MEMORANDUM

DATE: February 22, 2021

TO: Members of the Capital Planning Committee

THROUGH: Michael Carlin, Acting General Manager

FROM: Eric Sandler, CFO and AGM–Business Services

SUBJECT: CPC Meeting February 8, 2020 – SFPUC Supplemental Appropriation FY 2021-22 and Associated Bond Financing Authorizations

FY 2021-22 Capital Budget Supplemental Appropriation

The San Francisco Public Utilities Commission (SFPUC) is requesting Capital Planning Committee consideration and approval of a FY 2021-22 capital supplemental appropriation for the Wastewater Enterprise of $213,511,178, and Hetch Hetchy Water & Power of $17,344,824, as shown in the table below.

<table>
<thead>
<tr>
<th>Enterprise ($ million)</th>
<th>FY 2021-22</th>
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<tbody>
<tr>
<td>Wastewater</td>
<td>$213.5</td>
</tr>
<tr>
<td>Hetch Hetchy Water &amp; Power</td>
<td>$17.3</td>
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<tr>
<td>SFPUC Totals</td>
<td>$230.8</td>
</tr>
</tbody>
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We are also requesting consideration and approval of the associated planned Wastewater Revenue Bond Financing in the amount of $213,511,178 and Power Revenue Bonds in the amount of $19,344,824.

2-Year Capital Budget Development

The development of the PUC 2-Year Capital Budget for FY 2020-21 and FY 2021-22 occurred from June through December 2019 and was directed by the Budget Steering Committee, comprised of the SFPUC executive team. The 2-Year Capital Budget was developed along with and is consistent with the 10-Year Capital Plan that the Commission adopted February 11, 2020.
**Mid-Cycle Adjustments to FY 2021-22 Capital Budget**
Revisions to the FY 2021-22 budget are being done as part of the Mid-cycle Operating and Capital budget adjustment. Due to the uncertainty surrounding the impact of COVID-19, the mid-cycle budget was opened to update revenue projections and make limited expenditure changes to rebalance, based on funding availability. The FY 2021-22 capital budget was not fully reopened, only changes that are mission-critical and cannot be addressed through mid-year budget reallocations were allowed. The adjustment to the FY 2021-22 Capital Budget was adopted by the SFPUC Commission on February 9, 2021.

**Wastewater Supplemental Appropriation – $213.5 million**
The supplemental request is $181.5 million for projects and $32.0 million in financing costs for the Wastewater Enterprise.

- **Biosolids Digester Project** - $214.2 million increase for changes in scope as part of a cost reduction effort. The construction cost estimates at the 95% design phase came in higher than estimated with a longer construction duration exceeding the 2018 program baseline budget and schedule. The higher costs are attributed to site constraints/logistics, existing soil conditions, design progression and market conditions. The complexity and constrained site conditions led to a construction duration longer than what was anticipated in the conceptual design phase. An extensive cost reduction effort was conducted to identify cost savings to mitigate the project cost and schedule impacts. Original project goals and Levels of Service are maintained and unchanged. Project scope changes include improvements to the contract and design specifications, a better and more efficient odor control strategy, elimination of the maintenance buildings, elimination of the energy recovery facility and consideration of an alternate biogas end-use.

- **Green Infrastructure Projects** - $6.0 million increase to award anticipated grant projects expected to apply to the program in FY 2021-22. Since its inception in 2019, the program has seen sustained interest from public and private property owners across the city. The additional $6 million will allow the SFPUC to keep pace with anticipated demand over the next Fiscal Year.

- **Flood Resiliency/Hydraulic Projects** - ($15.0 million) decrease to offset Biosolids cost increases in FY 2021-22, appropriation was moved out to later years due to a delay in project development.

- **Treasure Island** – ($20.0 million) decrease to partially offset Biosolids cost increases in FY 2021-22, appropriation was moved out to later years due to a delay in project development.
• Islais Creek Outlet - ($3.7 million) decrease to partially offset Biosolids cost increases in FY 2021-22, appropriation was moved out to later years due to a delay in project development.

• Financing Costs - $32.0 million increase in costs of Wastewater Revenue Bond issuance to fund the supplemental capital budget increase.

**Hetch Hetchy Water & Power Supplemental Appropriation – $17.3 million**
The supplemental request funds $14.4 million for projects and $2.9 million in financing costs for the Hetchy Enterprise local power projects.

• Bay Corridor Transmission & Distribution Project (BCTD) - $16.4 million increase attributed to the bid for the Substation coming in over the original estimate, and additional contingencies based on the new project estimates.

• Low Carbon Fuel Standard Projects – ($2.0 million) decrease because the Low Carbon Fuel Standard funds are self-appropriating and do not need to be included in the PUC 2-year Capital Budget supplemental appropriation.

• Financing Costs - $2.9 million increase in costs of Power Revenue Bond issuance to fund the supplemental capital budget increase.

• The Hetch Hetchy Enterprise is closing out $6.9 million in project appropriations returning to Hetchy fund balance.

**Wastewater Revenue Bond Financing – $213.5 million**
Requesting Revenue Bond authorization to fund $181.5 million for the Wastewater Capital Program project costs and $32.0 million in financing costs, and Revenue Bond Oversight Committee.

**Hetchy Power Enterprise Bond Financing – $19.3 million**
Requesting Revenue Bond authorization to fund $16.4 million for Hetchy Power Enterprise project costs and $2.9 million in financing costs, and Revenue Bond Oversight Committee.

If you have any questions or need additional information, please contact Frank McPartland at (415) 487-5252. Your consideration of this request is greatly appreciated.