analyst</i>	<ul style="list-style-type: none"> <li>▪ Compares invoices from Trustee with debt schedules</li> <li>▪ Prepares disclosure reports</li> <li>▪ Ensures and submits Bond Compliance requirements are met</li> <li>▪ Ensures debt transfers are sufficient to meet debt service requirements</li> <li>▪ Ensures debt transfers and payments are made in accordance with the approved budget. Responsible for tracking Budgetary Savings/Overages related to debt issues and/or payments</li> <li>▪ Prepares all debt financing costs for Debt Manager review and approval</li> <li>▪ Ensures all debt service payment requests are approved at least 10 business days in advance of debt payment date unless first time debt payment which require 15 business days in advance</li> <li>▪ Responsible for providing HRC waivers for non-compliant suppliers</li> <li>▪ Prepares cost of issuance analysis and/or projections</li> </ul>

<b>Table of Key Personnel</b>	
<i>Accountant IV –Financial Reporting and Analysis</i>	<ul style="list-style-type: none"> <li>▪ Works with Debt Manager on best way to establish new funds, chart fields and accounts to achieve transparency, tracking and reporting requirements</li> <li>▪ Submits completed set up forms requesting new funds, chart fields, and accounts approved by Debt Manager/ Debt Analyst to the Controller’s Office</li> <li>▪ Prepares journal entries for new issuance</li> <li>▪ Calculates refunding gain/loss for refunded bonds</li> <li>▪ Prepares Debt Service Coverage compliance schedules</li> </ul>
<i>Accounting Services Manager</i>	<ul style="list-style-type: none"> <li>▪ Reviews amortization schedules for debt repayment, bond discount or premium, prepaid insurance and refunding gain or loss</li> </ul>
<i>Capital Projects Accounting Manager</i>	<ul style="list-style-type: none"> <li>▪ Monitors debt repayments</li> <li>▪ Reviews various Debt schedules</li> </ul>
<i>Accountant IV – Capital Projects Accounting</i>	<ul style="list-style-type: none"> <li>▪ Monitors debt service payments for accuracy and timeliness</li> <li>▪ Reviews and approves journal entries</li> </ul>
<i>Accountant III – Capital Projects Accounting</i>	<ul style="list-style-type: none"> <li>▪ Upon receipt of debt service payment requests, moves appropriations from operating fund to debt service fund</li> <li>▪ Processes journal entries for debt service payments</li> </ul>
<i>Accountant IV - Fixed Assets &amp; Debt Accounting</i>	<ul style="list-style-type: none"> <li>▪ Reviews annual debt schedules and reconciliations</li> <li>▪ Approves journal entries</li> </ul>
<i>Accountant III – Fixed Assets &amp; Debt Accounting</i>	<ul style="list-style-type: none"> <li>▪ Prepares monthly reconciliation of trustee statements to PeopleSoft</li> <li>▪ Prepares quarterly and annual debt related schedules and entries to PeopleSoft</li> <li>▪ Prepares journal entries in PeopleSoft for activity in trustee funds; interest accruals; amortization of bond discount or premium, prepaid insurance, and refunding gains or losses</li> </ul>

**I. Long Term Debt**

A. Types of Authorized Debt

1. Revenue Bonds (tax exempt, taxable, variable, refunding);
  - a. Green Bonds (projects must meet eligibility requirements);

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2. Loans (State Revolving Fund (SRF); California Energy Commission (CEC); Environmental Protection Agency (EPA), Water Infrastructure Finance and Innovation (WIFIA); etc.);
  3. Tax Credit Bonds (Clean Renewable Energy Bonds (CREBs), New Clean Renewable Energy Bonds (NCREBs), Qualified Energy Conservation Bonds (QECBs); etc.);
  4. Build America Bonds (BABs); and
  5. Capital Lease Financings (Certificates of Participation (COPs);
- B. Prior to bond issuance
1. Debt Manager
    - a. Schedules a meeting with Budget, Financial Reporting and Analysis (FRA), and Accounting Services at least a month before the issue date.
    - b. Provides copies of the draft/proposed following documents to the Accounting Services Manager, Fixed Assets & Debt Accounting Supervisor, and FRA Manager at least a month before the issue date:
      - i. Preliminary Official Statement (POS);
      - ii. SFPUC Commission Resolution; and
      - iii. City Board of Supervisors Ordinance/Resolution.
    - c. Provides the City Treasurer with
      - i. Details (i.e., amount and date) for the expected wire transfer from the Trustee; and
      - ii. Draw Schedule for the expected spend down of proceeds.
    - d. Completes set up forms for the FRA team for set up of funds, and accounts.
    - e. Provides Project code for monthly interest allocation to FRA.
  2. FRA Accountant IV of the Enterprise ensures funds and accounts are established 5 business days in advance of the issue date.
  3. FRA Accountant IV of the Enterprise informs Accounting Services Manager, FRA Manager, Accounting Operations Manager, Cash Receipts Supervisor, Fixed Assets & Debt Accounting Supervisor, and Debt Manager after set up of funds and accounts by the Controller's Office in the Accounting System.
- C. Post Bond Issuance
1. Debt Manager provides links in Finance folder of the following documents from the bond issuance to the Accounting Services Manager, FRA Manager and FRA Supervisor, Capital Projects Accounting Manager; Fixed Assets & Debt Accounting Supervisor and Accountant III for Fixed Assets Group:
    - a. Official Statement (OS);
    - b. Closing flow of funds memo;
    - c. Trust Indenture;
    - d. Cost of issuance scheduling;
    - e. Bond Pricing report prepared by the Financial Advisor; and
    - f. Debt amortization schedule and periodic updates to it.
  2. FRA Accountant IV prepares journal entries to record the debt proceeds, spent cost of issuances as an expense, unspent cost of issuances as cash with fiscal agent, premiums or discounts, prepaid insurance and gain or loss for refunding. Posting of debt proceeds in PeopleSoft is to be completed within two weeks of receiving the debt proceeds. The entry is reviewed and approved by:
    - a. Secondary reviewer following typical approval path; and
    - b. Controller's Office through the PeopleSoft approval path.

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3. Given Chart of Account codes provided by Debt Manager 10 business days before issue date, Cash Receipts Supervisor with the Accounting Operations Group prepares an entry to record the cash receipt on the day that the wire transfer is made. The entry is to be recorded within 24 hours after debt is issued and reviewed and approved by:
    - a. Accounting Operations Manager and Accounting Services Manager; and
    - b. Controller's Office through the PeopleSoft approval path.
  4. After journal entries are approved by the Controller's Office, an email should be sent by Accounting Operations Manager to Accounting Services Manager.
  5. The Debt Manager, within 30 days of the closing of any Enterprise Bonds refunding, shall provide a saving report (that reflects at least a 3% net present value savings for ratepayers) to the Board of Supervisors together with a copy of the final Official Statement. The Refunding Bonds shall be subject to the following further conditions, that:
    - a. Ordinance No. 112-16, adopted by the Board of Supervisors on June 14, 2016, authorizes the Commission to issue refunding bonds and other forms of indebtedness, without limitation as to the principal amount, provided that each such refunding bonds are permitted under the applicable policies and procedures of the City and authorized by either Section 9.109 of the Charter or Proposition E.
- D. Cost of Issuance Close Out
1. Accountant III – Fixed Assets obtains from the Debt Analyst the latest cost of issuance amount within 1 month of receiving debt proceeds and final changes to cost of issuance are obtained subsequently.
  2. Debt Analyst
    - a. Reviews and informs the fiscal agent to close out the cost of issuance accounts according to the Debt Indenture.
    - b. Sends an email notification to Fixed Assets & Debt Accounting Supervisor, Accounting Services Manager, and FRA Manager and FRA Supervisor after closing out the cost of issuance accounts.
    - c. Per GASB 65 Debt costs of issuance are expensed as incurred rather than amortized beginning 2014 except for prepaid insurance.
    - d. Work with the Fixed Assets Accountant III to close out the cost of issuance by 18 months after the bond issued date.
- E. Project Fund Close-Out
- a. When there is a Project Fund Close-out for any outstanding series of tax-exempt bonds, Accounting may allocate unspent project fund proceeds, and any interest earnings thereon, for making debt service payments on that series of bonds.
  - b. When there is a Project Fund Close-out for any outstanding series of federal subsidy bonds (i.e. Build America Bonds or the NCREBs and QECBs), federal tax regulations (as opined by respective bond counsel for the federal subsidy bonds) require that any unspent project fund proceeds, and any interest earning thereon, can only be allocated for capital spending. The proceeds cannot be allocated to making debt service payments on the bonds.
- F. Economic Gain/ Loss
- Debt Analyst will provide the FRA group and Fixed Assets & Debt Accounting Supervisor the Refunding Analysis and Final numbers on a case by case basis within 10 business days after issuance date.
- G. Contract Monitoring Division (CMD) compliance requirements



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The Debt Group is responsible for checking the suppliers' compliance status to ensure that the selected suppliers are current with the business taxes and that the CMD compliance requirements are met before doing business with them. If the supplier is not compliant with CMD requirements, the CMD waiver should be obtained from the Contract Monitoring Division before the agreement is signed or the service is performed.

#### H. Payments

1. The Debt Group will maintain a current schedule of all upcoming debt payments in excel and make it available for access to the Accounting Group.
2. Debt Analyst with Debt Manager oversight
  - a. Reviews the principal and interest payment schedules of each bond series from the fiscal agent and prepares a summary schedule and provide it to the Capital Project Group.
  - b. Provides copies of the issuance documents, Final Debt Service Payment Schedule detailing each (e.g. semi-annual) debt service payment to the Accounting Services Manager, Capital Projects Manager, Fixed Assets & Debt Accounting Supervisor, and the Accountant III with the Fixed Assets Accounting Group.
  - c. Provides debt related payment request to the Capital Project Group.
    - i. The payment request including the funding sources and the due date of the payment must be initiated by the Debt Manager and approved by the Deputy Chief Financial Officer.
    - ii. In order to process the payment request on time and to ensure that the payment is received by the Trustee on or before the due date, requests must be submitted to Capital Project Accounting a minimum of 15 business days in advance for a first time debt service repayment request and a minimum of 10 business days in advance for a routine debt service repayment requests and any debt related payments.
    - iii. The Debt Service payments are normally made with either a check or an Electronic Funds Transfer (EFT). However, if the debt service payments are in excess \$100 Million, the wire transfer payment method is used. The wire transfer method requires coordination with the Treasurer's Office for approval and processing of the fund transfer. Thus, the debt analyst will submit the debt service payment request to Capital Project Accounting no later than 15 business days prior to the payment due date and notify the Treasurer's Office via email ([ttx.bankwires@sfgov.org](mailto:ttx.bankwires@sfgov.org) and [ttx.investment@sfgov.org](mailto:ttx.investment@sfgov.org)) at least 3 business days before the wire is due.
  - d. In the event that the SFPUC receives written notice from the IRS that all or a portion of the federal subsidy payment from the IRS on any of its Build America Bonds or Tax Credit Bonds will be sequestered, the Debt Manager will promptly inform the CFO, Deputy CFO, Accounting Group, and Capital Budget Group in order to make the necessary adjustments resulting from this sequestration.
3. For each debt service payment Debt Manager coordinates with Budget unit, FRA unit, Accounting Services staff, and Trustee (invoice received) to determine the amount to transfer from the operating fund to the debt service fund to cover debt service payments. Debt Manager verifies the transfer agrees with the budgeted debt service. Debt Manager tracks budget savings/overages and reports it to the Budget Unit.
4. Accountant III for Capital Projects Accounting with direction from the Debt Manager or Debt analyst, prepares journal entries to request a transfer of funds from the operating



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- fund to the debt service fund and make a deposit to the trustee to cover principal and interest when due.
- a. The journal entry is approved by:
    - i. Capital Projects Supervisor;
    - ii. Capital Projects Manager; and
    - iii. The Controller's Office.
  - b. Once approved, funds are sent to the Trustee using the Electronic Funds Transfer (EFT) payment method (with exceptions as noted above).
5. Accountant III for Fixed Assets
- a. Compares and reconciles the principal and interest payment schedules against the issuance documents.
  - b. Reclassifies the actual principal and interest payment as a deposit into the Trustee account and reduces the bond outstanding liability in PeopleSoft after the Trustee made the principal and interest payments to the bond holders.
- I. Amortization schedules are prepared based on the direction from the Official Statement on the flow of funds.
1. Accountant III with the Fixed Assets Accounting Group prepares amortization schedules for:
    - a. Discount or premium;
    - b. Prepaid Insurance; and
    - c. Refunding gain or loss.
  2. Schedules are reviewed for accuracy and completeness by:
    - a. Fixed Assets Supervisor;
    - b. The Capital Projects Manager; and
    - c. The Accounting Services Manager.
- J. Reporting and compliance with debt covenants
1. Debt Manager, in accordance with the Controller's Office and the Revenue Bond Oversight Committee (RBOC), periodically reviews and monitors
    - a. Appropriateness of the use of proceeds;
    - b. Compliance with debt covenants and other requirements;
    - c. Principal and interest payments; and
    - d. Arbitrage rebate on tax-exempt issuances.
  2. Debt Manager arranges with a consultant to perform a periodic arbitrage rebate analysis, as needed.
    - a. Obtains a detailed transactions report from the Business Analyst with the Budget Group, which includes expenditures in project funds and earnings on funds held by the City Treasury.
    - b. Provides a copy of the report to:
      - i. Trustee, who notifies SFPUC if and when payments from earnings should be made; and
      - ii. FRA Accountant IV to accrue arbitrage rebate liabilities at fiscal year-end.
  3. Disclosure Reports are prepared annually by the Debt Analyst.
    - a. The Accountant IV from FRA Group
      - i. Prepares the schedule for the debt service coverage calculation at year-end.
      - ii. Prepares an analysis of available fund balances by fund.
    - b. Prior to including the schedules in the disclosure report, they are reviewed by the:
      - i. FRA Manager; and FRA supervisor
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- ii. Accounting Services Manager;
  - iii. Debt Manager;
  - iv. Deputy CFOs; and
  - v. CFO.
- K. Debt Analyst ensures trustee provides monthly statements for each fund and online access to Debt group, Fixed Assets & Debt Accounting Supervisor, and Fixed Assets Accountant III:
1. Accountant III with the Fixed Assets Group prepares reconciliations and journal entries for
    - a. Payment of principal and interest;
    - b. Interest earnings;
    - c. Reimbursement for project cost;
    - d. IRS Subsidy Payment for Build America Bonds, COPs, QECBs, and NCREBs;
    - e. Other expenditures.
  2. Accountant III with the Fixed Assets Group reconciles the original repayment schedule from the Trustee to the trustee statement.
  3. Journal entries and reconciliations are reviewed for accuracy and approved by:
    - a. Fixed Assets Supervisor;
    - b. Capital Projects Accounting Manager;
    - c. Accounting Services Manager; and
    - d. Controller's Office.

## II. State Revolving Loans

### A. General

1. The State Revolving Fund (SRF) program provides low-interest financing for Water and Wastewater Capital Improvement Projects. The program receives annual funding through federal government grants and annual appropriation, and the State Water Resources Control Board (the "State").
2. Along with the participation of many SFPUC stakeholders, the SRF candidates projects are identified, reviewed, and approved by the Grants and Loans Steering Committee.

### B. Loan Application and Execution

1. Many SFPUC stakeholders are involved to compile, submit, and obtain the State approval of a loan application, and to negotiate and execute an Installment Sales Agreement (ISA).
2. The interest rate and other terms and conditions of each loan are determined when a project loan agreement is executed.

### C. Loan Amendment

1. Both the Commission approval and an Installment Sales Agreement (ISA) amendment are required for most changes to scope, schedule, and budget.
2. The ISA requires that SFPUC promptly notify the State prior to implementing any substantial change in scope, any work cessation extended for 30 days or more, and any expected delay to Construction Completion of 90 days or more.

### D. Reimbursement Loan

1. The SRF loans are reimbursement-based. Incurred costs for reimbursement are compiled by Infrastructure and submitted to Capital Accounting Manager for review. (Refer to the separate SRF loans Process Narratives for the Loan Reimbursement Request Process)

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2. After reviewed, the Capital Projects and Grants Accounting team abates both budget and actuals from the capital fund to the SRF fund and records the Account Receivable in PeopleSoft.
  3. The Financial Reporting and Analysis team then records the SRF loan payable by the same amount as the Account Receivable in the debt service fund under CAFR\_FULL ledger in PeopleSoft.
  4. Infrastructure submits the reimbursement requests to the State.
  5. Upon receipt of the reimbursement, Capital Projects Accounting Manager provides the Chart of Account to the Accounting Operations.
  6. Accounting Operations deposits the check and reduces grant receivable in PeopleSoft.
  7. Once deposited, Capital Accounting Manager notifies Deputy CFOs, Debt Manager, Accounting Services Manager, and FRA Manager. Debt Manager refunds a like amount of Commercial Paper per the ISA.
- E. Post Loan Repayment and Forgiveness
1. The initial SRF payment schedule is provided in the executed ISA and is updated upon construction completion when the final disbursement request is approved and disbursed.
  2. Once the final SRF repayment schedule, net of loan forgiveness, is received by the State, the Debt Manager/Analyst provides copies of the final loan repayment schedules to the Accounting Services Manager, the Capital Projects Accounting Manager, and the FRA Manager.
- F. Payments
1. Debt manager receives invoice for each loan issuance 1 month prior to the payment due from the State.
  2. Debt Analyst with Debt Manager oversight
    - a. Provides loan payment request to the Capital Project Group.
      - i. The payment request including the funding sources and the due date of the payment must be initiated by the Debt Manager and approved by the Deputy Chief Financial Officer.
      - ii. In order to process the payment request on time and to ensure that the payment is received by the State on or before the due date, requests must be submitted to Capital Project Accounting a minimum of 15 business days in advance for any loan related payments
  3. Accountant III in Capital Projects Accounting
    - a. Prepares journal entries to request a transfer of funds from the operating fund to the State Revolving fund and prepares a voucher payment to the State for the loan repayment.
    - b. Fund transfer journal entries and the voucher payments are approved by:
      - i. Capital Projects Supervisor and
      - ii. Controller's Office through the PeopleSoft approval path.
    - c. Once approved, the Controller's Office prints a check and mails it to the PO Box address that the State provided.
- G. Loan Liability Reduction
- After Loan repayment is made to the State
1. Accountant III in the Fixed Assets Group
    - a. Prepares journal entries to reduce the loan liability by the same amount as the loan repayment amount.

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- b. The journal entries are approved by:
    - i. Fixed Asset & Debt Accounting Supervisor and
    - ii. Controller's Office through the PeopleSoft approval path.
  - H. Single Audit
    - 1. SRF reimbursements exceeding the \$750K from the Federal Sources are subject to the Single Audit. (Refer to the SRF Loan Process Narrative for the detailed compliance requirements and the audit Scopes)

### **III. Interim Funding Program**

- A. General –
  - 1. The Water and Wastewater Enterprises have Interim Funding Programs (formerly known as “Commercial Paper Programs”) that provide for the interim funding of each enterprise’s capital program with either the sale of commercial paper or entering into short-term loans directly with banks. The Power Enterprise has a Commercial Paper Program.
  - 2. Commercial paper (CP) is a short-term debt instrument that is typically supported by a bank letter of credit or liquidity facility.
  - 3. Commercial paper can have maturities from 1-270 days, and is normally refunded with revenue bonds.
  - 4. Direct bank loans are another form of short-term borrowing wherein the SFPUC enters into an agreement directly with a bank that allows it enter into short-term loans issued by then repaid to the bank.
  - 5. Authorizations of the Interim Funding Programs are as follows:
    - a. \$500 million for the Water Enterprise as of May 1, 2013 (includes \$400 million for commercial paper and \$100 million for direct bank loans),
    - b. \$750 million for the Wastewater Enterprise as of May 2017 (includes \$675 million for commercial paper and \$75 million for direct bank loans), and
    - c. \$250 million Commercial Paper Program for the Power Enterprise as of March 2019.
  - 6. The commercial paper dealers are selected via a competitive request for proposal (RFP) process.
  - 7. Typically, a tax-exempt CP and credit facility bank is used. However, to address private activity among wholesale customers, taxable CP is used.
- B. Prior to debt issuance
  - 1. Debt Manager requests the FRA Group to begin the process of setting up the new funds (if needed), accounts, and chart field to coordinate with the Controller’s Office. This request is provided 10 business days in advance of the issue date.
  - 2. Enterprise FRA Accountant IV establishes new funds and accounts 5 business days before issue date.
  - 3. Enterprise FRA Accountant IV informs Fixed Assets Accountant III, Debt Accounting Supervisor, Accounting Services Manager, FRA Manager/Supervisor, Debt Manager, and Debt Analyst after setting up funds and accounts in PeopleSoft by the Controller’s Office. FRA completes setup 5 business days in advance of the issue date.
  - 4. Debt Manager provides chart of accounts and expected issue amounts for wire transfers to the Cash Receipts Supervisor 5 business days before Commercial Paper proceeds are to be received.
  - 5. Debt Analyst provides project code for monthly interest allocation to FRA.

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C. Post debt issuance

1. Cash Receipts Supervisor prepares an entry to record the cash receipt on the day that the wire transfer is made. The entry is reviewed and approved by:
  - a. Accounting Operations Manager and Accounting Services Manager; and
  - b. Controller's Office.
2. Enterprise FRA Accountant IV prepares a journal entry to record the debt proceeds. After review, the entry is approved by:
  - a. FRA Supervisor; and
  - b. Controller's Office.

J. Principal and interest payments

1. In fiscal year 2016, SFPUC changed the practice on how the commercial paper (CP) interest is paid. Instead of paying the accrued interest after each CP maturity (or roll) from the debt operating fund, SFPUC is now capitalizing the interest. Thus, after each maturity, the accrued interest for the period will be added to the principal amount that is maturing.
2. The accrued interest is typically in an odd amount at the maturity date. However, the Commercial Paper Investors only purchase in denominations of one thousand dollars. Thus, at the maturity date, the accrued interest is rounded up to the nearest thousand in order to issue a new roll of the commercial paper. For example, the SFPUC issues \$20,000,000 of commercial paper, and the accrued interest for the issued period is \$40,875. This accrued interest is rounded up to \$41,000 (the nearest thousand) and added to the current outstanding principal of \$20,000,000. The new principal amount of \$20,041,000 will be issued as the new roll.
3. At the commercial paper maturity date, the Issuing and Paying Agent (IPA) pays the accrued interest to the investor and the difference between the accrued interest amount and the amount rounded up to the nearest thousand amount is kept with the IPA. After each roll, the excess cash with the IPA will accumulate and the SFPUC can request reimbursement at any time. Using the above example, if the accrued interest is \$40,875 and the nearest thousand of the accrued interest is \$41,000, the difference of \$125 (\$41,000 minus \$40,875) is kept with the IPA.
4. Quarterly, the Accountant III in the Fixed Assets Group prepares
  - a. Commercial Paper outstanding debt schedule, interest accrual schedule, and the rounded-up amount of cash with the IPA schedule;
  - b. Journal entries to record the commercial paper liabilities changes, accrued interest, and cash with the IPA for the rounded-up amount; and
  - c. Journal entries and schedules are reviewed for accuracy and completeness, and approved by:
    - i. Fixed Assets and Debt Accounting Supervisor;
    - ii. Capital Projects Accounting Manager; and
    - iii. Controller's Office.

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**IV. Notes to Audited Financial Statements & Comprehensive Annual Financial Report**

- A. FRA updates debt information in the financial statements each fiscal year-end. The short-term and long-term debt balances as well as current year debt activities are disclosed in the Notes in the Audited Financial Statements.

Water Enterprise Audited Financial Statements

<https://sfwater.org/modules/showdocument.aspx?documentid=13383>

Hetch Hetchy Water and Power Audited Financial Statements

<https://sfwater.org/modules/showdocument.aspx?documentid=13382>

Wastewater Enterprise Audited Financial Statements

<https://sfwater.org/modules/showdocument.aspx?documentid=13381>

- B. Debt Capacity and Debt Ratings financial information can be found in the Statistical Section – Debt Capacity of the Comprehensive Annual Financial Report (CAFR) (see page 201-216).

<https://sfwater.org/Modules/ShowDocument.aspx?documentid=13479>

**Debt Administration & Accounting Process Narrative**  
**Appendix A – Water Enterprise Debt**

All Bonds in the tables below have been issued pursuant to an Indenture and secured by a pledge of revenues from each enterprise on parity, and are outstanding as of March 31, 2019.

<b>Series of Bonds</b>	<b>Purpose</b>	<b>Initial Principal Amount (\$000)</b>	<b>Outstanding Amount as of March 2019 (\$000)</b>
Water Revenue Bonds, 1991 Series A <sup>(1)</sup>	Repair and replacement of water facilities	\$ 70,146	\$ 1,953
Water Revenue Bonds, 2009 Series A & B	Water system improvements under Proposition A (partially refunded by 2015A and 2016A)	824,000	19,270
Water Revenue Bonds, 2010 Series A & B <sup>(2)</sup>	Water system improvements under Proposition E	474,665	387,505
Water Revenue Bonds, 2010 Series D & E <sup>(2)</sup>	Water system improvements under Proposition E and refunding of Water Revenue Bonds, 2002 Series	446,925	391,970
Water Revenue Bonds, 2010 Series F & G <sup>(2)</sup>	Water system improvements under Proposition E	532,430	375,445
Water Revenue Bonds, 2011 Series A	Water system improvements under Proposition E	602,715	322,480
Water Revenue Bonds, 2011 Series B	Hetch Hetchy improvements	28,975	17,870
Water Revenue Bonds, 2011 Series C	Local water main replacement project	33,595	19,475
Water Revenue Bonds, 2011 Series D	Refunded part of 2001 and 2002 Bonds	55,465	19,135

**Debt Administration & Accounting Process Narrative**  
**Appendix A – Water Enterprise Debt**

<b>Series of Bonds</b>	<b>Purpose</b>	<b>Initial Principal Amount (\$000)</b>	<b>Outstanding Amount as of March 2019 (\$000)</b>
Water Revenue Bonds, 2012 Series A	Water system improvements under Proposition E	591,610	459,455
Water Revenue Bonds, 2012 Series B	Reimbursement for litigation settlement cost under Proposition A	16,520	16,520
Water Revenue Bonds, 2012 Series C	Refunded part of 2002 Bonds and all remaining 2001 Bonds	93,750	78,035
Water Revenue Bonds, 2012 Series D	Refunded all remaining 2002B Bonds	24,040	12,215
Water Revenue Bonds, 2015 Series A	Refunded all outstanding 2006A Bonds and a portion of 2009A Bonds	429,600	426,380
Water Revenue Bonds, 2016 Series A	Partially refunded 2009A, 2009B, and 2010F Bonds	763,005	763,005
Water Revenue Bonds, 2016 Series B	Fully refunded 2006B, 2006C, and partially refunded 2010A Bonds	130,815	104,900
Water Revenue Bonds, 2016 Series C	Taxable refunding of \$237M of outstanding commercial paper and \$20M of new money proceeds	259,350	248,360
Water Revenue Bonds, 2017 Series A	Water system improvements under Proposition E	121,140	121,140
Water Revenue Bonds, 2017 Series B	Fund projects that are part of the Regional Water and Local Water Program.	147,725	147,725
Water Revenue Bonds, 2017 Series C	Fund projects that are part of the Hetch Hetchy Water Program.	70,675	70,675
Water Revenue Bonds, 2017 Series D	Partially refunded 2011A and 2012A Bonds	350,305	349,470



**Debt Administration & Accounting Process Narrative**  
**Appendix A – Water Enterprise Debt**

Series of Bonds	Purpose	Initial Principal Amount (\$000)	Outstanding Amount as of March 2019 (\$000)
Water Revenue Bonds, 2017 Series E	Partially refunded 2011C, 2011D, and 2012C Bonds	48,890	48,890
Water Revenue Bonds, 2017 Series F	Partially refunded 2011B Bond	8,705	8,705
Water Revenue Bonds, 2017 Series G	Partially refunded 2011A Bond	34,280	33,780

**Total** **\$ 6,159,326** **\$ 4,444,358**

- (1) Issued as Capital Appreciation Bonds.
- (2) Water Revenue Bonds, 2010 Series B, E, and G are Build America Bonds (BABs).

**WATER ENTERPRISE – STATE REVOLVING LOANS**

State Revolving Fund Loan	Purpose	Total Agreement Amount (\$000)	Total Disbursement Requested Amount as of March 2019 (\$000)	Outstanding Amount as of March 2019 (\$000)
Clean Water State Revolving Fund Loan (CWSRF), C-06-8111-110	Westside Recycled Water	186,220	0	0
<b>Total</b>		<b>\$ 186,220</b>	<b>\$ 0</b>	<b>\$ 0</b>

**Water Enterprise’s Upcoming Planned Sales (Source: Adopted 10 Year Plan):**

Estimated Water bond issuance par amount FY 2019-20:

Water bonds: \$200M

Estimated Water Enterprise Commercial Paper issuance in FY 2019-20:

Water CP issuance: \$50M Estimate

**Process Overview for Accounting for Debt  
Appendix B – Wastewater Enterprise Debt**

<b>WASTEWATER ENTERPRISE – REVENUE BONDS Series of Bonds</b>	<b>Purpose</b>	<b>Initial Principal Amount (\$000)</b>	<b>Outstanding Amount as of March 2019 (\$000)</b>
Wastewater Revenue Bonds, 2010 Series A	Refund outstanding Commercial Paper Notes	\$ 47,050	\$ 25,190
Wastewater Revenue Bonds, 2010 Series B (BABs)	Wastewater system improvements and refunding of Commercial Paper Notes	192,515	192,515
Wastewater Revenue Bonds, 2013 Series A (Refunding)	Refund previously outstanding Bonds & State Revolving Funds Loans	193,400	58,550
Wastewater Revenue Bonds, 2013 Series B	Wastewater system capital improvements under Prop E and refund outstanding Commercial Paper Notes	331,585	331,585
Wastewater Revenue Bonds, 2016 Series A (Green Bonds)	Finance and refinance (through retirement of commercial paper) select SSIP projects	240,580	240,580
Wastewater Revenue Bonds, 2016 Series B	Finance and refinance (through retirement of commercial paper) select SSIP projects	67,820	67,820
Wastewater Revenue Bonds, 2018 Series A (Green Bonds)	Finance and refinance (through retirement of commercial paper) select SSIP projects	229,050	229,050
Wastewater Revenue Bonds, 2018 Series B	Finance and refinance (through retirement of commercial paper) select SSIP projects	185,950	185,950
Wastewater Revenue Bonds, 2018 Series C (Green Bonds)	Finance and refinance (through retirement of commercial paper) select SSIP projects	179,145	179,145
<b>Total</b>		<b>\$ 1,667,095</b>	<b>\$ 1,510,385</b>

**Debt Administration & Accounting Process Narrative**  
**Appendix B – Wastewater Enterprise Debt**

**WASTEWATER ENTERPRISE – STATE REVOLVING LOANS**

<b>State Revolving Fund Loan</b>	<b>Purpose</b>	<b>Total Agreement Amount (\$000)</b>	<b>Total Disbursement Requested Amount as of March 2019 (\$000)</b>	<b>Outstanding Amount as of March 2019 (\$000)</b>
Clean Water State Revolving Fund Loan (CWSRF), C-06-8064-110	Lake Merced Green Infrastructure	\$ 7,435	\$ 4,893	\$ 4,893
Clean Water State Revolving Fund Loan (CWSRF), C-06-8088-110	SEP Building 521/522 and Disinfection Upgrades	40,007	0	0
Clean Water State Revolving Fund Loan (CWSRF), C-06-8132-110	SEP Primary/Secondary Clarifier Upgrades	34,446	30,495	30,495
Clean Water State Revolving Fund Loan (CWSRF), C-06-8129-110	NPF Outfall System Rehabilitation	20,199	17,706	17,706
<b>Total</b>		<b>\$102,087</b>	<b>\$53,094</b>	<b>\$53,094</b>

**Wastewater Enterprise’s Upcoming Planned Sales**

Estimated bond issuance par amounts in FY 2019-20:

Wastewater bonds: \$400M

Estimated Wastewater Commercial Paper issuance in FY 2019-20:

Wastewater CP issuance: \$100M

\*A portion may be financed with Bond Anticipation Notes (BANs) for Biosolids/Digester Project and SRF Loans.

**Debt Administration & Accounting Process Narrative**  
**Appendix C – Power Enterprise Debt**

**POWER ENTERPRISE – REVENUE BONDS (SENIOR LIEN)**

<b>Series of Bonds</b>	<b>Purpose</b>	<b>Initial Principal Amount (\$000)</b>	<b>Outstanding Amount as of March 2019(\$000)</b>
Power Revenue Bonds, 2015 Series A (Green Bonds)	Finance rehabilitation of hydropower generation facilities	\$ 32,025	\$ 32,025
Power Revenue Bonds, 2015 Series B	Finance rehabilitation of transmission & distribution lines	7,530	6,090
<b>Total</b>		<b>\$ 39,555</b>	<b>\$ 38,115</b>

**POWER ENTERPRISE – REVENUE BONDS (JUNIOR LIEN)**

<b>Series of Bonds</b>	<b>Purpose</b>	<b>Initial Principal Amount (\$000)</b>	<b>Outstanding Amount as of March 2019(\$000)</b>
2008 Clean Renewable Energy Bonds (CREBs)	Installation of solar energy equipment	\$ 6,325	\$ 1,687
2011 Qualified Energy Conservation Bonds (QECCBs)	525 Golden Gate Energy Project	8,291	5,030
2012 New Clean Renewable Energy Bonds (NCREBs)	Installation of solar energy and micro hydro - equipment	6,600	1,000
2015 New Clean Renewable Energy Bonds (NCREBs)	Installation of solar energy on facilities	4,100	3,537
<b>Total</b>		<b>\$ 25,316</b>	<b>\$ 11,254</b>

## **Debt Administration & Accounting Process Narrative**

### **Appendix C – Power Enterprise Debt**

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#### **Power Enterprise’s Upcoming Planned Sales (Source: Adopted 10 Year Plan):**

Estimated bond issuance par amounts in FY 2019-20:

Power bonds:	\$0M
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Estimated Power Commercial par amounts in FY 2019-20:

Paper CP issuance:	\$50M Estimate
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The following are authorized Commercial Paper capacity, and outstanding balances as of March 2019:

**WATER ENTERPRISE**

Description	Purpose	Authorized Capacity (\$000)	Outstanding (\$000)	Available Capacity (\$000)
Commercial Paper (Taxable / Tax-Exempt)	Short-term financing for capital improvement programs	\$500,000	\$61,022	\$438,978

**WASTEWATER ENTERPRISE**

Description	Purpose	Authorized Capacity (\$000)	Outstanding (\$000)	Available Capacity (\$000)
Commercial Paper (Tax-exempt)	Short-term financing for capital improvement programs	\$750,000	\$291,498	\$458,502

**POWER ENTERPRISE**

Description	Purpose	Authorized Capacity (\$000)	Outstanding (\$000)	Available Capacity (\$000)
Commercial Paper (Tax-exempt)	Short-term financing for capital improvement programs	\$90,000	\$50,524	\$39,476

## **Appendix C**

### **SFPUC Municipal Securities Disclosure Policies & Procedures**



## San Francisco Public Utilities Commission

### Municipal Securities Disclosure Policies & Procedures



#### POLICY OBJECTIVES

- ❖ **Compliance with Law.** To assure compliance with applicable securities law when preparing disclosure documents;
- ❖ **Stewardship.** To ensure integrity, accountability, and transparency in financial management;
- ❖ **Reduce Liability.** To reduce exposure to liability for misstatements and omissions in disclosure documents;
- ❖ **Transparency/Liquidity.** To provide transparency and enhance credibility with investors, financial analysts and the general bond market and foster liquidity for the SFPUC's securities,
- ❖ **Good Investor Relations.** To promote good investor relations;
- ❖ **Credit Ratings.** To protect the SFPUC's strong credit ratings, and
- ❖ **Training.** To promote training regarding municipal securities disclosure to assist SFPUC officers and key staff in understanding their roles and responsibilities in compliance with applicable securities laws.

#### SECTION ONE: BACKGROUND

- I. As a debt-issuing governmental entity, the San Francisco Public Utilities Commission (SFPUC) has an obligation to meet certain continuing disclosure standards in compliance with Securities and Exchange Commission (SEC) Rule 15c2-12 for publicly-offered debt. This rule, which is set forth under the Securities Exchange Act of 1934, sets forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by governmental agencies for most primary market offerings of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from debt-issuing governmental agencies to provide material event disclosures and annual financial information on a continuing basis, and (iii) broker-dealers and investors to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

When bonds are issued, the issuer enters into a continuing disclosure agreement (which the SFPUC refers to as a "continuing disclosure certificate" or CDC), for the benefit of the underwriter to meet the SEC's requirements, promising to provide certain annual financial information and material event notices to the public. In accordance with changes made in 2009 and 2018 to Rule 15c2-12, those filings must be made electronically at the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) web dissemination portal ([www.emma.msrb.org](http://www.emma.msrb.org)). The SFPUC currently has outstanding publicly-offered debt for its Water, Wastewater and Power Enterprises, with each enterprise's debt being subject to Rule 15c2-12, and thereby having its own CDCs.

Issuers are also able to provide periodic voluntary financial information to investors in addition to meeting the SEC Rule 15c2-12 responsibilities undertaken in their CDC



through EMMA. It is important to note that issuers must disseminate any financial information to the market as a whole and cannot give any one investor certain information that is not readily available to all investors.

In addition to continuing disclosure requirements as undertaken pursuant to the SFPUC's CDCs, the SFPUC also has certain disclosure obligations vis-à-vis specific agreements with certain debt issuance-related entities. These entities include the bond rating agencies, trustee bank, insurers, credit facility providers, commercial paper dealers, private placement lenders and others. At such time that the SFPUC no longer has an agreement with such an entity (i.e. through expiration or termination of the agreements), the disclosure requirements with that entity ends).

The SFPUC's Capital Finance Group has established SFPUC Municipal Disclosure policies and procedures to:

- identify the information that is obligated to be submitted in an annual filing;
- disclose the dates on which filings are to be made;
- list the material events as stated by the SEC and the agency's CDCs; and
- identify the person at the agency who is designated to be responsible for making the filings (in the case of the SFPUC, the Debt Manager is directly responsible for disclosure, with supervision from the Deputy CFO and AGM/CFO, and with guidance from the City Attorney's Office and the SFPUC's outside disclosure counsel).

To better carry out the purposes set forth in these "SFPUC Municipal Disclosure Policies and Procedures", a Disclosure Practices Working Group ("DPWG") is established for the SFPUC. Membership of the DPWG shall consist of the following SFPUC staff: (1) the Debt Manager, (2) the Assistant General Manager & Chief Financial Officer, (3) the Deputy Chief Financial Officer responsible for the Capital Finance, Financial Planning/Rates, Budget, and Audit Compliance functions, and (4) the Deputy Chief Financial Officer responsible for the Financial Reporting and Accounting functions. The City Attorney's Office, represented by its Deputy City Attorney specializing in public finance, (including municipal disclosure), together with the SFPUC's outside disclosure counsel, shall be legal advisors to the DPWG. The Deputy City Attorney shall participate in all meetings of the DPWG and advise the DPWG on all legal municipal disclosure requirements, including the requirements as set forth under federal securities laws.

The DPWG will meet "as needed", but not less than semiannually, to discuss ongoing SFPUC disclosure matters and practices, including providing relevant information, if any, related to meeting the requirements of Material Event Notices #14 and #15, as set forth in Section Two, IIB herein. The DPWG will also monitor the SFPUC's Debt Management Policies & Procedures ("Debt Policy") to determine if updates to the Debt Policy are required. Other staff of the SFPUC, including the enterprise Assistant General Managers or other senior level staff of each enterprise, as well as other attorneys from the City Attorney's Office, will participate in these meetings if and as needed.

## **SECTION TWO: ELEMENTS OF DISCLOSURE**

Each publicly offered SFPUC debt issuance will meet the disclosure requirements of the SEC and other government agencies before and after the bond sale takes place. Disclosure items prior to bond sale and closing are referred to as “primary” offering disclosure and disclosure items after bond sale and closing are referred to as “continuing” disclosure obligations. SEC requirements for each type of disclosure, as well as the SFPUC’s processes for ensuring compliance with such requirements, are described in the sections below.

## I. Primary Disclosure

Each time the SFPUC issues publicly-offered debt, the SFPUC is responsible for preparing a preliminary official statement (POS) and a final official statement (OS). The POS is distributed to investors prior to the sale of the Bonds and the OS is delivered to purchasers once final terms have been determined. The POS and OS are prepared in order to provide a reasonable investor with the information necessary to make an informed investment decision. The OS is the SFPUC’s disclosure document and it is essential that the OS not contain material misstatements or omissions. Inadequate disclosure can result in the imposition of civil and criminal penalties, investor lawsuits and an inability to access the capital markets for additional financing. The SFPUC’s most recent OSs can be accessed on EMMA as follows:

- Water Revenue Bonds, 2017 Series DEFG  
<https://emma.msrb.org/ES1078538-ES842358-ES1243371.pdf>
- Wastewater Revenue Bonds, 2018 Series ABC  
<https://emma.msrb.org/ES1184461-ES925614-ES1326629.pdf>
- Power Revenue Bonds, Series 2015A&B  
<https://emma.msrb.org/ER881975-ER689101-ER1090744.pdf>

## II. Continuing Disclosure

Continuing disclosure information is intended to reflect the financial or operating condition of the SFPUC as it changes over time, as well as specific events occurring after issuance, that can have an impact on both the ability to pay amounts owed and the market value of the Obligation if bought or sold prior to maturity. Pursuant to Rule 15c2-12, each new publicly-offered debt issuance will require a written agreement between the SFPUC and the original purchaser/underwriter for the benefit of holders of municipal securities, to provide certain annual financial information reports and event notices (sometimes referred to as event disclosures or material event notices) to investors. In accordance with changes made in 2009 to Rule 15c2-12, those filings must be made electronically at the Municipal Securities Rulemaking Board’s (MSRB) Electronic Municipal Market Access (EMMA) web dissemination portal ([www.emma.msrb.org](http://www.emma.msrb.org)). A complete list of the SFPUC’s outstanding disclosure requirements can be found in Exhibit A.

- A. Annual Financial Information. The SFPUC’s CDCs require filing of annual financial information reports (ADRs) no later than nine months following the end of its fiscal year (or no later than March 31 each year), to EMMA. Revenue Bonds and Revenue Notes of the Water, Wastewater and Power Enterprise are subject to filing requirements. The most usual practice with respect to the

contents of the ADRs is, in addition to annual financial statements, the filing of other annual information necessary to update the significant tables and other disclosure presented in the OS; for example, the most recent data on number of accounts and approved rate increases pertinent to a bond issue secured by a net revenue pledge. ADR reports for Fiscal Year Ending June 30, 2018 are available here:

- Water Enterprise  
<https://emma.msrb.org/ES1258363-ES984693-ES1385936.pdf>
- Wastewater Enterprise  
<https://emma.msrb.org/ES1258365-ES984695-ES1385938.pdf>
- Power Enterprise  
<https://emma.msrb.org/ES1258376-ES984704-ES1385946.pdf>

B. Material Event Notices: In addition to annual financial information filings, CDCs require the SFPUC to give notice within ten business days of the following events with respect to the bond offering, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, *if material*;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, *if material*;
8. Bond calls, *if material*, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, *if material*;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the SFPUC;
13. The consummation of a merger, consolidation, or acquisition involving the SFPUC or the sale of all or substantially all of the assets of the SFPUC, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, *if material*.

15. Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and<sup>(1)</sup>
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.<sup>(1)</sup>

For the purposes of the afore-referenced list (including Event Notices #15 and #16), the term “financial obligation” with respect to Rule 15c2-12 means a:

- A. Debt obligation;
- B. Derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- C. Guarantee of paragraph (A) or (B).

The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the MSRB consistent with SEC Rule 15c2-12. Loans representing long-term debt obligations of the SFPUC (ie, SRF loans, WIFIA loans, or tax credit bonds) are deemed to be “financial obligations”. Leases where both the SFPUC is the lessee and the lease rentals are pledged to repay a debt (whether of the SFPUC or a third party) shall constitute “financial obligations”. All other leases, whether real property or equipment, entered into in the ordinary course of business shall not constitute “financial obligations”.

Commercial paper notes (“CP Notes”) or revolving credit agreements (“Revolvers”) are “financial obligations”, but an event notice is only filed when a major legal document associated with either the CP Notes or Revolvers of each enterprise are either entered into, amended or extended. For the CP Notes, the major legal documents include any bank reimbursement agreement related to a letter of credit or a revolving credit and term loan agreement related to a liquidity facility. For the Revolvers, the major legal documents are the revolving credit agreements. In the case of CP Notes, an event notice need not be filed when the outstanding amount of CP Notes increases or decreases as part of the routine usage of the CP Notes program or the utilized or unutilized portion of a CP Notes credit facility changes because CP Notes are issued, remarketed or repaid. In the

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<sup>(1)</sup> Event Notices #15 and #16 were adopted by the Securities and Exchange Commission as new amendments to its Rule 15c2-12 in 2018 and are to be incorporated into the Continuing Disclosure Certificates (CDCs) of bond issues that close on or after February 27, 2019. In the case of the SFPUC, the new amendments will not have been incorporated into the respective CDCs of the Water, Wastewater and Power Enterprise, and consequently the new amendments will not yet have taken effect, until such bond issues are sold and closed. As of the date of the November 2019 update of the Debt Policy, the SFPUC had not closed any bond issues for either the Water, Wastewater or Power Enterprises.

case of Revolvers, an event notice need not be filed when the amount of the line of credit related to a Revolver increases or decreases due to the routine draws and payments under the line of credit.

Any debt obligation, or guarantee of a debt obligation, that has an aggregate principal amount of \$25,000,000 or greater shall be evaluated as potentially being material.

Each member of the DPWG shall notify the other members if such member becomes aware of any of the listed events above. The DPWG shall meet to discuss the event or correspond via email, as appropriate, and determine in consultation with Disclosure Counsel and the City Attorney's Office whether a filing is required or is otherwise desirable.

If any member of the DPWG has reason to believe that the SFPUC or any of its enterprises is experiencing financial difficulty, such member shall inform the Assistant General Manager & Chief Financial Officer ("AGM/CFO") of the relevant circumstances, and the AGM/CFO shall determine, in consultation with the City Attorney's Office and disclosure counsel, as appropriate, whether a financial difficulty exists. If the AGM/CFO determines that a financial difficulty does exist, the AGM/CFO shall have the Debt Manager convene a meeting or email discussion of the DPWG to determine what enhanced procedures might be appropriate to identify events of the type described in Listed Event #16 above.

The SFPUC's material event filings for FY 2017-18 and FY 2018-19 can be accessed here:

- Rating Upgrade (Power Enterprise)

<https://emma.msrb.org/ER1165862-ER911431-ER1311899.pdf>

- C. Voluntary Disclosure: Although SEC Rule 15c2-12 prescribes certain annual information and event-based disclosures that must be filed, issuers may determine that additional information would be relevant to investors. To this end, the SFPUC may choose to voluntarily disclose other information to the MSRB that goes beyond the requirements described above. This information may include, but is not limited to, items such as monthly financial reports, updates on issues that could affect the SFPUC's budgetary, financial, or economic position, annual/biennial budgets, and changes in rating outlooks. The SFPUC prepares and files voluntary disclosures on EMMA when, in the opinion of the SFPUC in consultation with Disclosure Counsel, that information could be deemed relevant to investors in SFPUC bonds. Voluntary disclosure submissions made by the SFPUC in the past can be found here: [TO BE UPDATED BY EDWARD]

- Water:

- a) Revolving Credit Agreement

<https://emma.msrb.org/ER1076577-ER842967-ER1243786.pdf>

- <https://emma.msrb.org/ER1076577-ER842967-ER1243787.pdf>
- b) Notice of SRF Financing  

<https://emma.msrb.org/ES1154494-ES902787-ES1304008.pdf>
- c) Delay in Preparation of Audited Financial Information  

<https://emma.msrb.org/ER1153859-ER902612-ER1303112.pdf>
- d) Notice of LOC Replacement  

<https://emma.msrb.org/ES1276477-ES998857-ES1400305.pdf>
- Wastewater:
  - a) Revolving Credit Agreement  

<https://emma.msrb.org/ER1076585-ER842975-ER1243794.pdf>

<https://emma.msrb.org/ER1076585-ER842975-ER1243795.pdf>
  - b) Notice of SRF Financing  

<https://emma.msrb.org/ES1154507-ES902793-ES1304018.pdf>
  - c) Notice of Potential Financing  

<https://emma.msrb.org/ES1165924-ES892137-ES1312453.pdf>
  - d) Notice of WIFIA Loan  

<https://emma.msrb.org/ES1191771-ES931440-ES1332380.pdf>
  - e) Delay in Preparation of Audited Financial Information  

<https://emma.msrb.org/ER1153859-ER902612-ER1303112.pdf>
  - f) Notice of New Revolving Credit and Term Loan Agreement  

<https://emma.msrb.org/ES1288276-ES1008287-ES1409683.pdf>
- Power:
  - a) Delay in Preparation of Audited Financial Information  

<https://emma.msrb.org/ER1153859-ER902612-ER1303112.pdf>
  - b) Notice of Commercial Paper Program Expansion  

<https://emma.msrb.org/ES1258283-ES977819-ES1385861.pdf>

### **SECTION THREE: RESPONSIBILITY FOR DISCLOSURE**

- I. The Capital Finance Group is responsible for preparing, reviewing and maintaining the information that is included in the POS and OS for each new publicly-offered SFPUC debt issuance. The Debt Manager, together with the Deputy Chief Financial Officer, certifies that the information contained within the OS as of the sale and closing dates, does not contain any untrue statement of material fact or omit any material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. Prior to the distribution of the POS and the OS, the Debt Manager, in consultation with the SFPUC's professional advisors and Disclosure Counsel, thoroughly and critically reviews the information contained therein to reflect the best and most current material information available at the time.
- **Drafting:** As part of the POS drafting process, the Debt Manager and his/her staff make formal requests of other SFPUC staff to provide the most current updates or information on that section of the POS relevant to their respective functional areas. This includes working with enterprise project managers/engineers to describe the project or program that will be funded with bond proceeds. The Debt Manager and his/her staff will also work with other divisions of the SFPUC, including Financial Planning/Rates, Budget, Accounting, and Reconciliation and Financial Reporting to update or provide financial information or data on their relevant sections of the POS. The Debt Manager and his/her staff will also coordinate with the City Attorney's Office to update or provide information on legal matters addressed in the POS. The aforementioned process is coordinated closely with Disclosure Counsel and the City Attorney's Office to assure that the material being presented in the POS is relevant and material.
  - **Review:** Just prior to its posting/distribution, when the POS is in near final draft form, it is provided to the SFPUC's senior management for review and final sign-off. This includes the Assistant General Manager and Chief Financial Officer (AGM/CFO), the relevant enterprise AGM, the Infrastructure AGM, as well as the Deputy General Manager and AGM for Legislative Affairs. This rigorous preparation and review process assures that the POS will contain information and data that is current, accurate and material, and that it meets industry disclosure standards as certified by Disclosure Counsel.
  - **Training:** As part of the primary disclosure process, disclosure training is conducted on a regular basis or just prior to a new publically-offered bond sale. In coordination with Disclosure Counsel and the City Attorney's Office, formal disclosure training is provided to enterprise project managers/engineers and senior management. On a regular basis, disclosure training is also conducted with members of the Commission, the SFPUC's direct governing body. In addition, when a new bond sale is brought to the Commission for approval, the Commission is provided with a summary of key disclosure items related to the bond sale. In doing so, the Commission members can understand, and ask questions, if necessary, on any particular disclosure item, prior to taking action on the bond sale.

- II. Annual financial information reports are prepared by the Capital Financing Group's Debt Analyst, under the general supervision of the Debt Manager. The draft report is reviewed by:
1. Debt Manager;
  2. Deputy Chief Financial Officer; and
  3. AGM/CFO of Business Services.

Financial Statements are provided by the SFPUC's Reconciliation and Financial Reporting (RAFR) unit.

The SFPUC's Debt Manager is responsible for monitoring compliance with all disclosure-related undertakings per CDCs and/or other agreements with certain related entities as set forth in Exhibit A. In this role, the Debt Manager appoints the Debt Analyst to file and disseminate the SFPUC's continuing disclosure information, material event notices, and voluntary notices to EMMA as required by Rule 15c2-12 and the SFPUC's CDCs.

The SFPUC's continuing bond disclosure dissemination and record-keeping process is described in the following section.

#### **SECTION FOUR: SFPUC CONTINUING DISCLOSURE RECORDKEEPING PROCESS**

- I. Disclosure Compliance Records: The Capital Finance Group maintains disclosure compliance records for all outstanding debt obligations per continuing disclosure certificates and/or other agreements with certain related entities handled by the Debt Manager. Records are reported in the form of a checklist, maintained on a fiscal year basis, and comprise the disclosure binder provided to the auditors. The binder includes:
- Summary of disclosure obligations and due dates
  - Source documents (legal agreements)
  - Checklist of obligations by counterparty
  - Noticing and confirmations tracking spreadsheet
- The binder evidences that all of the SFPUC's disclosure obligations for that fiscal year have been met on a timely basis, and includes print outs of emails confirming receipt of the disclosure material. This binder will be prepared and made ready for review by the Deputy CFO and AGM/CFO no later than May 15th of each fiscal year.
- II. Noticing and Confirmations Tracking Spreadsheet: Staff will create and maintain an internal list spreadsheet, which tracks notices sent to obligors and confirmations received, organized by each type of disclosure requirement. See Exhibit B for sample.
- III. EMMA Automated Reminder System: EMMA features a tool that automatically sends email reminders pertaining to financial disclosure obligations. See Exhibit C for sample.
- (a) The SFPUC has customized the tool to send reminder emails for most disclosure obligations, including annual budget, annual disclosure, audited financial statements, compliance certificates, no default certificates, quarterly budget updates, statements of project completions, and CAFR.



- (b) Reminders are currently sent to the Deputy CFO, Debt Manager and Debt Staff.
- (c) Generally, reminders are scheduled 14 days prior to the earliest date that the respective obligation either shall be completed per an agreement, or can be reasonably completed given the expected timing of the relevant publication (e.g. CAFR).

**IV.** Material and Voluntary Event Filings: Legal Counsel prepares draft EMMA filings for material event notices. These drafts are reviewed by the Debt Manager, Deputy CFO and AGM/CFO prior to final submission. Voluntary event notices are prepared by the Debt Manager, with advice from executive officer(s) with oversight and management authority for the subject matter, and with advice and concurrence of the City Attorney (who may consult with outside disclosure counsel).

**V.** SFPUC Website Disclosure: The SFPUC has a dedicated “Investor Relations” section on its website ([www.sfwater.org](http://www.sfwater.org)) that is intended to augment its ongoing disclosure requirements by directly providing investors, broker-dealers and other financial markets participants with certain ongoing financial and debt-related information on the SFPUC and its enterprises. Ahead of the next publicly-offered revenue bond transection, the SFPUC will launch a new web platform created for the public finance industry. In addition to the information provided on the current Investor Relations site, the new platform will host a tailored SFPUC page that will allow the SFPUC to connect more directly with its current and potential investor base. The current “Investor Relations” website section currently offers the following information:

- i) The most recent and past Annual Reports filed with EMMA to satisfy the SEC’s Rule 15c2-12 continuing disclosure obligation;
- ii) The most recent SFPUC financial policies, including “Debt Management Policies and Procedures,” “Debt Service Coverage Policy,” Capital Financing Policy” and “Fund Balance Reserve Policy,” as well as a link to the City and County of San Francisco’s “Debt Policy” as prepared by the Controller’s Office of Public Finance;
- iii) The SFPUC’s most recent and past financial statements;
- iv) Quarterly Budget Status Reports;
- v) Annual Budgets for each Enterprise; and
- vi) Bond ratings information and outstanding debt by enterprise.

## Exhibit A – Outstanding Disclosure Requirements

WATER ENTERPRISE					
Disclosure Obligation	Issue	Document Source	Recipient	Due Date	Transmittal Method
<b>Audited Financial Statements</b>	All Water Bonds	Indenture: §6.07(b)	Trustee	Within 150 days of Fiscal Year End	Email
	All Water CP†	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
	All Water Bonds and CP	Credit Rating Report	Rating Agencies (Moody's & S&P)	As soon as such information is available	Email
<b>Certificate of No Default</b>	All Water Bonds	Indenture: §6.07(b)	Trustee	Within 180 days of Fiscal Year End	Mail
	All Water CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
	WSIP Habitat Mitigation LOC's	Letter of Credit Agreement: §5.02(i)(y)	Bank of America (Standby LOC's)	Within 180 days of Fiscal Year End	Email
<b>Annual Budget</b> (approved bi-annually)	All Water Bonds	Indenture: §6.08	Trustee	When Approved	Email
	All Water CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 10 days of publication	Email
	All Water Bonds & CP	Credit Rating Report	Rating Agencies (Moody's & S&P)	As soon as such information is available	Email
	WSIP Habitat Mitigation LOC's	Letter of Credit Agreement: §5.02(b)	Credit Bank(s)	Within 45 days after publication	Email
<b>Annual Disclosure Report</b>	All Water Bonds	Continuing Disclosure Certificates	Bondholders CP Dealers	March 30	Upload to EMMA sufficient
<b>Quarterly Budget</b>	All Water CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 45 days of quarter end	Email
	All Water SRF Loans	SRF ISA	DFA	Within 30 days (60 if coverage <1.1x)	Email
<b>Statement of Project Completion</b>	WSIP Bonds	5.03	Trustee	Review at Fiscal Year End	Email

† The Water Enterprise's \$500M Interim Funding Program is secured by bank credit facilities as summarized below, as of September 30, 2019:

Credit Provider	Series	Facility Type	Amount (\$000s)	Expiration Date	CP Issued (\$000s)
Bank of America N.A.	A-1 / A-1-T	LOC	\$100,000	07/24/2020	\$61,642
Sumitomo Mitsui	A-2 / A-2-T	LOC	\$200,000	06/16/2022	\$100,216
Barclays PLC	A-3 / A-3-T	LOC	\$100,000	07/23/2021	\$0
U.S. Bank N.A.	R-1	Revolver	\$100,000	07/25/2020	\$0

## Exhibit A – Outstanding Disclosure Requirements

WASTEWATER ENTERPRISE					
Disclosure Obligation	Issue	Document Source	Recipient	Due	Transmittal Method
<b>Audited Financial Statements</b>	All Wastewater Bonds	Indenture: §6.07(b)	Trustee	Within 210 days of Fiscal Year End	Email
	All Wastewater CP†	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
	All Wastewater Bonds and CP	Credit Rating Report	Rating Agencies (Moody's & S&P)	As soon as such information is available	Email
	WIFIA Loan	WIFIA Loan Agreement, Section 22.b	USEPA	Within 180 days of Fiscal Year End	Email
<b>Certificate of No Default</b>	All Wastewater CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
<b>Annual Budget</b> (approved bi-annually)	All Wastewater Bonds	Indenture: §6.08	Trustee	When Approved	Email
	All Wastewater CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 10 days of publication	Email
	All Wastewater Bonds & CP	Credit Rating Report	Rating Agencies (Moody's & S&P)	As soon as such information is available	Email
<b>Annual Disclosure Report</b>	All Wastewater Bonds	Continuing Disclosure Certificates	Bondholders CP Dealers	March 30	Upload to EMMA sufficient
<b>Quarterly Budget</b>	All Wastewater CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 45 days of quarter end	Email
	All Wastewater SRF Loans	SRF ISA	DFA	Within 30 days* (60 if coverage <1.1x)	Email
<b>Financial Plan (10 year) and Financial Plan Certificate</b>	WIFIA Loan	WIFIA Loan Agreement Section 22.a	USEPA	within 90 days of adoption	Email

† The Wastewater Enterprise's \$750M Interim Funding Program is secured by bank credit facilities as summarized below, as of September 30, 2019:

Credit Provider	Series	Facility Type	Amount (\$000s)	Expiration Date	CP Issued (\$000s)
Sumitomo Mitsui	A-1	LOC	\$150,000	03/10/2021	\$144,596
Bank of America N.A.	A-2	LOC	\$150,000	06/01/2020	\$71,202
Toronto Dominion Bank	A-4	Liquidity	\$75,000	07/08/2022	\$0
Barclays PLC	A-5 / A-5-T	LOC	\$100,000	10/23/2018	\$0
State Street Bank & Trust	A-6 / A-6-T	Liquidity	\$100,000	10/16/2019	\$77,351
Sumitomo Mitsui	A-7	LOC	\$100,000	06/02/2022	\$0
U.S Bank, N.A.	R-1	Revolver	\$100,000	07/25/2020	\$0

## Exhibit A – Outstanding Disclosure Requirements

POWER ENTERPRISE					
Disclosure Obligation	Issue	Document Source	Recipient	Due	Transmittal Method
<b>Audited Financial Statements</b>	All Power Bonds	Indenture: §7.11(c)	Trustee	Within 270 days of Fiscal Year End	Email
	All Power CP†	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
	All Power Bonds & CP	Credit Rating Reports	Rating Agencies (S&P / Fitch)	As soon as such information is available	Email
	CREBs, QECCBs & NCREBs	Master Lease/Purchase Agreement: §2.01(g)(iii)	Banc of America Leasing	Within 180 Days of Fiscal Year End	Email
<b>Certificate of No Default</b>	All Power CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 180 days of Fiscal Year End	Email
<b>Annual Budget</b> (approved bi-annually)	All Power Bonds	Indenture: §6.08	Trustee	When Approved	Email
	All Power CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 10 days of publication	Email
	CREBs, QECCBs & NCREBs	Master Lease/Purchase Agreement: §2.01(g)(iii)	Banc of America Leasing	When Approved	Email
	All Power Bonds & CP	Credit Rating Reports	Rating Agencies (S&P / Fitch)	As soon as such information is available	Email
<b>Annual Disclosure Report</b>	All Power Bonds	Continuing Disclosure Certificates	Bondholders CP Dealers	March 30	Upload to EMMA sufficient
<b>Quarterly Budget</b>	All Power CP	RCTL §5.1(a)/ §7.1(a)	Credit Bank(s)	Within 45 days of quarter end	Email

† The Power Enterprise's \$90M Commercial Paper Program is secured by bank credit facilities as summarized below:

Credit Provider	Series	Facility Type	Amount (\$000s)	Expiration Date	CP Issued (\$000s)
Bank of America N.A.	A-1	LOC	\$125,000	03/06/2023	\$50,906
Sumitomo Mitsui	A-2	LOC	\$125,000	03/06/2023	\$0

**Exhibit B - Noticing and Confirmations Tracking (Sample)**

## Instructions:

1. Copy list of contacts into "BCC" email (some providers will have more than one contact)
2. "Cc" Deputy CFO and Debt Manager.
3. Send email with confirmation of read receipt option.
4. Send the entire Commission-approved quarterly packet (w/ memo, slides).
5. Note: The list below does not distinguish between obligations by Enterprise. This is because we send the Quarterly Report packet, which includes all Enterprises, to all recipients.

FY 2018-19 BUDGET REPORT QUARTER 4							
Enterprise	Recipient	CP Series	Expiration Date	Covenant Section	Date Sent	Date Confirmed	Notes
Water	Bank of America	A-1 / A-1-T	7/24/2020	5.1(a)(ii)	8/14/2019	8/15/2019	
Water	Sumitomo	A-2/ A-2-T	6/16/2022	5.1(a)(ii)	8/14/2019		Follow-up to confirm before interim audit (05/2020)
Water	Barclays	A-3 / A-3-T	7/23/2021	5.1(a)(ii)	8/14/2019	8/19/2019	
Water	US Bank	R-1	7/25/2020	7.1(a)(ii)	8/14/2019	8/14/2019	
Water	Bank of America	Habitat Mitigation LOC	Auto-renew	5.1(a)(ii)	8/14/2019	8/15/2019	
Wastewater	Sumitomo	A-1, A-7	03/10/21, 06/02/22	5.1(a)(ii)	8/14/2019		Follow-up to confirm before interim audit (05/2020)
Wastewater	Bank of America	A-2	6/1/2020	5.1(a)(ii)	8/14/2019	8/15/2019	
Wastewater	Toronto-Dominion	A-4	7/8/2022	7.1(a)(ii)	8/14/2019	8/14/2019	
Wastewater	Barclays	A-5 / A-5-T	10/23/2019	5.1(a)(ii)	8/14/2019	8/15/2019	
Wastewater	State Street	A-6 / A-6-T	10/16/2019	7.1(a)(ii)	8/14/2019	8/14/2019	
Wastewater	US Bank	R-1	7/25/2020	7.1(a)(ii)	8/14/2019	8/14/2019	
Power	Bank of America	A-1	3/6/2022	5.1(a)(ii)	8/14/2019	8/15/2019	
Power	Sumitomo	A-2	3/6/2023	5.1(a)(ii)	8/14/2019		Follow-up to confirm before interim audit (05/2020)

## Exhibit C – EMMA Automated Reminder Schedule

EMMA Dataport – Financial Disclosure Email Reminders				MSRB GATEWAY	
<a href="#">Create Reminder</a> <a href="#">Exit</a>					
Disclosure Type	Description	Filing Due Date	Repeat		
Other	CDLA Certificate	3/1/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Statement of Project Completion	7/31/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Annual Budget (AAO)	7/31/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Follow-Up w/ Obligors	8/10/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Prepare Disclosure Binder for Audit	9/1/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Audited Financial	Audited Financials	11/21/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	No Default Certificates	11/30/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Audited Financial	CAFR	12/16/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Quarterly Budget	12/31/2017	Quarterly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Compliance Certificate	12/31/2017	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Annual Disclosure-1st reminder	2/26/2018	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	
Other	Annual Disclosure-2nd reminder	3/31/2018	Yearly	<a href="#">edit</a>   <a href="#">delete</a>	

# Appendix D

## SFPUC Post-Issuance Tax Compliance Policy

**San Francisco Public Utilities Commission  
Post-Issuance Tax Compliance Policy for Tax-Exempt Bonds**

The SFPUC will bear primary responsibility for all ongoing tax compliance matters relating to the obligations (referred to herein as the “Bonds”) issued by the SFPUC and subject to the terms of these Policies. The person(s) who hold the following title(s) shall be responsible for monitoring ongoing tax compliance matters relating to the Bonds, including compliance with the arbitrage rebate requirements of Section 148 of the Code, as set forth in these Procedures, which are intended to satisfy Section 7.2.3.4.4 of the Internal Revenue Manual:

- I. External Advisors/Documentation
  - a. The Debt Manager, to the extent necessary, will consult with bond counsel and other legal counsel and advisors following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. Such consultation will include, without limitation, questions about future contracts with respect to the use of Bond-financed or refinanced assets.
  - b. The Debt Manager will from time to time engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds as required under the Code.
  - c. The Debt Manager shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving Bond proceeds and such statements shall be delivered to the Issuer if it so requests.
  
- II. Arbitrage Rebate and Yield – In connection with Bonds subject to these Policies the Debt Manager shall be responsible for:
  - a. Engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other account holder to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;
  - b. Providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
  - c. Monitoring efforts of the Rebate Service Provider;
  - d. Assuring payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed;
  - e. During the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond proceeds and consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds; and



- f. Retaining copies of all arbitrage reports and account statements as described below under “Record Keeping Requirements” and, upon request, providing such copies to the Issuer.

III. Use of Bond Proceeds and Bond-Financed or Refinanced Assets – The Debt Manager, together with applicable City departments, shall be responsible for:

- a. Monitoring the use of Bond proceeds and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in any tax agreement relating to the Bonds;
- b. Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds, including a final allocation of Bond proceeds as described below under “Record Keeping Requirements”;
- c. Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds;
- d. Maintaining records for any contracts or arrangements involving the use of Bond-financed or refinanced assets as described below under “Record Keeping Requirements”;
- e. Conferring at least annually with personnel responsible for Bond-financed or refinanced assets to identify and discussing any existing or planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds; and
- f. To the extent that the Borrower discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

IV. Record Keeping – The Debt Manger shall be responsible for maintaining the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- a. A copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds, including any elections made by the City in connection therewith;
- b. A copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for Bond proceeds and evidence as to the amount and date for each draw down of Bond proceeds, as well as documents relating to costs paid or reimbursed with Bond proceeds and records identifying the assets or portion

of assets that are financed or refinanced with Bond proceeds, including a final allocation of Bond proceeds;

- c. A copy of all contracts and arrangements involving the use of Bond-financed or refinanced assets; and
- d. A copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.

# Appendix E

## Direct Pay Bond Compliance Policy

**San Francisco Public Utilities Commission  
Direct Pay Bond Compliance Policy**

This policy establishes procedures to ensure the San Francisco Public Utilities Commission (the SFPUC) complies with rules and regulations relating to Direct Pay Bonds, including Build America Bonds (“BABs”) authorized under the American Recovery and Reinvestment Act. These procedures shall be reviewed and modified from time to time.

I. Pre-Issuance

- a. The SFPUC will establish, prior to settlement of the Bonds, separate and discreet accounting codes for the following funds and accounts of the Bonds:
  - i. Project Fund
  - ii. Debt Service Fund
  - iii. Debt Service Reserve Fund
  - iv. Capitalized Interest Account
  - v. Cost of Issuance Fund
- b. The SFPUC will, in consultation with bond counsel engaged on the transaction and the City Attorney, determine the expected placed-in-service dates of capital improvements to be financed with Bonds. Placed-in-service date considerations shall be as follows:
  - i. Placed-in-service dates will be estimated conservatively, with the early project completion date for any financed project used in formulating capitalized interest on the Bonds, to the extent capitalized interest is necessary, desirable and permissible.
  - ii. The SFPUC's financial advisor(s) will use the above-information regarding placed in service dates to structure debt service on the Bonds and will provide detailed analyses of the methods and assumptions employed in determining the amount and duration of capitalized interest, if any.
  - iii. The SFPUC, the City Attorney and the SFPUC's financial advisor(s) will present the analyses to bond counsel engaged on the transaction for tax compliance review and approval.
- c. In coordination with its financing team, the SFPUC shall instruct bond counsel to draft an “Underwriter’s Certificate” or “Purchase Price Certificate” or other appropriate document (singularly or collectively, “Underwriter’s Certificate”) to be included with the Bid Form or Notice of Sale, clearly setting forth the SFPUC’s requirements for and expectations of a bona fide public offering of the Bonds and establishment of the “issue price” of the Bonds.
- d. To the extent necessary and required, the SFPUC will coordinate with the SFPUC’s financing team to ensure that all notices, bid forms and other

documentation as may be necessary, clearly state limiting parameters relating to costs of issuance, capitalized interest, underwriters' discount, initial offering price and bona fide public offering for the Bonds.

## II. Date of Issuance

- a. The SFPUC will coordinate with its financing team and the underwriter of the Bonds for receipt of the Underwriter's Certificate attesting to the bona fide public offering and establishment of the "issue price" of the Bonds. The SFPUC shall rely on this certificate for purposes of complying with Section 54AA(d)(2)(C) of the Code.
- b. In coordination with its financial advisor(s), the SFPUC will determine that the underwriter has complied with all terms and provisions of the bond offering, including:
  - i. Minimum and maximum bid and price parameters;
  - ii. Permissible costs of issuance, including underwriters' discount, at or below 2% of the par amount of Bonds.
- c. The SFPUC will receive from its financial advisor(s) and/or bond counsel, a computation of initial offering price for each maturity of the Bonds. Such computation shall include the maximum price Bonds may be sold to the public without violation of the de minimis premium limitation.

## III. Post-Issuance

- a. Beginning on the sale date and continuing until the settlement date, the SFPUC in coordination with its financial advisor(s) will track the secondary market prices of its Bonds to determine that the underwriter has complied with the provisions of the Underwriter's Certificate.
  - i. All secondary market trades of the newly issued BABs as reported on EMMA (or other publicly available records and records) will be noted and kept in a file, in hard copy or in electronic form.
  - ii. The SFPUC in coordination with its financial advisor(s) will track the principal amount and dollar price of all trades to determine if and when at least the first 10% of each maturity of Bonds has been sold to the general public at or below the initial offering price.
  - iii. The SFPUC may cancel its sale or otherwise refuse to settle the Bonds if it determines that the underwriter is in violation of any provision of the Underwriter's Certificate or is otherwise unable to provide bond counsel with a sufficient certification as to the establishment of the "issue price" of the Bonds.
- b. Immediately after issuance of the Bonds, the SFPUC and the City Attorney will meet with project staff and accounting staff to brief them on the federal tax rules and requirements regarding investment (including rebate), expenditure and

recordkeeping relating to the Bonds (including BABs). All BABs proceeds, other than moneys in a reasonably required reserve fund, if any, or used to pay costs of issuance, must be spent on capital expenditures.

- c. At least on a quarterly basis following the issuance of the Bonds, the SFPUC and the City Attorney shall review expenditures made with proceeds relating to BABs from the bond-related funds and accounts held with the Trustee and the City Treasurer to ensure compliance with all spend-down rules. Such review shall continue until all proceeds have been spent, after which no further reviews shall be necessary. If the SFPUC and the City Attorney determine that any violations of the Tax have occurred, such violations will be remedied through the “remedial action” regulations (Treas. Reg. Section 1.141-12) or the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of Bonds are contemplated, the SFPUC and the City Attorney will consult bond counsel.
- d. Immediately after issuance of any Bonds, the SFPUC shall engage a nationally-recognized arbitrage rebate consultant for purposes of complying with arbitrage restrictions on all issuances of the Bonds.
- e. Quarterly, semi-annually or annually, as appropriate, the SFPUC shall confirm that investment earnings on all BABs-related funds and accounts are properly transferred to the Project Fund and spent on eligible capital projects. The Controller’s Office will reconcile balances recorded by project accountants.
- f. Not sooner than 90 days nor later than 45 days prior to each interest payment date on BABs, the SFPUC shall, in cooperation with the Trustee on the Bonds, BABs calculation agent, and other relevant parties, as applicable and necessary, calculate the amount of interest coming due on the immediately pending interest payment date and determine the amount of the refundable credit then due for inclusion on IRS Form 8038-CP for submittal to the US Treasury.
- g. The SFPUC will coordinate with the Trustee on the Bonds, BABs calculation agent, and other relevant parties, as applicable and necessary, for completion and submittal of each IRS Form 8038-CP.
  - i. The SFPUC shall cause the Trustee on the Bonds, BABs calculation agent, City departments, and other relevant parties, as applicable and necessary, to prepare the appropriate forms (including the IRS Form 8038-CP), which shall be signed by an appropriate officer of the SFPUC.
  - ii. The City Treasurer or his designee or the Trustee on the Bonds, as applicable, shall be the recipient of the refundable credit for deposit to the debt service fund of the appropriate series of the SFPUC's BABs.
- h. No later than 15 days before each interest payment date, the SFPUC will coordinate with the Trustee on the Bonds, BABs calculation agent, and other relevant parties, as applicable and necessary, to confirm that the interest subsidy payment has been received and will be applied in compliance with the Tax Code for BABs.

- i. In the event that a partial interest subsidy payment or no interest subsidy payment is received, the SFPUC will coordinate with the Trustee on the Bonds, BABs calculation agent, and other relevant parties, as applicable and necessary, to
    - 1. determine the cause of the partial payment or no payment
    - 2. resolve disagreements, disputes, etc. with the IRS and/or US Treasury.
  - ii. In the event that a partial interest subsidy payment or no interest subsidy payment is received, the SFPUC will coordinate with the Trustee on the Bonds, BABs calculation agent, and other relevant parties, as applicable and necessary, to budget the gross amount of interest due on the Bonds in the applicable fiscal year until the full amount of interest subsidy payments are received.
- i. The SFPUC will create a monitoring record that tracks compliance with all applicable provisions of the Tax Code for BABs.
- j. The SFPUC will maintain a copy of each Form 8038-CP that is submitted. In addition, the SFPUC will maintain copies of all relevant documents and records sufficient to support that the tax requirements relating to BABs have been satisfied, including the following: closing transcript; all records of investments, arbitrage reports, returns filed with the IRS and underlying documents; construction contracts, purchase orders, invoices and payment records; documents relating to costs reimbursed with bond proceeds; all contracts and arrangements involving private business use of the bond-financed property; all reports relating to the allocation of bond proceeds and private business use of bond-financed property; and itemization of property financed with bond proceeds. Records may be kept in any combination of paper or electronic form.
- k. The SFPUC will confirm that no more than two percent (2%) of the proceeds of any issue of BABs will be used for costs of issuance.

# Appendix F

## SFPUC Derivatives Policy



**San Francisco Public Utilities Commission  
Derivatives Policy**

I. Derivatives (including swaps, swaptions, caps, floors and collars) – Purpose and Objectives

- a. To achieve significant savings as compared to a product available in the bond market.
- b. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the SFPUC's balance sheets for its respective enterprises.
- c. To ensure flexibility in meeting overall financing objectives.
- d. To generate increased net investment return.

II. Derivative Approval Process

- a. Commission approval - The Commission, prior to SFPUC entering into a derivative product, shall approve the transaction. If a proposed derivative product meets the objectives of the SFPUC as described herein, SFPUC shall provide to the Commission for their review and approval, an analysis and evaluation of the proposal including all risk factors indicated below.
  - i. Risk/benefit analysis – Identification and evaluation of proposed benefit and potential risks and any mitigations thereto. Such potential risks shall include:
    - 1. Counterparty Credit Risk – Risk of credit-worthiness of the counterparty. Mitigation is to include provisions in the documents that protect SFPUC from exposure to adverse changes in counterparty's credit standing.
    - 2. Market or interest rate risk – Risk of exposure to fluctuations in interest rates.
    - 3. Tax law risk – Risk of rate adjustments, extraordinary payments, termination or other adverse consequences in the event of a future change in federal income tax policy.
    - 4. Termination risk – Risk of termination by the counterparty in an adverse market (other than at the option of the SFPUC). Mitigation is the maintenance of sufficient liquidity to cover this exposure.
    - 5. "Put" risk – Risk of a future financing that is dependent upon third party participation. Mitigation is to obtain commitment that can be or have been secured for such participation.
    - 6. Legal authority risk – Risk of removal of any party's legal authority to participate in the transaction.

7. Ratings Risk – Risk that the transaction could impact the SFPUC's current credit ratings or its desired future ratings and that the transaction could conflict with rating agency recommended practices today or in the future.
  8. Basis Risk – Risk that the payments that SFPUC would make or receive would not match the payments that it seeks to hedge because of changes in relationships between floating rates.
  9. Tax-exemption of SFPUC Debt Risk – Risk that the transaction is not in compliance with all federal tax law requirements with respect to the SFPUC's outstanding tax-exempt bonds.
  10. Volatility Risk – The change of the mark-to-market value of a transaction resulting from a change in implied volatility.
  11. Accounting Risk – Risk that the transaction is not compatible with internal accounting procedures and reporting practices. Related risk is the impact on SFPUC's rate covenant calculation or compliance.
  12. Administrative Risk – Risk of counterparty's or SFPUC's failure to administer and monitor transactions consistent with the policies herein.
  13. Subsequent Business Conditions – Risk of dependence on the continuation or realization of specific industry or business conditions.
- ii. Savings Analysis – Independent analysis of potential savings from proposed transaction.
  - iii. Rate Exposure – Fixed versus variable rate and swap exposure on a project and for a counterparty before and after proposed transaction.
  - iv. Market Net Termination Exposure – Termination exposure on a per transaction and per counterparty basis for all existing and proposed transactions.
  - v. Notional Value – Total notional value of derivative products before and after proposed transaction.
- b. Board of Supervisors Approval – When required, Board of Supervisors approval may be required.
- III. Inappropriate Use of Derivative Products – SFPUC shall never enter into a derivative transaction for the following purposes or if certain conditions exist.
- a. For speculative purposes, including potential trading gains.
  - b. To achieve extraordinary leverage.

- c. If liquidity is insufficient to protect against early termination.
- d. Insufficient price “transparency” wherein SFPUC is unable to reasonably value the instrument.

IV. Methods of Soliciting and Procuring Derivatives – Regardless of the method of procurement, the SFPUC shall obtain an independent finding that the terms and conditions of any derivative product entered into reflect a fair market value as of the date of its execution.

- a. Competitive – SFPUC would pre-qualify prospective bidders and reserve the right to select one or more bidders for the transaction in addition to the winning bidder if deemed in SFPUC’s best interest.
- b. Negotiated – SFPUC may determine that negotiating a transaction is in its best interest if:
  - i. Due to size or complexity of the transaction, a negotiated process would result in the most favorable pricing or terms in which case an independent financial advisor would be assigned to assist in the process.
  - ii. Doing so will advance SFPUC’s interests by encouraging and rewarding innovation and/or the substantial commitment of time and resources by a counterparty.

V. Counterparty Requirements

- a. Minimum rating – At least one Aa3 or AA- from two rating agencies.
- b. Minimum capitalization – \$250 million or credit enhancement in one of the following forms:
  - i. Contingent credit support or enhancement.
  - ii. Collateral held by a 3rd party trustee and marked to market monthly.
  - iii. Ratings downgrade triggers.
- c. Demonstrated record –
  - i. Successful track record and reputation for executing and performing derivative transactions.
  - ii. Creating and implementing innovative ideas in the derivative market.

VI. Standard Terms for Swaps and Derivatives

- a. Term – Consistent with the purpose for which the derivative product is used while taking into account the call dates for the related debt or obligation. In no event shall the term extend beyond the existing debt (or other obligation being hedged).
- b. Events of default – An event of default by the counterparty shall lead to SFPUC having the option to terminate the agreement with the termination payment being

calculated on the side of the bid-offered spread most beneficial to SFPUC. Events of default of a counterparty include:

- i. Failure to make payment when due.
- ii. Material breach of representations and warranties.
- iii. Failure to comply with downgrade provisions.
- iv. Failure to comply with any other provision of the agreement after a specified notice period.

c. Termination provisions

- i. Optional – All derivative transactions shall contain provisions granting the SFPUC the right to optionally terminate an agreement at any time over the term of the agreement.
- ii. Mandatory – A termination payment to or from the SFPUC may be required in the event of termination of an agreement ONLY in the case of credit-related and non-payment events. Prior to entering into an agreement or making any such termination payment, as appropriate, SFPUC shall evaluate whether it would be financially advantageous for the SFPUC to enter into a replacement transaction as a means of offsetting any such termination payment or obtaining insurance to guarantee performance of the counterparty. Any termination payment due from the SFPUC shall be made from available SFPUC monies.
- iii. Available liquidity - SFPUC shall consider the extent of the SFPUC's exposure to termination payment liability in connection with each transaction, and the availability of sufficient liquidity to make any such payments that may become due.
- iv. Cure provisions - Timelines on SFPUC's obligations to cure must provide for adequate time to affect the cure.
- v. Payment - Payments may be structured on a monthly, quarterly, semi-annual or annual basis.
- vi. Security – The agreement shall identify the security attributable to the derivative.
- vii. Collateral -
  - 1. Required - The SFPUC shall require collateral or other credit enhancement to be posted by each counterparty if the credit rating of the counterparty or its guarantor falls below the "AA" category by two of the three nationally recognized rating agencies (Moody's, Standard & Poor's and Fitch).
  - 2. Value –

- a. The amount of collateral posted shall be equal to the positive termination value of the agreement to the SFPUC.
- b. SFPUC will determine reasonable threshold limits for the initial deposit and for increments of collateral posted thereafter.

3. Features of Collateral –

- a. Cash, U.S. Treasury securities and U.S. Agency securities. The market value of the collateral shall be determined on at least a monthly basis.
- b. Deposited with a custodian, acting as agent for the SFPUC, or as mutually agreed upon between the SFPUC and the counterparty.
- c. The SFPUC shall determine on a case-by-case basis whether other forms of collateral are more beneficial to the SFPUC.

VII. Monitoring and Reporting - SFPUC shall report to the Commission at least annually and as requested

a. Agreements –

- i. A summary of each swap agreement, including but not limited to: the type of swap; the rates and dollar amounts paid by the SFPUC and received by the SFPUC; the rate and amounts that were required to be paid and received; and current market value.
- ii. Highlights of all material changes to the agreements or new agreements since the last report.
- iii. Sensitivity analysis with net impact to the SFPUC of a 25 basis point movement (up or down) in the appropriate swap index or curve.
- iv. Actual collateral posting by each counterparty, if any, under each agreement and in total by that counterparty.
- v. Information concerning any default by a counterparty under a swap agreement with the SFPUC, and the results of the default, including but not limited to the financial impact to the SFPUC, if any.
- vi. A summary of any agreements that were terminated.
- vii. A summary of key terms of outstanding agreements, including notional amounts, interest rates, maturity and method of procurement.
- viii. Values of early termination, shortening or lengthening the term to certain benchmarks, sale or purchase of options.

- ix. Discussion of other risks associated with each transaction.
- b. Counterparties –
  - i. Full name, description and credit ratings of each counterparty and credit enhancer insuring payments, if any.
  - ii. For each counterparty, the SFPUC shall provide the total notional amount position, the average life of each agreement, the available capacity to enter into a transaction, and the remaining term of each agreement.
  - iii. Listing of any credit enhancement, liquidity facility or reserves and accounting of all costs and expenses associated with the credit enhancement, liquidity facility or reserves.
  - iv. Aggregate marked to market value for each counterparty and relative exposure compared to other counterparties.
  - v. Calculation of SFPUC's net termination exposure for each counterparty.
- c. Future transactions - A summary of any planned transactions and the projected impact of such transactions on the SFPUC.

## VIII. Payments

- a. Budgeting - Termination payment risk shall be determined annually and offset by a hedge or reserve to a predetermined limit.
- b. Priority of payment –
  - i. Swap payments - no greater than parity with obligation being hedged
  - ii. Termination payments – If economically feasible, subordinate to related debt payments
- c. Swap counterparty termination exposure limit –
  - i. AAA Counterparties: \$40 million maximum collateralized net termination exposure; \$40 million maximum uncollateralized net termination exposure; \$40 million maximum total net termination exposure
  - ii. AA Counterparties: \$40 million maximum collateralized net termination exposure; \$10 million maximum uncollateralized net termination exposure; \$40 million maximum total net termination exposure
  - iii. Disclosure and documentation –
    - 1. Disclosure - Derivatives will be disclosed in the related Official Statement, if relevant, and in the SFPUC's annual financial statements in accordance with generally accepted accounting principles and in the Annual Disclosure Report.

2. Documentation – Each transaction must utilize International Swaps and Derivative Association approved documents.