



Date: February 28, 2023

To: Commissioner Newsha K. Ajami, President
Commissioner Sophie Maxwell, Vice President
Commissioner Tim Paulson
Commissioner Anthony Rivera
Commissioner Kate H. Stacy

Through: Dennis J. Herrera, General Manager *(DJH)*

From: Nancy L. Hom, Chief Financial Officer and Assistant General Manager, Business Services *NLH*

Subject: **SFPUC FY 2022-23 Second Quarter Budgetary Report through December 31, 2022**

The FY 2022-23 second quarter budgetary reports are attached for the three Enterprises and CleanPowerSF, with high-level changes to revenues and expenses summarized in the following table:

FY 2022-23 Operations

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Projected Sources	Projected Uses (excluding Capital)	Net Operating Results Surplus / (Shortfall)	Mid-year Adjustments to Fund Balance	Projected Year End Available Fund Balance
Water	244.7	(67.9)	25.4	9.6	34.9	-	211.7
Wastewater	158.4	(25.1)	6.2	16.2	22.4	-	155.7
Power	136.7	-	38.9	1.0	39.9	-	176.7
CleanPowerSF	51.3	-	7.1	1.7	8.9	-	60.2

London N. Breed
Mayor

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Vice President

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Commissioner

Anthony Rivera
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Kate H. Stacy
Commissioner

Dennis J. Herrera
General Manager

Summary:

- Positive operating results projected for Water, Wastewater, Power, and CleanPowerSF.
- *Water and Wastewater:* In both enterprises, revenues are projected to exceed budget due to higher than expected retail and wholesale sales due to lower than expected conservation efforts. Savings are also projected from lower labor costs due to vacant positions and savings in debt service payments.



- *CleanPowerSF*: Revenues are projected to exceed the budget due to higher sales than budgeted. In addition, labor savings are anticipated due to vacant positions. These are offset by significantly increased cost of power purchases which are driven by higher market for energy costs, CAISO load charges and a contingency to offset market volatility. This is a conservative assumption, and the team will be working on refining the year end projection during the third quarter.
- *Power*:
 - o Retail sales are \$15M below budget, not because of underperformance, but because the revenue budget was not adjusted downwards to match assumptions in the final Power Rate Study. The Rate Study was adopted in late May 2022, which did not allow time for the budget to be adjusted before adoption.
 - o Wholesale revenues are projected to significantly exceed the budget due to higher power prices combined with higher generation due to the winter storms, resulting in sales above budget.
 - o On the expenses side, these higher wholesale revenues are partially offset by significantly higher transmission and distribution costs and gas and steam costs, which are projected to exceed the budget.
- All enterprises are projected to meet financial policy minimums and coverage ratios at year end.

If you have questions, please contact me at NHom@sfgwater.org.

cc:

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 Wendy Macy, Chief People Officer, SFPUC
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 Laura Busch, Budget Director, SFPUC
 Anna Duning, Budget Director, Mayor's Office
 Ben Rosenfield, Controller

Attachments:

Appendix A Water Enterprise
 Appendix B Wastewater Enterprise
 Appendix C Hetch Hetchy Water & Power, including the Power Enterprise
 Appendix D CleanPowerSF

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2022-23 2nd Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990, 26570 & 26600
(\$ Millions)

		FY 2022-23			
	FY 2021-22 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)	Variance (Projection vs Revised Budget)
Sources					
Retail Water Sales	308.3	323.9	324.4	327.1	2.7 A
Wholesale Water Sales	261.4	266.3	266.3	285.2	18.9 B
Interest Income	1.8	1.1	1.1	2.6	1.5 C
Rental Income	14.2	13.1	13.1	13.1	-
Miscellaneous Income	23.6	19.6	19.6	21.9	2.3 D
Departmental Transfer Adjustment	(45.8)	(49.6)	(49.6)	(49.6)	-
Federal Bond Interest Subsidy	21.6	21.3	21.3	21.3	-
Appropriated/Budgeted Use of Fund Balance	72.8	67.9	149.9	149.9	-
Total Sources	657.8	663.7	746.0	771.4	25.4
Operating Uses					
Personnel	100.7	114.5	114.5	111.6	2.9 E
Non-Personnel Services	14.3	24.3	37.8	37.8	-
Materials and Supplies	15.5	17.8	23.0	23.0	-
Equipment	3.4	2.4	8.6	8.6	-
Light, Heat, and Power	11.4	11.2	11.2	11.2	-
Overhead (SFPUC Bureaus)	52.6	63.1	72.4	72.4	-
Services of Other Departments	12.6	15.4	17.4	17.4	-
Debt Service	279.3	335.1	335.1	328.5	6.6 F
Total Operating Uses	489.8	583.8	619.9	610.4	9.6
Net Operating Results				161.0	34.9
Other Impacts to Operating Budget					
	FY 2021-22 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	54.6	46.0	206.0	206.0	-
Facilities Maintenance/Programmatic	27.6	33.9	79.6	79.6	-
Total Adjustments to Operating Fund Balance	\$ 82.1	\$ 79.8	\$ 285.5	\$ 285.5	\$ -
Available Fund Balance as of Fiscal Year-End	\$ 244.7	\$ 211.7			
Available Fund Balance, % of Operating Uses (G) 25-68%	102.8%	58.6%			
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (H) ≥ 1.35	1.47	1.69	1.60		
Current Basis (I) ≥ 1.10	1.10	1.17	1.29		

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2022-23 2nd Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990, 26570 & 26600 (\$ Millions)

Revenue Variances

- A.** Retail water sales forecasted to be 54.2 MGD, a 0.2% increase from budgeted volumes of 54.0 MGD, and a 3.3% increase from prior year actuals of 52.4 MGD.
- B.** Wholesale water sales forecasted to be 123.0 MGD, an 8.2% increase from budgeted volumes of 113.7 MGD, and a 4.2% decrease from prior year actuals of 128.4 MGD.
- C.** Interest rate of 1.2% is higher compared to budget of 0.5%.
- D.** Miscellaneous income slightly increased from budget due to increased collection of miscellaneous billing charges and gain on sale of land.

Expenditure Variances

- E.** Savings due to vacant positions.
- F.** Debt Service variance due to revised repayment commencement of the Westside Recycled Water Project SRF Loan to align with updated construction schedule.

Other Notes

- G.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- H.** Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, excluding all revenues and expenses related to the 525 Golden Gate COPs, and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- I.** Calculated as ratio between (a) Total Sources plus any appropriated fund balance, plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, excluding all revenues and expenses related to the 525 Golden Gate COPs, and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2022-23 2nd Quarter - Budgetary Basis, Funds 20160, 20170, 20550 (\$ Millions)

	FY 2021-22 Actuals	FY 2022-23			
		Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Sources					
Sewer Service Charges	355.9	370.8	370.8	374.6	3.8 A
Interest Income	1.6	1.6	1.6	3.8	2.2 B
Miscellaneous Income	3.5	5.2	7.7	7.9	0.2 C
Federal Bond Interest Subsidy	3.5	3.5	3.5	3.5	-
Appropriated/Budgeted Use of Fund Balance	40.9	25.1	52.7	52.7	-
Total Sources	405.5	406.1	436.2	442.5	6.2
Operating Uses					
Personnel	72.0	87.2	87.2	82.0	5.1 D
Non-Personnel Services	28.7	26.6	33.6	33.6	-
City Grant Programs	0.2	0.3	0.5	0.5	-
Materials and Supplies	11.5	12.2	14.1	14.1	-
Equipment	1.7	2.2	7.1	7.1	-
Light, Heat, and Power	11.9	12.7	12.7	12.7	-
Overhead (SFPUC Bureaus)	32.2	37.6	43.1	43.1	-
Services of Other Departments	26.2	23.0	25.8	25.8	-
Debt Service	87.4	113.2	113.2	102.2	11.0 E
Total Operating Uses	271.8	314.9	337.4	321.2	16.2
Net Operating Results	133.6			121.2	\$ 22.4
Other Impacts to Operating Budget	FY 2021-22 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	72.7	82.6	253.5	253.5	-
Facilities Maintenance/Programmatic	8.1	8.6	13.2	13.2	-
Legal Settlements	8.6	-	-	-	-
Total Adjustments to Operating Fund Balance	\$ 89.4	\$ 91.2	\$ 266.7	\$ 266.7	\$ -
Available Fund Balance as of Fiscal Year-End	\$ 158.4				\$ 155.7
Available Fund Balance, % of Operating Uses (F) 25-68%	82.3%				67.1%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (G) ≥ 1.35	3.59	3.02			3.18
Current Basis (H) ≥ 1.10	1.80	1.84			2.11

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2022-23 2nd Quarter - Budgetary Basis, Funds 20160, 20170, 20550 (\$ Millions)

Revenue Variances

- A.** Wastewater retail billable volumes forecasted to be 44.0 MGD, showing no change from budget of 44.0 MGD and a 2.3% increase from prior year actuals of 43.0 MGD. This includes a 5% drought surcharge.
- B.** Interest rate of 1.2% is higher compared to budget of 0.5%.
- C.** Miscellaneous income forecasted to slightly increase from budget, primarily due to sale of fixed assets.

Expenditure Variances

- D.** Salary savings reflect vacant positions.
- E.** Debt service savings mainly due to the postponed issuance of the 2023 Wastewater Revenue Notes due to market conditions and issuance of the 2022B Wastewater Refunding Bonds. In addition, delayed repayment of Oceanside SRF loan due to project scheduling.

Other Notes

- F.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- G.** Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs), and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- H.** Calculated as ratio between (a) Total Sources plus any appropriated fund balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs), and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2022-23 2nd Quarter - Budgetary Basis - 24970, 24980, 24990
(\$ Millions)

	FY 2022-23				
	FY 2021-22 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Sources					
Electric Sales - Retail	153.1	171.4	171.4	156.4	(15.0) A
Electric Sales - Wholesale	30.2	18.3	18.3	65.0	46.7 B
Water Sales - Transfer from Water Department	45.8	49.6	49.6	49.6	-
Natural Gas & Steam - City Work Orders	17.4	15.9	16.3	21.4	5.1 C
Interest Income	1.5	1.0	1.0	2.5	1.5 D
Federal Interest Subsidy - Power Bonds	0.1	0.4	0.4	0.4	0.0
Miscellaneous Income	8.2	9.3	9.3	10.0	0.6
Appropriated/Budgeted Use of Fund Balance	50.2	-	40.5	40.5	-
Total Sources	306.5	266.0	306.9	345.8	38.9
Operating Uses					
Personnel	47.6	54.4	54.4	54.4	-
Non-Personnel Services	29.5	40.3	63.4	63.4	-
Power Purchases, Transmission Distribution & Related Charges	59.0	76.7	80.1	92.0	(11.9) E
Natural Gas & Steam	17.4	15.9	16.3	21.4	(5.1) F
Materials and Supplies	3.2	3.5	3.9	3.9	-
Equipment	1.2	3.2	7.1	7.1	-
Overhead (SFPUC Bureaus)	19.7	24.1	27.5	27.5	-
Services of Other Departments	7.0	9.4	9.5	9.5	-
Debt Service	3.9	4.0	4.0	4.0	-
General Reserve	-	18.0	18.0	-	18.0 G
Total Operating Uses	188.4	249.5	284.2	283.2	1.0
Net Operating Results	118.1			62.7	39.9
Other Impacts to Operating Budget					
	FY 2021-22 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Facilities Maintenance/Programmatic	13.7	14.2	20.5	20.5	-
Capital projects	48.6	2.3	84.3	84.3	-
Total Adjustments to Operating Fund Balance	62.3	16.5	104.8	104.8	-
Available Fund Balance as of Fiscal Year-End	136.7				176.7
Available Fund Balance, % of Operating Uses (H) 25-68%	69.0%				73.7%
Debt Service Coverage... Year-End Budgetary Basis					
Indenture Basis (includes Available Fund Balance) (I) ≥ 1.35	38.45	55.54			55.30
Current Basis (J) ≥ 1.10	20.71	2.26			17.82

Revenue Variances

- A.** Retail sales are \$15.5M below budget, not because of underperformance, but because the budget was not adjusted downwards to match assumptions in the final Power Rate Study. The Rate Study was adopted in late May 2022, which did not allow time for the budget to be adjusted.
- B.** Wholesale sales are higher than budget mainly due to higher power prices combined with higher generation due to the winter storms.
- C.** Due to higher usage and prices in natural gas & steam.
- D.** Interest rate of 1.2% is higher compared to budget of 0.5%..

Expenditure Variances

- E.** Deficit is due to transmission and distribution costs being higher than budgeted assumptions. Transmission is \$5M higher, distribution is \$9M higher and other CAISO costs also \$5M higher than budget. Costs are partially offset by \$4M appropriated reserve for power purchase and \$3M in carryforwards.
- F.** Due to slightly higher usage and prices in natural gas & steam.
- G.** General Reserve was intentionally budgeted and planned to go unspent to build reserves.

Other Notes

- H.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- I.** Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance, less Operating Uses, less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs, Natural Gas and Steam and Treasure Island), and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- J.** Calculated as ratio between (a) Total Sources plus any appropriated fund balance, plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, (excluding all revenues and expenses related to the 525 Golden Gate COPs, Natural Gas and Steam and Treasure Island), and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix D
CleanPowerSF
FY 2022-23 2nd Quarter - Budgetary Basis - 24750, 24761, 24765 & 24870
(\$ Millions)

	FY 2022-23				
	FY 2021-22 Actuals	Original Budget	Revised Budget (includes carryforwards & supplemental)	Projection (includes carryforwards)	Variance (Projection vs Revised Budget)
Operating Sources					
Electric Sales - Green Product	234.3	299.5	299.5	294.9	(4.6)
Electric Sales - SuperGreen Product	12.3	15.7	15.7	23.0	7.3
Wholesale Sales	4.6	-	-	3.5	3.5
Subtotal - Electric Revenues	251.2	315.2	315.2	321.4	6.3 A
Interest Income	0.4	0.6	0.6	1.4	0.8 B
Appropriated/Budgeted Use of Fund Balance	13.4	-	3.9	3.9	-
Total Sources	265.0	315.7	319.7	326.7	7.1
Operating Uses					
Personnel	4.1	7.8	7.8	6.4	1.4 C
Overhead	2.5	5.4	5.8	5.8	-
Non Personnel Services	11.2	11.9	14.0	14.0	-
Materials & Supplies	0.0	0.2	0.4	0.4	-
Power Purchases, Transmission Distribution & Related	241.3	251.1	251.1	284.3	(33.2) D
Services of Other Departments	3.3	4.1	4.1	4.1	-
Debt Service	-	-	-	-	-
General Reserve	-	33.5	33.5	-	33.5 E
Total Operating Uses	262.4	314.0	316.7	315.0	1.7
Net Operating Results	2.6			11.8	8.9
Other Impacts to Operating Budget	FY 2021-22 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years expending)	Project Closeouts
Programmatic	0.4	0.2	1.4	1.4	-
Capital Projects	0.4	1.6	5.4	5.4	-
Total Adjustments to Operating Fund Balance	0.7	1.7	6.8	6.8	-
Available Fund Balance as of Fiscal Year-End	51.3				60.2 F
Available Fund Balance, % of Operating Uses (G)	19.5%				19.0%

Revenue Variances

- A. Revenues slightly higher than budget due to resource adequacy wholesale sales and refreshed SuperGreen sales assumptions.
B. Interest rate of 1.2% is higher compared to budget of 0.5%.

Expenditure Variances

- C. Salary savings due to vacant positions.
D. Higher than expected costs in the energy market are driving projections over budget. Projection includes contingency for market price volatility.
E. General Reserve was intentionally budgeted and planned to go unspent to build reserves.

Other Notes

F. Available fund balance at fiscal year end is calculated within this report by taking beginning fund balance, less any fund balance budgeted to be used as a source, and adding the projected variances as well as project closeouts. As the CleanPowerSF Trust Fund is a continuing fund, amounts budgeted therein will automatically roll forward to the following year and will not be closed out to fund balance. As such, variances related to revenues, purchase of power, and general reserves will not close out to fund balance at the end of the year without manual intervention. However as those funds are not considered restricted and CleanPowerSF may choose to close them out to fund balance, we are presenting them here as part of fund balance.

G. Calculated as Ending Available Fund Balance as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be at least 50% within three years of policy adoption (April of 2022).