



Date: September 12, 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 Fourth Quarter Budgetary Report through June 2023**

The FY 2022-23 fourth 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

\$ Millions	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)	\$(2.3)	\$14.8	\$12.4	-	\$189.2
Wastewater	158.4	(25.1)	(6.8)	19.4	12.5	-	145.9
Power	136.7	-	36.4	6.1	42.5	-	179.2
CleanPowerSF	51.3	-	5.9	26.8	32.7	-	84.0

London N. Breed
Mayor

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Vice President

Tim Paulson
Commissioner

Anthony Rivera
Commissioner

Kate H. Stacy
Commissioner

Dennis J. Herrera
General Manager

Summary:

- Positive year end operating results projected for Water, Wastewater, Power, and CleanPowerSF.
- *Water & Wastewater:* Overall year end revenues are down from budget. Retail and Wholesale volumes are lower than expected compared to Quarter 3 due to lower demand recovery from the drought and lower usage due to a longer wet season. The drought surcharge was also removed effective May 2023. For the Water Enterprise, this is offset by additional revenue from the \$11.4M sale

OUR MISSION: To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.



of Balboa Reservoir and \$1.4M sale of Francisco Reservoir. Both enterprises also have slightly higher interest income than budgeted for the year.

- In both *Water and Wastewater*: Expenditure savings are projected from lower labor costs due to vacant positions, lower bureau overhead, and savings in debt service payments.
- *Power*: Overall year end results are higher than budget.
 - Retail sales are projected to be below budget; however, this does not reflect unanticipated poor performance. The retail revenue budget includes an additional \$15.5M that was not adjusted downwards in the budget 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 FY 2022-23 budget to be adjusted before adoption.
 - Wholesale revenues are projected to significantly exceed the budget due to higher power prices combined with higher generation due to the winter storms. But due to negative pricing for excess energy sales in Quarter 3, generation is lower compared to the previous quarter.
 - On the expense side, the shortfall in “pass through” gas and steam costs to other city departments remains the same. These additional costs will be covered via workorder recoveries.
 - Note that a \$17M budget adjustment was made during Quarter 3 to support higher costs related to the transmission and distribution of power. This is reflected in the revised budget column. Compared to Quarter 3, costs related to power purchases are now expected to net a surplus along with savings from bureau overhead costs.
- *CleanPowerSF*: The revenue budget was revised upward by \$8.3M in Q4 to account for higher than anticipated energy prices and the volatility in the power market. Yearend revenues are still projected to exceed the revised budget due to higher sales than anticipated.

In addition, power prices and CAISO costs have lowered since Quarter 3 resulting in a projected surplus in the power purchase budget. Note that there was \$31.5M in increases made to the CleanPowerSF power purchase budget during the fiscal year to cover the higher than anticipated power purchase costs (reflected in the revised budget column).
- All enterprises are projected to meet or exceed financial policy minimums and coverage ratios at year end.

The Quarter 4 report is a projection with final year end results published in the Annual Comprehensive Financial Report. If you have questions, please contact me at NHom@sfgwater.org.

cc:

Ronald Flynn, Deputy GM, SFPUC
Barbara Hale, AGM, Power Enterprise, SFPUC
Joel Prather, Acting AGM, Wastewater Enterprise, SFPUC
Steve Ritchie, AGM, Water Enterprise, SFPUC
Stephen Robinson, AGM, Infrastructure, SFPUC
Wendy Macy, Chief People Officer, SFPUC
Masood Ordikhani, AGM, External Affairs, SFPUC
Laura Busch, Acting Deputy Chief Financial Officer, 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 4th 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	\$ 310.2	\$ (14.2)	A
Wholesale Water Sales	261.4	266.3	266.3	267.6	1.3	B
Interest Income	1.8	1.1	1.1	4.5	3.4	C
Rental Income	14.2	13.1	13.1	13.2	0.1	D
Miscellaneous Income	23.6	19.6	19.6	26.7	7.1	E
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	\$ 743.7	\$ (2.3)	
Operating Uses						
Personnel	\$ 100.7	\$ 114.5	\$ 113.6	\$ 109.5	\$ 4.1	F
Non-Personnel Services	14.3	24.3	37.0	35.5	1.5	G
Materials and Supplies	15.5	17.8	24.5	24.5	-	
Equipment	3.4	2.4	8.6	8.6	-	
Overhead (SFPUC Bureaus)	52.6	63.1	72.4	69.9	2.5	H
Services of Other Departments	24.0	26.6	29.2	29.2	-	
Debt Service	279.3	335.1	335.1	328.5	6.6	I
Total Operating Uses	\$ 489.8	\$ 583.8	\$ 620.4	\$ 605.6	\$ 14.8	
Net Operating Results	\$ 167.9			\$ 138.1	\$ 12.4	
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	\$ 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				\$ 189.2	
Available Fund Balance, % of Operating Uses (J) 25-68%	102.8%				53.0%	
Debt Service Coverage (Year-End Budgetary Basis)						
Indenture Basis (includes Available Fund Balance) (K) ≥ 1.35	1.47	1.69			1.53	
Current Basis (L) ≥ 1.10	1.10	1.17			1.22	

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2022-23 4th Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990, 26570 & 26600 (\$ Millions)

Revenue Variances

- A.** Year end retail water sales were 52.2 MGD, a 3.3% decrease from budgeted volumes of 54.0 MGD, and a 0.4% decrease from prior year actuals of 52.4 MGD.
- B.** Wholesale water sales forecasted to be 118.5 MGD, a 4.2% increase from budgeted volumes of 113.7 MGD, and a 7.7% decrease from prior year actuals of 128.4 MGD.
- C.** Interest rate of 1.2% is higher compared to budget of 0.5%.
- D.** Year end rental revenues came in slightly greater than budget.
- E.** Miscellaneous income higher than budget due to sales of assets and land: \$11.4M related to Balboa Reservoir and \$1.4M for Francisco Reservoir. These increased revenues were offset by lower than budgeted collection of water service installation charges.

Expenditure Variances

- F.** Savings due to vacant positions.
- G.** Savings reflect lower spending associated with customer rebate and incentive programs.
- H.** Savings reflect lower spending associated with bureau allocation.
- I.** Debt Service variance due to revised repayment commencement of the Westside Recycled Water Project SRF Loan to align with updated construction schedule.

Other Notes

- J.** 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%.
- K.** 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.
- L.** 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 4th 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	\$ 360.5	\$ (10.3) A
Interest Income	1.6	1.6	1.6	4.9	3.3 B
Miscellaneous Income	3.5	5.2	7.7	7.9	0.1 C
Federal Bond Interest Subsidy	3.5	3.5	3.5	3.5	-
Appropriated/Budgeted Use of Fund Balance	40.9	25.1	52.2	52.2	-
Total Sources	\$ 405.5	\$ 406.1	\$ 435.7	\$ 428.9	\$ (6.8)
Operating Uses					
Personnel	\$ 72.0	\$ 87.2	\$ 84.9	\$ 78.1	\$ 6.8 D
Non-Personnel Services	28.7	26.6	31.8	31.8	-
City Grant Programs	0.2	0.3	0.5	0.5	-
Materials and Supplies	11.5	12.2	15.3	15.3	-
Equipment	1.7	2.2	7.1	7.1	-
Overhead (SFPUC Bureaus)	32.2	37.6	43.1	41.6	1.5 E
Services of Other Departments	38.0	35.7	41.8	41.8	-
Debt Service	87.4	113.2	113.2	102.2	11.0 F
Total Operating Uses	\$ 271.8	\$ 314.9	\$ 337.8	\$ 318.4	\$ 19.4
Net Operating Results	\$ 133.6			\$ 110.5	\$ 12.5
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				\$ 145.9
Available Fund Balance, % of Operating Uses (G) 25-68%	82.3%				63.6%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (H) ≥ 1.35	3.59	3.02			3.09
Current Basis (I) ≥ 1.10	1.80	1.84			2.01

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2022-23 4th Quarter - Budgetary Basis, Funds 20160, 20170, 20550 (\$ Millions)

Revenue Variances

- A. Year end Wastewater retail billable volumes were 43.1 MGD, a 2.0% decrease from budget of 44.0 MGD and a 0.2% increase from prior year actuals of 43.0 MGD.
- B. Interest rate of 1.2% is higher compared to budget of 0.5%.
- C. End of year miscellaneous income is slightly greater than budget, primarily due to sale of fixed assets.

Expenditure Variances

- D. Salary savings reflect vacant positions.
- E. Savings reflect lower spending associated with bureau allocation.
- F. 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

- 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 C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2022-23 4th 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	\$ 161.1	\$ (10.2)	A
Electric Sales - Wholesale	30.2	18.3	18.3	54.3	36.0	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	19.1	25.8	6.7	C
Interest Income	1.5	1.0	1.0	3.5	2.5	D
Federal Interest Subsidy - Power Bonds	0.1	0.4	0.4	0.4	-	
Miscellaneous Income	8.2	9.3	9.3	10.8	1.5	E
Appropriated/Budgeted Use of Fund Balance	50.2	-	40.5	40.5	-	
Total Sources	\$ 306.5	\$ 266.0	\$ 309.7	\$ 346.1	\$ 36.4	
Operating Uses						
Personnel	\$ 47.6	\$ 54.4	\$ 54.1	\$ 54.1	-	
Non-Personnel Services	29.5	40.3	63.1	63.1	-	
Power Purchases, Transmission Distribution & Related Charges	59.0	76.7	92.0	86.3	5.7	F
Natural Gas & Steam	17.4	15.9	24.2	25.8	(1.6)	G
Materials and Supplies	3.2	3.5	4.2	4.2	-	
Equipment	1.2	3.2	7.1	7.1	-	
Overhead (SFPUC Bureaus)	19.7	24.1	27.5	26.5	1.0	H
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	1.0	-	1.0	I
Total Operating Uses	\$ 188.4	\$ 249.5	\$ 286.6	\$ 280.5	\$ 6.1	
Net Operating Results	\$ 118.1			\$ 65.6	\$ 42.5	
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				\$ 179.2	
Available Fund Balance, % of Operating Uses (J) 25-68%	69.0%				75.5%	
Debt Service Coverage... Year-End Budgetary Basis						
Indenture Basis (includes Available Fund Balance) (K) ≥ 1.35	38.45	55.54			56.46	
Current Basis (L) ≥ 1.10	20.71	2.26			18.97	

Revenue Variances

- A.** Retail sales are slightly above budget, but is offset by \$15.5M in budget that 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.
- C.** Due to higher prices in natural gas & steam.
- D.** Pooled funds year-to-date interest rate of 2.1% is higher than budget set assuming 0.5%.
- E.** Miscellaneous income projected to exceed budget primarily due to water sales and settlements.

Expenditure Variances

- F.** Transmission and distribution costs are higher than original budgeted assumptions. Transmission is \$5M higher and distribution is \$9M higher. Costs are partially offset by \$4M appropriated reserve for power purchase, \$3M in carryforwards and lower projected CAISO costs compared to Q3. A \$17M transfer from General Reserve was also used to support higher power costs during the year.
- G.** Due to higher prices in natural gas & steam.
- H.** Savings reflect lower spending associated with bureau allocation.
- I.** \$17M in General Reserve was used to support higher power costs, including higher transmission and distribution.

Other Notes

- J.** 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%.
- K.** 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.
- L.** 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 4th Quarter - Budgetary Basis - 24750, 24761, 24762, 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	\$ 294.7	\$ 299.5	4.8
Electric Sales - SuperGreen Product	12.3	15.7	25.2	25.6	0.4
Wholesale Sales	4.6	-	3.6	3.6	-
Subtotal - Electric Revenues	\$ 251.2	\$ 315.2	\$ 323.5	\$ 328.7	5.2 A
Interest Income	\$ 0.4	\$ 0.6	\$ 0.6	\$ 1.3	0.7 B
Miscellaneous Income	-	-	4.6	4.6	- C
Appropriated/Budgeted Use of Fund Balance	13.4	-	16.8	16.8	-
Total Sources	\$ 265.0	\$ 315.7	\$ 340.8	\$ 346.7	5.9
Operating Uses					
Personnel	\$ 4.1	\$ 7.8	\$ 7.8	\$ 5.2	2.6 D
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 & Relate	241.3	251.1	282.6	268.7	13.9 E
Services of Other Departments	3.3	4.1	4.1	4.1	-
Debt Service	-	-	-	-	-
General Reserve	-	33.5	10.3	-	10.3 F
Total Operating Uses	\$ 262.4	\$ 314.0	\$ 325.0	\$ 298.2	26.8
Net Operating Results	\$ 2.6			\$ 48.6	32.7
Other Impacts to Operating Budget	FY 2021-22 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Programmatic	\$ 0.4	\$ 0.2	\$ 6.0	\$ 6.0	- G
Capital Projects	0.4	1.6	5.4	5.4	-
Total Adjustments to Operating Fund Balance	\$ 0.7	\$ 1.7	\$ 11.4	\$ 11.4	-
Available Fund Balance as of Fiscal Year-End	\$ 51.3			\$ 84.0	H
Available Fund Balance, % of Operating Uses (I) %	19.5%				27.6%

Revenue Variances

- A.** Revenues slightly higher than budget due to higher load. The revenue budget also reflects a \$8.3M supplemental appropriation to cover higher than anticipated costs to purchase energy due to volatile and expensive power market.
- B.** Interest rate is higher than budget.
- C.** Includes \$4.6M in funds from the State via PG&E to implement the Energy Efficiency Community Food Service Program.

Expenditure Variances

- D.** Salary savings due to vacant positions.
- E.** \$31.5M was appropriated in FY2023 to cover higher than anticipated power costs to purchase energy due to a volatile and expensive power market. However, market costs fell in the last quarter and resulted in savings against the conservative budget.
- F.** General Reserve was intentionally budgeted and planned to go unspent to build reserves. However, a \$23.2M transfer was made to Power Purchases to cover higher than anticipated costs to purchase energy due to volatile and expensive power market.
- G.** Includes \$4.6M in funds from the State via PG&E to implement the Energy Efficiency Community Food Service Program.

Other Notes

- H.** 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.
- I.** 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).