CAPITAL FINANCING POLICY

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

The SFPUC owns and operates Water, Wastewater and Power Enterprises. These enterprises provide essential services to the residents and businesses of the San Francisco Bay Area. Maintaining enterprise infrastructure in a state of good repair requires ongoing maintenance and capital improvements, which represent a large portion of the SFPUC's total ongoing expenditures. Balancing the mix of funding sources needed to pay for these improvements is a prudent way to protect both ratepayer affordability and the high-grade credit ratings of the three enterprises.

The SFPUC relies mainly on current revenue and debt financing to pay for capital assets or improvements. The use of current revenue (i.e. pay-as-you-go) to pay for recurring capital investment, such as repair and replacement projects, promotes financial sustainability by minimizing financing costs. Debt financing large, long-lived capital projects helps mitigate short-term rate impacts and spreads the cost of the improvement over multiple generations of ratepayers. However over-reliance on debt financing could limit future financial flexibility by imposing significant debt burdens on future rate payers, and could put downward pressure on future credit ratings. The appropriate mix of current revenue versus debt financing depends, in part, on the capital investment lifecycle of each enterprise.

In the light of these considerations, it is a policy of this Commission that over the 10-year financial planning horizon, **a minimum ranging between 15% and 30%** of each enterprise's capital budget will be paid for by current revenues.

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

Adopted by Resolution 17-0061 on March 28, 2017