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Date: December 12, 2023

To: Commissioner Tim Paulson, President
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Through: Dennis J. Herrera, General Manager DJH

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

Subject: **SFPUC FY 2023-24 First Quarter Budgetary Report through September 2023**

The FY 2023-24 first 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 2023-24 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	**211.4**	-	(26.5)	11.9	**(14.6)**	-	**196.8**
Wastewater	**155.7**	-	(22.7)	29.6	**6.9**	-	**162.5**
Power	**179.3**	(35.4)	12.4	26.2	**38.7**	-	**182.5**
CleanPowerSF	**90.1**	-	29.8	23.1	**52.9**	-	**143.0**

Summary:

- Positive year end operating results projected for Wastewater, Power, CleanPowerSF and a negative year end result for Water.
- *Water:* Retail revenues are projected to be below budget. The FY 2023-24 budget was adopted assuming the 5% drought surcharge would still be in effect, but it was removed in May of 2023. The surcharge accounted for approximately $14.1 million in revenue. Additionally, wholesale volumes are lower than what was assumed in the budget, resulting in a shortfall. The reduction in revenues is partially offset by lower labor costs due to vacant positions and savings from debt refunding.

- *Wastewater:* Similar to Water, revenues are projected to be below budget. The FY 2023-24 budget was adopted assuming the 5% drought surcharge would be in effect. The surcharge accounted for approximately $18.8 million. Additionally, multiple stormwater-only parcels currently have no existing service agreements and remain uncollected. This is offset by higher than expected interest rates, lower labor costs due to vacant positions, and savings from general reserve.
- *Power:* Wholesale revenues are projected to exceed the budget due to higher sales from resource adequacy combined with higher generation. In addition, large savings are projected for power purchases due to higher generation in 2023, avoiding additional power purchases in the first quarter. Projections include the 100-day planned shutdown of Mountain Tunnel.
- *CleanPowerSF:* Revenues are projected to exceed budget due to increased sales, customer enrollment, and savings from general reserve. This is partially offset by increases to power purchases due to renewable energy and resource adequacy costs.
- All enterprises are projected to meet financial policy minimums and coverage ratios at fiscal yearend.

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

cc:

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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 2023-24 1st Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990 ,26570,26600 & 26603
($ Millions)

	FY 2022-23 Actuals	FY 2023-24 Original Budget	FY 2023-24 Revised Budget (includes carryforwards)	FY 2023-24 Projection (current year spending)	FY 2023-24 Variance (Projection vs Revised Budget)	
Sources						
Retail Water Sales	310.3	346.7	347.1	326.8	(20.3)	**A**
Wholesale Water Sales	253.5	318.2	318.2	313.2	(5.0)	**B**
Interest Income	6.8	1.1	1.1	3.5	2.4	**C**
Rental Income	13.7	13.6	13.6	13.6	(0.0)	
Miscellaneous Income	26.8	17.0	17.0	13.4	(3.6)	**D**
Departmental Transfer Adjustment	-	(46.3)	(46.3)	(46.3)	-	
Federal Bond Interest Subsidy	21.3	20.8	20.8	20.8	-	
Appropriated/Budgeted Use of Fund Balance	-	-	79.5	79.5	-	
Total Sources	**632.3**	**671.2**	**751.0**	**724.6**	**(26.5)**	
Operating Uses						
Personnel	105.7	114.9	114.9	114.2	0.7	**E**
Non-Personnel Services	20.9	21.2	35.0	35.0	-	
Materials and Supplies	20.4	19.1	23.1	23.1	-	
Equipment	3.2	2.6	8.1	8.1	-	
Overhead (SFPUC Bureaus)	55.1	66.1	77.2	77.2	-	
Services of Other Departments	25.6	27.6	29.5	29.5	-	
Debt Service	306.6	333.7	333.7	328.4	5.2	**F**
General Reserve		5.9	5.9	-	5.9	**G**
Total Operating Uses	**537.4**	**591.2**	**627.3**	**615.5**	**11.9**	
Net Operating Results	**94.9**			**109.1**	**(14.6)**	

Other Impacts to Operating Budget	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	57.8	45.6	191.2	191.2	-
Facilities Maintenance/Programmatic	31.7	34.4	77.8	77.8	-
Total Adjustments to Operating Fund Balance	**$ 89.4**	**$ 79.9**	**$ 269.0**	**$ 269.0**	**$ -**
Available Fund Balance as of Fiscal Year-End	**$ 211.4**				**$ 196.8**
Available Fund Balance, % of Operating Uses (H) 25-68%	**80.5%**				**53.9%**
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) **(I)** ≥ 1.35	**1.53**	**1.79**			**1.54**
Current Basis **(J)** ≥ 1.10	**1.22**	**1.16**			**1.11**

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2023-24 1st Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990 ,26570,26600 & 26603
($ Millions)

Revenue Variances

A. The FY 2023-24 budget was adopted assuming the 5% drought surcharge would remain in effect. The surcharge accounted for approximately $14.1 million in revenues. Q1 retail sales projections are 54.0 MGD, a 2.7% decrease from budgeted volumes of 55.2 MGD.

B. The FY 2023-24 wholesale budget was adopted assuming higher volumetric rate of $5.30. The adopted rate was subsequently set at $5.21, or 1.7% lower. This was driven by higher water sale projections due to the end of drought restrictions. Q1 projected wholesale sales are 122.1 MGD compared to budgeted assumption of 121.9 MGD.

C. Interest rate of 1.5% is higher compared to budget of 0.5%.

D. Miscellaneous income lower than budget due to lower than budgeted collection of water service installation charges.

Expenditure Variances

E. Savings due to vacant positions**.**

F. Debt Service variance due to the issuance of 2023CD refunding bonds.

G. $5.9M in general reserve due to higher sources than uses.

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 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.

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, 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 2023-24 1st Quarter - Budgetary Basis, Funds 20160, 20170 & 20550
($ Millions)

	FY 2022-23 Actuals	FY 2023-24 Original Budget	FY 2023-24 Revised Budget (includes carryforwards)	FY 2023-24 Projection (current year spending)	FY 2023-24 Variance (Projection vs Revised Budget)	
Sources						
Sewer Service Charges	360.8	415.4	415.8	389.7	(26.1)	**A**
Interest Income	7.6	1.7	1.7	5.0	3.3	**B**
Miscellaneous Income	7.9	3.8	3.8	3.8	0.0	
Federal Bond Interest Subsidy	3.5	3.4	3.4	3.4	-	
Appropriated/Budgeted Use of Fund Balance		-	26.4	26.4	-	
Total Sources	**379.8**	**424.2**	**451.0**	**428.3**	**(22.7)**	
Operating Uses						
Personnel	76.1	87.6	87.6	85.2	2.4	**C**
Non-Personnel Services	25.5	28.0	33.3	33.3	-	
Materials and Supplies	14.1	13.2	14.4	14.4	-	
Equipment	1.4	2.0	7.7	7.7	-	
Overhead (SFPUC Bureaus)	32.9	39.0	45.8	45.8	-	
Services of Other Departments	38.4	38.8	41.0	41.0	-	
Debt Service	98.6	98.0	98.0	98.6	(0.6)	**D**
General Reserve		27.8	27.8	-	27.8	**E**
Total Operating Uses	**287.1**	**334.5**	**355.6**	**326.0**	**29.6**	
Net Operating Results	**92.7**			**102.2**	**$ 6.9**	

Other Impacts to Operating Budget	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	71.6	81.3	263.2	263.2	-
Facilities Maintenance/Programmatic	7.2	8.4	13.6	13.6	-
Total Adjustments to Operating Fund Balance	**$ 78.8**	**$ 89.7**	**$ 276.8**	**$ 276.8**	**$ -**
Available Fund Balance as of Fiscal Year-End	**$ 155.7**				**$ 162.5**
Available Fund Balance, % of Operating Uses (F) 25-68%	**79.6%**				**67.4%**
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) **(G)** ≥ 1.35	**3.09**	**3.65**			**3.43**
Current Basis **(H)** ≥ 1.10	**2.01**	**2.04**			**2.07**

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2023-24 1st Quarter - Budgetary Basis, Funds 20160, 20170 & 20550
($ Millions)

Revenue Variances

A. The FY 2023-24 budget was adopted assuming the 5% drought surcharge would remain in effect. The surcharge accounted for approximately $18.8 million in revenues. Q1 volume projections are 44.1 MGD, a decrease from budgeted volumes of 44.2 MGD.

B. Interest rate of 1.5% is higher compared to budget of 0.5%.

Expenditure Variances

C. Salary savings reflect vacant positions.

D. Debt service variance mainly due the issuance of the 2023C refunding of 2018C, offset partially by refunding savings from the issuance of the 2023B refunding bonds.

E. $27.8M in general reserve due to higher sources than uses.

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 2023-24 1st Quarter - Budgetary Basis - 24970, 24980, 24990
($ Millions)

	FY 2022-23 Actuals	FY 2023-24 Original Budget	FY 2023-24 Revised Budget (includes carryforwards)	FY 2023-24 Projection (current year spending)	FY 2023-24 Variance (Projection vs Revised Budget)	
Sources						
Electric Sales - Retail	159.6	169.1	175.8	175.2	(0.5)	A
Electric Sales - Wholesale	48.8	31.7	31.7	43.2	11.4	B
Water Sales - Transfer from Water Department	49.6	46.3	46.3	46.3	-	
Natural Gas & Steam - City Work Orders	24.6	24.7	24.7	23.8	(0.9)	C
Interest Income	5.6	1.1	1.1	3.3	2.2	D
Federal Interest Subsidy - Power Bonds	0.2	0.4	0.4	0.4	-	
Miscellaneous Income	4.8	4.0	4.0	4.2	0.2	E
Appropriated/Budgeted Use of Fund Balance	40.5	35.4	82.2	82.2	-	
Total Sources	**333.7**	**312.7**	**366.1**	**378.5**	**12.4**	
Operating Uses						
Personnel	50.6	54.5	54.5	54.3	0.1	F
Non-Personnel Services	36.1	43.8	71.4	71.4	-	
Power Purchases, Transmission Distribution & Related Charges	77.9	127.0	137.1	111.9	25.2	G
Natural Gas & Steam	24.6	24.7	24.7	23.8	0.9	H
Materials and Supplies	3.8	3.5	3.8	3.8	-	
Equipment	1.2	2.6	8.5	8.5	-	
Overhead (SFPUC Bureaus)	21.2	25.0	29.0	29.0	-	
Services of Other Departments	8.8	8.6	9.1	9.1	-	
Debt Service	3.5	3.8	3.8	3.8	-	
General Reserve	-	-	-	-	-	
Total Operating Uses	**227.8**	**293.4**	**341.9**	**315.6**	**26.2**	
Net Operating Results	**105.9**			**62.9**	**38.7**	

Other Impacts to Operating Budget	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Facilities Maintenance/Programmatic	15.2	14.3	19.2	19.2	-
Capital projects	13.5	5.0	76.0	76.0	-
Total Adjustments to Operating Fund Balance	**28.7**	**19.3**	**95.2**	**95.2**	**-**
Available Fund Balance as of Fiscal Year-End	**179.3**				**182.5**
Available Fund Balance, % of Operating Uses (I) 25-68%	**74.9%**				**69.0%**
Debt Service Coverage… Year-End Budgetary Basis					
Indenture Basis (includes Available Fund Balance) (J) ≥ 1.35	**56.46**	**59.39**			**56.12**
Current Basis (K) ≥ 1.10	**18.97**	**3.34**			**18.27**

Revenue Variances

A. Retail sales are slightly below budget.

B. Wholesale sales are higher than budget mainly due to higher attribute and resource adequacy sales, and slighlty higher sales to the power market due to higher generation.

C. Gas and steam sales slightly below budget due to lower usage.

D. Pooled funds year-to-date interest rate higher than assumed for budget.

E. Miscellaneous income projected to exceed budget primarily due to settlements and DAS admin fees.

Expenditure Variances

F. Salary savings due to vacant positions.

G. Savings are mainly due to a favorable 2023 water year, avoiding additional power purchases in the first quarter.

H. Gas and steam sales slightly below budget due to lower usage.

Other Notes

I. 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%.

J. 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.

K. 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 2023-24 1st Quarter - Budgetary Basis - 24750, 24761, 24762, 24765 & 24870
($ Millions)

		FY 2023-24				
	FY 2022-23 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)	
Operating Sources						
Electric Sales - Green Product	299.7	338.4	338.4	352.7	14.3	
Electric Sales - SuperGreen Product	25.6	28.9	28.9	31.8	2.8	
Wholesale Sales	3.6	1.6	1.6	13.1	11.5	
Subtotal - Electric Revenues	**329.0**	**368.9**	**368.9**	**397.5**	**28.6**	**A**
Interest Income	1.7	0.6	0.6	1.8	1.2	**B**
Miscellaneous Income	0.0	-	-	-	-	
Appropriated/Budgeted Use of Fund Balance	16.8	-	26.4	26.4	-	
Total Sources	**347.4**	**369.6**	**396.0**	**425.8**	**29.8**	
Operating Uses						
Personnel	5.0	8.1	8.1	7.6	0.5	**C**
Overhead	5.1	6.1	6.7	6.7	-	
Non Personnel Services	10.7	12.0	13.4	13.4	-	
Materials & Supplies	0.0	0.2	0.2	0.2	-	
Power Purchases, Transmission Distribution & Related Charges	264.3	305.3	323.6	333.7	(10.1)	**D**
Services of Other Departments	3.5	4.2	4.6	4.6	-	
Debt Service	-	-	-	-	-	
General Reserve	-	32.7	32.7	-	32.7	**E**
Total Operating Uses	**288.7**	**368.6**	**389.4**	**366.3**	**23.1**	
Net Operating Results	**58.7**			**59.5**	**52.9**	

Other Impacts to Operating Budget	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts	
Programmatic	0.8	0.2	5.8	5.8	-	
Capital Projects	1.5	0.8	5.3	5.3	-	
Total Adjustments to Operating Fund Balance	**2.3**	**0.9**	**11.1**	**11.1**	**-**	
Available Fund Balance as of Fiscal Year-End	**90.1**				**143.0**	**F**
Available Fund Balance, % of Operating Uses (G) %	**31.1%**				**38.4%**	

Revenue Variances

A. Revenues higher than budget due to 8% load growth from customer enrollments, higher SuperGreen load, and wholesale revenues.

B. Interest rate is higher than assumed for budget.

Expenditure Variances

C. Salary savings due to vacant positions.

D. Power Purchases variance driven by increasing renewable and resource adequacy market costs**.**

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. Per SFPUC's Fund Balance Reserve Policy adopted in April 2022, CleanPowerSF is required to build its fund balance reserve to at least 50% within three fiscal years (June 30, 2025) of Fiscal Year Ending 2022.