



Date: November 23, 2021

To: Commissioner Anson Moran, President
 Commissioner Newsha Ajami, Vice President
 Commissioner Sophie Maxwell
 Commissioner Tim Paulson
 Commissioner Ed Harrington

Through: Dennis Herrera, General Manager *DJH*

From: Eric Sandler, CFO and AGM Business Services *[Signature]*

Subject: **SFPUC FY 2021-22 First Quarter Budgetary Report through September 30, 2021**

The FY 2021-22 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 2021-22 Operations

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Projected Sources	Projected Uses (excluding Capital & General Reserve)	Net Operating Results Surplus / (Shortfall)	General Reserve & Project Closeout	Projected Year End Available Fund Balance
Water	254.2	(22.0)	(32.9)	1.3	(31.6)	-	200.6
Wastewater	185.7	(9.6)	(27.0)	1.3	(25.7)	-	150.4
Power	80.6	(7.1)	3.8	4.9	8.6	-	82.1
CleanPowerSF	73.4	(2.9)	29.2	(30.0)	(0.8)	-	69.7

Summary:

- Positive operating results projected for Power and operating shortfalls projected for Water, Wastewater and CleanPowerSF.
- *Water and Wastewater:* revenues are down from budget due to:
 - The impact of water conservation efforts due to drought, offset by an assumption of a 5% drought surcharge effective April 2022.
 - Delayed economic recovery from COVID-19 negatively impacting volumes. Revenue projections also include the impact of COVID-19 emergency customer assistance programs.

London N. Breed
 Mayor

Anson Moran
 President

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 Vice President

Sophie Maxwell
 Commissioner

Tim Paulson
 Commissioner

Ed Harrington
 Commissioner

Michael Carlin
 Acting
 General Manager



Shortfalls are partially offset by grants from the state COVID-19 utility debt forgiveness program and by savings in labor costs due to vacant positions.

- *CleanPowerSF*: revenues are projected to exceed the budget due to the approved November 2021 rate increases and anticipated rate increases in January 2022. Revenue projections also include grants from the state COVID-19 utility debt forgiveness program. In addition, labor savings are anticipated due to vacant positions. These are offset by increased cost of power purchases driven by higher market energy costs.
- *Power*: Wholesale revenues are projected to exceed the budget due to higher power prices resulting in sales revenue above budget, as well as higher water sales to Lawrence Livermore National Labs. Higher revenues are partially offset by increased distribution costs related to purchased power, which is partially offset by \$4.0M power purchase contingency budget, as well as \$5.6M in prior year unspent funds carried forward from FY 2020-21.
- All Enterprises are projected to meet all SFPUC wide financial policy minimums by the end of the fiscal year.

SFPUC's finance team is closely monitoring water and wastewater sales for FY 2021-22 to determine impacts of continued economic weakness on the current year and will provide continue to provide updates to the Commission.

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

CC:

Masood Ordikhani, Acting AGM, External Affairs, SFPUC
Barbara Hale, AGM, Power Enterprise, SFPUC
Alan Johanson, Acting AGM, Infrastructure, SFPUC
Greg Norby, AGM, Wastewater Enterprise, SFPUC
Steve Ritchie, AGM, Water Enterprise, SFPUC
Ashley Groffenberger, 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 2021-22 1st Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 26570, 26600
 (\$ Millions)

	FY 2021-22				
	FY 2020-21 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)	Variance (Projection -Revised Budget)
Sources					
Retail Water Sales	285.9	328.1	328.2	318.8	(9.4) A
Wholesale Water Sales	275.2	270.6	270.6	251.9	(18.8) B
Interest Income	2.4	4.5	4.5	2.7	(1.7) C
Rental Income	12.7	12.9	12.9	12.9	-
Miscellaneous Income	20.4	20.2	20.8	17.6	(3.2) D
Departmental Transfer Adjustment	(44.2)	(45.8)	(45.8)	(45.8)	-
Federal Bond Interest Subsidy	21.8	21.6	21.6	21.8	0.2
Appropriated/Budgeted Use of Fund Balance	95.1	22.0	73.4	73.4	-
Total Sources	669.3	634.0	686.1	653.2	(32.9)
Operating Uses					
Personnel	98.7	110.0	110.0	108.7	1.3 E
Non-Personnel Services	17.2	24.6	36.1	36.1	-
Materials and Supplies	12.4	16.0	20.5	20.5	-
Equipment	3.2	3.1	9.8	9.8	-
Light, Heat, and Power	9.8	10.4	10.6	10.6	-
Overhead (SFPUC Bureaus)	48.4	59.8	69.7	69.7	-
Services of Other Departments	14.4	14.7	15.5	15.5	-
Debt Service	299.3	307.7	307.7	307.7	-
Total Operating Uses	503.3	546.4	579.8	578.5	1.3
Net Operating Results	166.0			74.7	(31.6)
Adjustments to Operating Fund Balance	FY 2020-21 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	45.2	55.7	237.9	237.9	-
Facilities Maintenance/Programmatic	22.9	32.0	50.0	50.0	-
Total Adjustments to Operating Fund Balance	\$ 68.1	\$ 87.7	\$ 287.9	\$ 287.9	\$ -
Available Fund Balance as of Fiscal Year-End	\$ 254.2				\$ 200.6
Available Fund Balance, % of Operating Uses (F) 25-68%	112.0%				62.5%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (G) ≥ 1.35	1.99	1.95			1.73
Current Basis (H) ≥ 1.10	1.22	1.20			1.10

Appendix A

WATER ENTERPRISE OPERATING FUNDS

FY 2021-22 1st Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 26570, 26600
(\$ Millions)

Revenue Variances

- A. Retail water sales forecasted to be 54.1 MGD, a 3.7% decrease from budgeted volumes of 56.2 MGD, and a 1.1% increase from prior year actuals of 53.6 MGD. Assumes 5% drought surcharge effective April 2022. Projections incorporate \$1.1M cost of COVID-19 emergency discount programs, as well as \$3.4M in grants from state COVID-19 utility debt forgiveness program.
- B. Wholesale water sales forecasted to be 124.3 MGD, a 6.6% decrease from budgeted volumes of 133.0 MGD, and a 7.9% decrease from prior year actuals of 134.9 MGD. Revenues also include \$2.1M in unbudgeted payments from customers not meeting minimum purchase requirements.
- C. Interest income projected to fall below budget due to lower-than-budgeted interest rates on City's pooled funds portfolio.
- D. Miscellaneous income projected to be below budget, primarily due to \$1.6M lower water service installation charges and \$1.8M less in fees associated with COVID-19 collections moratorium.

Expenditure Variances

- E. Savings due to vacant positions.

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 B

WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2021-22 1st Quarter - Budgetary Basis, Funds 20160, 20550, 20170, 20210
 (\$ Millions)

	FY 2020-21 Actuals	FY 2021-22			
		Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection - Revised Budget)
Sources					
Sewer Service Charges	326.2	388.7	388.7	363.3	(25.4) A
Interest Income	6.0	5.8	5.8	3.6	(2.2) B
Miscellaneous Income	5.0	4.3	4.5	5.1	0.6 C
Federal Bond Interest Subsidy	3.5	3.5	3.5	3.5	-
Appropriated/Budgeted Use of Fund Balance	28.6	9.6	9.6	9.6	-
Total Sources	369.4	411.9	412.1	385.1	(27.0)
Operating Uses					
Personnel	70.8	82.1	82.1	80.8	1.3 D 1.6%
Non-Personnel Services	18.1	26.3	29.4	29.4	-
City Grant Programs	0.1	0.3	0.6	0.6	-
Materials and Supplies	8.7	12.0	14.6	14.6	-
Equipment	0.9	3.2	6.6	6.6	-
Light, Heat, and Power	10.1	12.3	12.8	12.8	-
Overhead (SFPUC Bureaus)	29.5	36.4	43.6	43.6	-
Services of Other Departments	27.0	25.4	26.9	26.9	-
Debt Service	86.5	95.2	95.2	95.2	-
Total Operating Uses	251.7	293.1	311.8	310.5	1.3
Net Operating Results	117.7			74.6	\$ (25.7)
Adjustments to Operating Fund Balance					
	FY 2020-21 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	34.3	110.3	243.6	243.6	-
Facilities Maintenance/Programmatic	6.5	8.6	12.9	12.9	-
General Reserve	-	-	-	-	-
Total Adjustments to Operating Fund Balance	\$ 40.9	\$ 118.8	\$ 256.5	\$ 256.5	\$ -
Available Fund Balance as of Fiscal Year-End	\$ 185.7				\$ 150.4
Available Fund Balance, % of Operating Uses (E) 25-68%	108.1%				65.9%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (F) ≥ 1.35	4.39	4.18			3.65
Current Basis (G) ≥ 1.10	2.13	2.30			1.73

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS

FY 2021-22 1st Quarter - Budgetary Basis, Funds 20160, 20550, 20170, 20210
(\$ Millions)

Revenue Variances

- A. Wastewater retail billable volumes forecasted to be 44.4 MGD, a 2.4% decrease from budget of 44.5 MGD and a 1.2% increase from prior year actuals of 43.9 MGD. Assumes 5% drought surcharge effective April 2022, and incorporates \$2M in COVID-19 emergency discounts.
- B. Interest income projected to fall below budget due to lower-than-budgeted interest rates on City's pooled funds portfolio.
- C. Miscellaneous income forecasted to increase from budget slightly, primarily due to increased revenue from various permitting fees and non-utility services to other City departments.

Expenditure Variances

- D. Salary savings reflect vacant positions.

Other Notes

- E. 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%.
- F. 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.
- G. 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 2021-22 1st Quarter - Budgetary Basis - 24970, 24980, 24990 & 25030
(\$ Millions)

	FY 2021-22				
	FY 2020-21 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection - Revised Budget)
Sources					
Electric Sales - Retail	109.1	135.0	135.0	134.9	(0.1) A
Electric Sales - Wholesale	15.1	17.5	17.5	26.0	8.5 B
Water Sales - Transfer from Water Department	44.2	45.8	45.8	45.8	-
Natural Gas & Steam - City Work Orders	13.0	12.9	18.6	14.1	(4.5) C
Interest Income	1.5	4.8	4.8	2.3	(2.5) D
Federal Interest Subsidy - Power Bonds	0.5	0.5	0.5	0.5	-
Miscellaneous Income	9.8	5.3	5.3	7.7	2.4 E
Appropriated/Budgeted Use of Fund Balance	29.3	7.1	45.4	45.4	-
Total Sources	222.5	228.9	272.8	276.6	3.8
Operating Uses					
Personnel	46.6	51.4	51.4	51.4	-
Non-Personnel Services	60.3	39.4	52.6	52.6	-
Power Purchases, Transmission Distribution & Related Charge	42.8	69.4	72.5	72.1	0.4 F
Natural Gas & Steam	13.0	12.9	18.6	14.1	4.5 G
Materials and Supplies	3.5	3.5	3.7	3.7	-
Equipment	3.9	1.2	4.6	4.6	-
Overhead (SFPUC Bureaus)	17.8	21.8	25.4	25.4	-
Services of Other Departments	4.3	9.2	12.2	12.2	-
Debt Service	3.7	3.9	3.9	3.9	-
Total Operating Uses	195.9	212.7	244.8	239.9	4.9
Net Operating Results	26.6			36.7	8.6
Adjustments to Operating Fund Balance					
	FY 2020-21 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Facilities Maintenance/Programmatic	12.7	14.5	20.8	20.8	-
Capital projects	27.0	1.7	96.6	96.6	-
General Reserve	-	-	-	-	-
Total Adjustments to Operating Fund Balance	39.7	16.1	117.4	117.4	-
Available Fund Balance as of Fiscal Year-End	80.6				82.1
Available Fund Balance, % of Operating Uses (M) 25-68%	39.3%				40.0%
Debt Service Coverage... Year-End Budgetary Basis					
Indenture Basis (includes Available Fund Balance) (N) ≥ 1.3:	9.89	32.12			19.52
Current Basis (O) ≥ 1.10	6.28	3.46			5.82

Revenue Variances

- A.** Retail sales slightly below budget due to lower than expected volumes, partially offset by \$1.2M in grants from state COVID-19 utility debt forgiveness program.
- B.** Wholesale sales above budget, mainly due to higher than budgeted power prices. CAISO sales up \$6.8M compared to budget.
- C.** Savings due to lower usage in natural gas & steam.
- D.** Interest income projected to fall below budget due to lower-than-budgeted interest rates on City's pooled funds portfolio.
- E.** Miscellaneous revenues projected to increase from budget due to water sales to Lawrence Livermore National Labs resuming after being on hold for several years and removed from the budget.

Expenditure Variances

- F.** Slight increase to purchased power due to reduced generation compounded by large increases in power prices offset by \$4.0M power purchase contingency budget. Also includes \$2.1M payments to PG&E for unmentered load starting February 2022.
- G.** Savings due to lower usage in natural gas & steam.

Appendix D
CleanPowerSF
FY 2021-22 1st Quarter - Budgetary Basis - 24750, 24761, 24765 & 24870
(\$ Millions)

	FY 2021-22				
	FY 2020-21 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)	
Operating Sources					
Electric Sales - Green Product	199.8	213.3	213.3	241.5	28.2
Electric Sales - SuperGreen Product	10.9	10.9	10.9	12.6	1.7
Wholesale Sales	-	-	-	-	-
Subtotal - Electric Revenues	210.7	224.1	224.1	254.1	29.9 A
Interest Income	0.6	0.9	0.9	0.2	(0.7) B
Appropriated/Budgeted Use of Fund Balance	10.5	2.9	6.4	6.4	-
Total Sources	221.8	227.9	231.5	260.7	29.2
Operating Uses					
Personnel	3.7	8.0	8.0	4.4	3.6 C
Overhead	2.3	2.7	3.1	3.1	-
Non Personnel Services	9.9	12.1	13.3	13.3	-
Materials & Supplies	0.0	0.2	0.2	0.2	-
Power Purchases	189.5	197.9	199.1	232.7	(33.6) D
Services of Other Departments	3.7	3.7	3.7	3.7	-
Debt Service	1.8	-	-	-	-
Total Operating Uses	210.9	224.5	227.4	257.5	(30.0)
Net Operating Results	10.9			3.3	(0.8)
Adjustments to Operating Fund Balance					
	FY 2020-21 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Programmatic	0.1	1.0	1.6	1.6	-
Capital Projects	-	2.4	4.2	4.2	-
General Reserve	-	-	-	-	-
Total Adjustments to Operating Fund Balance	0.1	3.4	5.8	5.8	-
Available Fund Balance as of Fiscal Year-End	73.4			69.7 E	

Revenue Variances

A. Revenues are higher than budget due to approved rate increases in November and anticipated rate increases in January 2022 which are dependent on PG&E rate change. Projection also includes \$2.4M in grants from state COVID-19 utility debt forgiveness program.

B. Interest income projected to fall below budget due to lower-than-budgeted interest rates on City's pooled funds portfolio.

Expenditure Variances

C. Salary savings due to vacant positions.

D. Power purchases driven by high market energy costs.

Other Notes

E. 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.