





Date: September 14, 2021

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

Through: Michael Carlin, Acting General Manager 

From: Eric Sandler, CFO and AGM Business Services 

Subject: **SFPUC FY 2020-21 Year End Budgetary Report through June 30, 2021**

The FY 2020-21 Year End budgetary reports are attached for the three Enterprises and CleanPowerSF, with high-level changes to revenues and expenses summarized in the following table:

FY 2020-21 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	258.4	(27.8)	(11.1)	10.8	(0.4)	9.0	239.2
Wastewater	211.7	(12.1)	(27.4)	11.2	(16.3)	11.2	194.6
Power	38.6	-	(2.9)	13.9	11.0	29.7	79.3
CleanPowerSF	74.6	-	(17.6)	8.1	(9.6)	15.5	80.6

London N. Breed
 Mayor

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 Acting General Manager

Summary:

- Net operating shortfall increased during the year for Wastewater and CleanPowerSF.
- *Water and Wastewater:* revenues are down from budget due to continued impact of the COVID-19 pandemic on retail sales, and the recovery being slower than projected in the budget. In Water, weak retail sales are partially offset by stronger than budgeted wholesale sales. In both enterprises, however, revenue shortfalls are partially offset by savings in labor and non-labor expenditures.
- *CleanPowerSF:* revenues are below budget due to several factors including a January rate reduction, rate structure changes for commercial customers, slower than projected economic recovery, and customer assistance program costs. This revenue shortfall is

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.



- partially offset by savings in labor and non-labor expenditures, including purchase of power.
- *Power*: Generation revenues are lower due to below average precipitation resulting in wholesale sales significantly below budget and higher costs of purchased power. These items are offset by:
 - Retail revenues coming in slightly above budget.
 - Unbudgeted wholesale resource adequacy sales to CleanPowerSF and resumption of water sales to Lawrence Livermore National Labs.
 - \$13.1M in savings from unspent power purchase contingency budget, as well as closeout of prior year unspent funds.
 - All enterprises, including CleanPowerSF, are projected to meet or exceed SFPUC-wide financial policy minimums.

Please note that project savings reflected in this report are the result of cuts to currently appropriated revenue-funded capital and programmatic projects. These cuts were a part of a comprehensive strategy to rebalance the FY 2019-20, FY 2020-21 and FY 2021-22 budgets from reduced sales volumes resulting from the COVID-19 pandemic and resulting economic recession.

These results are a projection, final year end numbers will be presented as part of the FY2020-21 CAFR (Comprehensive Annual Financial Report), estimated to be published in December 2021.

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 an update to the Commission as a part of the first quarter update. As planning for the upcoming FY 2022-23 and FY 2023-24 budget cycle begins, we recognize that fiscal constraint across all enterprises is likely to be a major theme given the uncertainty about economic recovery, the potential for continued drought as well as the refinement of CleanPowerSF's rate setting policy framework.

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

CC:

Masood Ordikhani, Acting AGM, External Affairs, SFPUC
Barbara Hale, AGM, Power Enterprise, SFPUC
Kathryn How, 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 2020-21 4th Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 26570, 26600
 (\$ Millions)

	FY 2020-21				
	FY 2019-20 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)	Variance (Projection -Revised Budget)
Sources					
Retail Water Sales	291.9	305.7	306.3	285.9	(20.4) A
Wholesale Water Sales	270.6	262.4	262.4	275.2	12.8 B
Interest Income	8.7	5.1	5.1	2.4	(2.6) C
Rental Income	13.0	12.5	12.5	12.7	0.2 D
Miscellaneous Income	18.9	20.9	21.6	20.4	(1.1) E
Departmental Transfer Adjustment	(34.5)	(44.2)	(44.2)	(44.2)	-
Federal Bond Interest Subsidy	23.8	21.8	21.8	21.8	-
Appropriated/Budgeted Use of Fund Balance	55.8	27.8	95.1	95.1	-
Total Sources	648.1	611.9	680.5	669.3	(11.1)
Operating Uses					
Personnel	95.6	102.3	102.3	101.2	1.1 F
Non-Personnel Services	16.4	21.8	30.5	28.5	2.0 G
Materials and Supplies	12.9	15.3	16.9	16.9	-
Equipment	3.1	4.5	9.9	9.9	-
Light, Heat, and Power	9.9	10.0	10.0	9.8	0.2 H
Overhead (SFPUC Bureaus)	45.5	54.4	60.0	58.0	2.0 I
Services of Other Departments	12.8	14.6	16.3	16.3	0.5 J
Debt Service	291.1	304.2	304.2	299.3	5.0 K
Total Operating Uses	487.4	527.2	550.1	539.9	10.8
Net Operating Results	160.7			129.4	(0.4)
Adjustments to Operating Fund Balance					
	FY 2019-20 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	51.8	47.6	197.4	190.4	7.0 L
Facilities Maintenance/Programmatic	33.2	37.1	81.5	79.5	2.0 M
Total Adjustments to Operating Fund Balance	\$ 85.0	\$ 84.7	\$ 278.9	\$ 269.9	\$ 9.0
	<i>check</i>	-			
Available Fund Balance as of Fiscal Year-End	\$ 258.4			239.2	
Available Fund Balance, % of Operating Uses (N) 25-68%	93.4%			74.7%	
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (O) ≥ 1.35	2.16	1.93			1.99
Current Basis (P) ≥ 1.10	1.26	1.17			1.22

Revenue Variances

A. Retail water sales were 53.6 MGD, a 6.8% decrease from budgeted volumes of 57.5 MGD, and a 9.7% decrease from prior year actuals of 59.3 MGD. This includes \$1.2M cost of COVID-19 emergency discount programs.

B. Wholesale water sales were 134.9 MGD, a 4.8% increase from budgeted volumes of 128.8 MGD, and a 2.4% increase from prior year actuals of 131.8 MGD. Revenues also include \$2.5M in unbudgeted payments from customers not meeting minimum purchase requirements.

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2020-21 4th Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 26570, 26600 (\$ Millions)

- C. Interest rate for budget has been assumed at 2%, whereas the City's pooled fund portfolio YTD Yield is 0.68%.
- D. Rental income increased by \$200K for Mission Valley Rock Quarry due to greater volume of sales than expected.
- E. Miscellaneous revenue decreased from budget, primarily driven by \$1M reduced revenues or additional costs related to collections moratorium.

Expenditure Variances

- F. Savings due to vacant positions
- G. Savings reflect delays in customer rebate and incentive programs.
- H. Power and gas rates and consumption were lower than planned.
- I. Savings are related to salary savings associated with bureau allocation.
- J. Savings reflects lower spending from other City departments.
- K. Debt Service savings due to Water Revenue Bonds Refunding.
- L. Project savings to offset lower revenues from Covid sales reductions.
- M. Project savings to offset lower revenues from Covid sales reductions.

Other Notes

- N. 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%.
- O. 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.
- P. 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 2020-21 3rd Quarter - Budgetary Basis, Funds 20160, 20550, 20170, 20210
 (\$ Millions)

	FY 2020-21				
	FY 2019-20 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection - Revised Budget)
Sources					
Sewer Service Charges	338.4	353.4	353.6	326.2	(27.3) A
Interest Income	8.0	5.9	5.9	6.0	0.1 B
Miscellaneous Income	4.4	5.2	5.2	5.0	(0.2) C
Federal Bond Interest Subsidy	4.0	3.5	3.5	3.5	-
Appropriated/Budgeted Use of Fund Balance	18.0	12.1	28.6	28.6	-
Total Sources	372.8	380.1	396.8	369.4	(27.4)
Operating Uses					
Personnel	70.9	76.3	76.2	70.9	5.3 D
Non-Personnel Services	20.7	23.4	25.1	23.6	1.5 E
City Grant Programs	0.0	0.3	0.4	0.4	-
Materials and Supplies	8.4	11.2	12.3	11.3	1.0 F
Equipment	1.3	1.8	4.3	4.3	-
Light, Heat, and Power	10.8	11.9	11.6	10.8	0.8 G x
Overhead (SFPUC Bureaus)	27.9	30.5	34.6	33.6	1.0 H x
Services of Other Departments	24.6	26.1	29.1	29.1	0.6 I x
Debt Service	68.7	87.5	87.5	86.5	1.0 J
Total Operating Uses	233.3	268.9	281.1	270.5	11.2
Net Operating Results	139.5			98.9	\$ (16.3)
Adjustments to Operating Fund Balance					
FY 2019-20 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts	
Capital Projects	32.0	102.1	107.1	96.9	10.2 K
Facilities Maintenance/Programmatic	6.4	7.3	11.6	11.0	0.6 L
General Reserve	-	0.4	0.4	-	0.4 M
Total Adjustments to Operating Fund Balance	\$ 38.4	\$ 109.8	\$ 119.1	\$ 107.9	\$ 11.2
Available Fund Balance as of Fiscal Year-End	\$ 211.7				\$ 194.6
Available Fund Balance, % of Operating Uses (N) 25-68%	113.4%				99.8%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (O) ≥ 1.35	6.08	4.80			4.39
Current Basis (P) ≥ 1.10	2.64	2.48			2.13

Revenue Variances

- A. Wastewater retail billable volumes were 43.9 MGD, a 6.0% decrease from budget of 46.7 MGD and a 9.5% decrease from prior year actuals of 48.5 MGD. This includes \$4.2M in COVID-19 emergency discounts.
- B. Interest rate for budget has been assumed at 2%, whereas the City's pooled fund portfolio YTD Yield is 0.68%.
- C. Miscellaneous income decreased from budget mainly due to \$230k reduced revenues related to collections moratorium.

Expenditure Variances

- D. Salary savings reflect vacant positions.

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS

FY 2020-21 3rd Quarter - Budgetary Basis, Funds 20160, 20550, 20170, 20210
(\$ Millions)

- E. Savings mainly due to the impact of the Covid-19 lockdown which resulted in less staff and activities in the City, which reflects a reduction in the hauling and disposal of biosolids through contractual services.
- F. Savings mainly due to the impact of the Covid-19 lockdown which resulted in less staff and activities in the City, which reflects a reduction in sewage treatment chemicals being procured.
- G. Power and gas rates and consumption were lower than planned.
- H. Savings are related to salary savings associated with bureau allocation.
- I. Savings reflects lower spending from other City departments.
- J. Savings due to lower than projected debt service from the postponement of the issuance of the 2020 Wastewater Revenue Notes.
- K. Project savings to offset lower revenues from Covid sales reductions.
- L. Project savings to offset lower revenues from Covid sales reductions.
- M. General Reserve was intentionally budgeted and planned to go unspent to build reserves.

Other Notes

- N. 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%.
- O. 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.
- P. 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 2020-21 4th Quarter - Budgetary Basis - 24970, 24980, 24990 & 25030
(\$ Millions)

	FY 2020-21					
	FY 2019-20 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection - Revised Budget)	
Sources						
Electric Sales - Retail	128.6	117.8	118.0	119.6	1.6	A
Electric Sales - Wholesale	15.9	20.8	20.8	17.0	(3.8)	B
Water Sales - Transfer from Water Department	34.6	44.1	44.1	44.1	-	
Natural Gas & Steam - City Work Orders	10.8	13.0	14.2	13.3	(0.9)	C
Interest Income	5.6	4.5	4.5	1.7	(2.8)	D
Federal Interest Subsidy - Power Bonds	0.5	0.5	0.5	0.5	-	
Miscellaneous Income	3.1	2.5	2.5	5.5	3.0	E
Appropriated/Budgeted Use of Fund Balance	23.8	-	29.3	29.3	-	
Total Sources	222.9	203.2	234.0	231.1	(2.9)	
Operating Uses						
Personnel	44.9	49.0	49.0	49.0	-	
Non-Personnel Services	24.3	38.1	45.9	45.9	-	
Power Purchases, Transmission Distribution & Related Charges	49.0	46.8	55.9	45.3	10.6	F
Natural Gas & Steam	9.7	13.0	14.2	13.3	0.9	G
Materials and Supplies	3.3	3.4	3.5	3.5	-	
Equipment	0.6	1.8	3.9	3.9	-	
Overhead (SFPUC Bureaus)	16.9	18.5	20.1	18.1	2.0	H
Services of Other Departments	6.3	8.5	10.2	9.9	0.3	I
Debt Service	6.0	5.7	5.7	5.6	0.1	J
Total Operating Uses	161.1	184.7	208.5	194.5	13.9	
Net Operating Results	61.8			36.6	11.0	
Adjustments to Operating Fund Balance						
	FY 2019-20 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts	
Facilities Maintenance/Programmatic	12.0	16.2	21.8	20.9	0.9	K
Capital projects	28.5	0.6	149.7	122.5	27.3	K
General Reserve	-	1.5	1.5	-	1.5	L
Total Adjustments to Operating Fund Balance	40.4	18.3	173.0	143.3	29.7	
Available Fund Balance as of Fiscal Year-End	38.6				79.3	
Available Fund Balance, % of Operating Uses 25-68%	25.5%				47.3%	
Debt Service Coverage... Year-End Budgetary Basis						
Indenture Basis (includes Available Fund Balance) ≥ 1.35	31.37	10.15			9.89	
Current Basis ≥ 1.10	13.44	1.02			6.28	
Revenue Variances						

A. Retail sales slightly below budget due to lower than expected volumes.

B. Wholesale sales generation volume down 23% from budget, offset by unbudgeted attribute sales.

- C. Natural gas & steam sales projected to be slightly below revised budget due to continuing shelter in place orders at City Departments.
- D. Interest rate for budget has been assumed at 2%, whereas the City's pooled fund portfolio YTD Yield as of June is 0.68%.
- E. Miscellaneous income over budget due primarily to Lawrence Livermore National Labs resuming water purchases that were on hold in prior years as well as receipts from legal settlements and Overhead recovery.

Expenditure Variances

- F. Increased cost of purchased power due to distribution cost proposals, set to begin in January 2021, is offset by \$4.0M power purchase contingency budget, as well as \$9.1M in prior year unspent funds carried forward from FY 2019-20.
- G. Natural gas & steam sales projected to be slightly below budget due to continuing shelter in place orders at City Departments.
- H. Overhead savings due to less spending than expected in the SFPUC Bureaus.
- I. Savings in workers comp claims, technology projects, and utility spending.
- J. Savings due to lower than projected debt service from the partial prepayment of the 2015 NCREBs.
- K. Project savings to offset lower revenues from Covid sales reductions.
- L. General Reserve was intentionally budgeted and planned to go unspent to supplement reserves.

Appendix D
CleanPowerSF
FY 2020-21 4th Quarter - Budgetary Basis - 24870, 24750, 24760 & 24765
(\$ Millions)

	FY 2019-20 Actuals	FY 2020-21			Variance (Projection - Revised Budget)	
		Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)		
Operating Sources						
Electric Sales - Green Product	233.3	214.8	214.8	197.4	(17.5)	A
Electric Sales - SuperGreen Product	11.7	10.8	10.8	10.8	0.0	
Wholesale Sales	-	-	-	-	-	
Subtotal - Electric Revenues	245.0	225.6	225.6	208.2	(17.5)	
Interest Income	1.0	0.9	0.9	0.7	(0.2)	B
Appropriated/Budgeted Use of Fund Balance	-	-	10.5	10.5	-	
Total Sources	245.9	226.5	237.0	219.4	(17.6)	
Operating Uses						
Personnel	3.0	6.8	6.8	3.5	3.3	C
Overhead	2.0	2.5	2.6	2.6	0.3	D
Non Personnel Services	10.4	12.3	12.7	12.2	0.5	E
Materials & Supplies	0.0	0.2	0.2	0.1	0.1	F
Power Purchases	175.4	181.9	190.8	187.2	3.6	
Services of Other Departments	2.4	3.6	3.7	3.7	0.3	G
Debt Service	2.0	1.0	1.9	1.9	-	
Total Operating Uses	195.3	208.3	218.7	211.2	8.1	
Net Operating Results	50.6			8.2	(9.6)	
Adjustments to Operating Fund Balance						
	FY 2019-20 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts	
Programmatic	0.1	0.7	0.9	0.9	-	
Capital Projects	-	1.9	1.9	1.9	-	
General Reserve	-	15.5	15.5	-	15.5	H
Total Adjustments to Operating Fund Balance	0.1	18.1	18.3	2.8	15.5	
Available Fund Balance as of Fiscal Year-End	74.6 J				80.6 I	

Revenue Variances

- A.** Lower revenues driven by CleanPowerSF rate decrease on January 2021 to stay within 1% of PG&E's rates, and COVID-19 bill credit relief program
B. Interest rate for budget has been assumed at 2%, whereas the City's pooled fund portfolio FYTD Yield as of June is 0.68%.

Expenditure Variances

- C.** Salary savings due to vacant positions.
D. Savings are due to lower than expected spending in the SFPUC Bureaus.
E. Savings mainly from budgeted contract work performed internally.
F. Savings are due to fewer materials & supplies needs due to a mainly remote workforce.
G. Savings mainly due to less spending on reproduction services and technology projects than expected.
H. General Reserve was intentionally budgeted and planned to go unspent to build reserves.

Other Notes

I. 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.

J. Available fund balance at the beginning of the fiscal year consists of CleanPowerSF operating results. In Q3 the calculation was updated to also include budgeted excess revenues related to prior year surpluses within the Trust Fund that have been closed out within the financial system and are available for appropriation at the discretion of CleanPowerSF.