

RATEPAYER ASSURANCE POLICY

Background

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.

Purpose

The Commission recognizes that its revenue comes from ratepayers, and takes seriously its commitment to provide affordable and reliable water, power and sewer services. Ratepayers pay for: 1) what we do, i.e. our essential-service water, power and sewer utilities, and 2) how we do it, through a commitment to sustainability and adherence to the Commission’s Environmental Justice and Community Benefits policies.

The Ratepayer Assurance Policy serves as guidance to the SFPUC General Manager and staff of the Commission's expectations regarding a) prudent use of ratepayer funds, b) establishment of rates and charges, and c) transparency in budgeting and rate-setting processes. SFPUC departments are self-supported enterprises, receiving no tax revenue from San Francisco’s General Fund. The Water, Power, and Sewer Enterprises are funded by service-based rates, fees and charges, as well as non-operating revenues such as interest and rental income. Accountability to ratepayers is a central tenet that guides the use of ratepayer monies and the stewardship of the utility systems and resources entrusted to the SFPUC’s care.

Prudent Use of Ratepayer Funds

This policy is intended to provide ratepayers with the assurance that management recommendations and Commission decisions are made in the ratepayers’ best interest. It promotes accountability and transparency by using established budget and planning efforts to report how management will address the following:

Mission Management

The SFPUC shall comply with all San Francisco Charter requirements, including the development of our budget, as well as our long-term capital, financial and strategic plans. This includes mission-driven budgets for SFPUC Enterprises which are considered, adopted and published in a timely manner. Specifically, the Commission shall:

- Review any proposed changes to the mission statement early in the budget process and any changes to the mission are adopted by the Commission prior to the cost of such changes being budgeted.
- Review an analysis of mission changes along with how the proposed budget ties to the Strategic Plan.

Asset Management

As a utility, a significant portion of the SFPUC budget is allocated for the acquisition, construction, repair, and replacement of critical physical assets. Purchasing contracting and construction are subject to extensive legal and administrative regulation. Asset costs are ultimately driven by the assets acquired and the way in which they are maintained. The Commission shall:

- Plan and fund the acquisition, design, construction, repair, and replacement of assets such that their life cycle cost is minimized.
- Reduce the environmental impact of its assets by using more efficient technologies and seeking out opportunities to practice resource recovery, simultaneously reducing the cost of its activities. Examples include the use of vehicle pools, public transit, and greenhouse gas-free vehicles; developing power generation capacity as a byproduct of other utility functions; capturing and using stormwater runoff and recycled water wherever feasible; and investing in energy efficient and recycled buildings, assets, and materials.
- Review and approve all major asset purchases through the budget process, confirming that they are consistent with City policies and best practices promulgated by the General Manager.
- Ensure that assets (including, but not limited to, vehicles, computers, and other electronic devices) are selected and assigned to individuals in a cost effective manner, and that they are used for business purposes that benefit the ratepayers.
- Support the development of innovative technologies, including the consideration of prudent demonstration projects, and implement proven technologies that achieve utility reliability, performance effectiveness, cost minimization, and continued environmental impact improvements.

Personnel Management

Personnel costs are driven by how the SFPUC operates and organizes its workforce, including the number and level of staff. Compensation and benefit costs are determined by labor agreements, the Civil Service Commission, the City's Retirement Board, and the City's Health Service System. Position classifications and hiring authorizations include a review process that is governed by the Civil Service Commission and the City's Human Resources Department to ensure our hiring is appropriate for the work assigned. The Commission shall:

- Meet new position needs by reassignment of existing positions or substituting new positions for existing ones wherever possible.
- Review all proposed position changes in every budget in order to assure compliance with the agency's mission and Strategic Plan.
- Structure its workforce to ensure that customer service and utility operations are achieved effectively and efficiently, minimizing unplanned overtime, and maintaining the established level of service.
- Consider strategies to promote employee retention and succession planning by evaluating employee satisfaction with job content, compensation, and personnel processes.

Operating Cost Containment

To the extent that operating costs are determined by SFPUC management choices, the Commission shall limit operating cost increases, exclusive of debt services and pay-go capital investment, to not more than the cost of inflation. Any proposed budget that increases operating costs above this level will be supported by findings of necessity.

Social & Environmental Stewardship

The SFPUC has a stated policy of supporting the triple bottom line (TBL) form of performance measurement, evaluating the impact of projects beyond solely financial performance to include environmental as well as social impacts. Management shall report to the Commission on how the proposed budget and rates support TBL principles.

Establishment of Rates and Charges

Within industry standard ratemaking best practices, the SFPUC has significant flexibility to create rate structures that advance different policy goals. The SFPUC commits to designing rates in a manner that prioritizes the needs of ratepayers and aligns with the mission and values of the agency.

Tradeoffs are inherent in the development of rates and financial planning; it is rarely possible to achieve all goals. To ensure that decision-makers have properly assessed the impact of their recommendations, the SFPUC has identified the following principles to consider during the development of all proposed rates and charges:

Revenue Sufficiency

The Commission will aim to establish rates sufficient to cover the full cost of all SFPUC activities. Recovering sufficient revenue to fund the programs identified by the long-term plan is necessary to meet established level of service goals and comply with bond covenants, contract commitments, and adopted SFPUC and City policies.

Customer Equity

The Commission will establish rates based on cost of service in compliance with the San Francisco Charter and California Proposition 218. Cost of service based rates are an industry best practice to fairly allocate the cost of providing utility services between customer classes.

Environmental Sustainability

The Commission will aim to establish rates in a manner that values environmental sustainability and preserves the natural resources entrusted to the SFPUC's care. Rate structures that financially incentivize customers to conserve resources or reduce their demand on the SFPUC's system support this principle.

Affordability

The Commission will consider SFPUC service affordability for all its customers. Prudent operating and capital planning ties annual spending to system demand and intergenerational equity, enabling financial engineering and reducing costly emergency expenditures. Rate design should also consider the burden imposed by SFPUC bills on low-income customers.

Predictability

The Commission will aim to establish rates designed to minimize bill fluctuations, enabling ratepayers to plan ahead for their personal finances. Communicating to ratepayers well in advance of pending rate changes is important to prevent rate shock.

Simplicity

The Commission will aim to establish rates that are easy for ratepayers to understand. Simple rate structures also require fewer implementation and administration costs.

Tradeoffs

These principles sometimes compete with each other. For instance, customer equity may impede simplicity, environmental sustainability, or predictability. Rate structures that equitably distribute the cost of service often require more detail and complexity, which can hinder customers' ease of understanding, discourage measures to promote environmental sustainability, or inhibit the predictability of monthly bills. Some rate methodologies that promote conservation may be more challenged in meeting cost of service objectives, so the SFPUC will consider the principle of environmental sustainability alongside that of revenue sufficiency. Most of the SFPUC's costs (including debt service, operations and maintenance, and repair and replacement of aging infrastructure) do not vary based on consumption. With widespread customer conservation, rates tied solely to volumetric usage will impede revenue sufficiency. The Commission endeavors to thoughtfully consider these inherent tradeoffs, and to transparently present the reasons for its decision-making.

Transparency

The above principles for prudent use of ratepayer funds and the establishment of rates and charges must be supported by a strong commitment to transparency. None of the Commission's work can be effectively carried out without the trust of its ratepayers. This requires open communication and engagement with the Commission, ratepayers, and other key stakeholders about the tradeoffs that are inevitably present in decision-making.

SFPUC management and staff recognize that it is their obligation to accurately collect and present to the Commission the input of a diverse and representative set of stakeholders in the

financial planning, budgeting, and rate-setting processes. This includes the oversight provided by the Citizens' Advisory Committee, the Rate Fairness Board, the Revenue Bond Oversight Committee, the Board of Supervisors, and the Mayor's Office.

Mechanisms to communicate information on key decisions shall include: timely public meetings for budget and rate review; accurate, predictable communication of future rate changes, including average bill impact illustrations; and descriptions of both operating and capital costs to ensure that ratepayers know the component costs of their utility service and related programs. In addition, the SFPUC fosters transparency for ratepayers and the Commission through a range of publications that provide metrics and context regarding asset management, affordability, environmental sustainability, community engagement, cost containment, and levels of service. These include the annual Ten-Year Financial and Capital Plans, as well as independent cost of service studies as required by the city charter. With these metrics and stakeholder input, the Commission can ensure that it makes informed decisions that support the SFPUC's mission and values.

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