



## **AFFORDABILITY POLICY**

### **Financial Policies Background & Purpose**

As the sole water and sewer provider and a primary power provider within San Francisco, and a wholesale water, power, and sewer provider to public and private agencies within five counties in the Bay Area and Sierras, the San Francisco Public Utilities Commission (SFPUC) has an obligation to take actions to advance and protect the needs of residents, businesses, and visitors relying on our services. The SFPUC's utilities are enterprise departments, relying primarily on customer rates to fund their operations. Prudent and sustainable financial management is critical to the agency's mission.

Section 8B.125 of the San Francisco Charter requires the SFPUC to "establish 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" and to "set retail rates... based on the cost of service." In addition to Charter requirements, the SFPUC must also set rates that meet state and federal legal requirements and contractual obligations, including contractual covenants with the SFPUC's wholesale customers. After these requirements have been met, the SFPUC also considers additional factors in its financial planning, as directed by approved Commission policy goals, other Charter language, and the agency's mission and values.

To guide the SFPUC's compliance with financial requirements and achievement of its goals, the SFPUC has enacted various financial policies that set performance metrics and targets. These policies are used when adopting budgets and developing financial and capital plans. Transparent capital and operating budgeting and planning demonstrates to stakeholders that the SFPUC is well-managed and committed to prudent financial practices. This policy sits alongside the SFPUC's other financial policies and is one part of the comprehensive analysis necessary to inform sound financial decision-making.

### **Affordability Policy Background & Purpose**

The SFPUC is dedicated to delivering cost-based, equitable, accessible, and affordable utility services for all our customers. This Affordability Policy sets forth the Commission's understanding of retail customer bill affordability and establishes metrics to assist in evaluating the impact of operating and capital budget increases on future rates. While this policy does not elevate residential rate affordability above other financial planning considerations, it reflects the Commission's commitment to consider the burden imposed by SFPUC bills on ratepayers, as directed by Charter Section 8B.125's directive to "conduct studies of rate-based conservation incentives and... rate structures to provide assistance to low-

income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws.” The Commission understands customer rate affordability to be a foundational priority in achieving all of its Charter and other legal requirements, underlying its credibility with ratepayers and its authority to provide utility services.

US Census and other data indicates that, while San Francisco has a high proportion of residents with incomes above national and California averages, it also has among the highest cost of living and level of income inequality in the country. The SFPUC’S 2020 Resolution Condemning Systemic Racism & Taking Action to Promote Racial Justice requires the promotion of “racial and social equity across all enterprises and bureaus, including performance measures, incorporating a racial and social equity lens in budgeting, personnel, contracting decisions, and in all strategic long-term planning processes.” Census data shows that in San Francisco, Black, Indigenous, and People of Color households have lower median incomes than households generally. In light of these facts, these metrics focus on low-income customers in San Francisco, who are disproportionately burdened by their utility bills. Moreover, traditional metrics focused on the household at the median or 50<sup>th</sup> percentile income do not capture the disparate impact of racial inequality. Instead, our metrics will be based upon a “typical” household earning the 40<sup>th</sup> percentile income, which reflects a more diverse subpopulation of our residential customer base.

This policy will be used to analyze utility bills to support sustainable budgeting and rate-setting. These metrics are not a rate cap or similar restriction. The SFPUC will always set rates that meet its legal, including regulatory, obligations, while at the same protecting the SFPUC’s current bond ratings, its ability to meet all debt covenants, its ability to meet other obligations (including contractual obligations to its wholesale customers), and its ability to provide utility services and maintain its infrastructure, all as required by the Charter.

### **Affordability Policy**

It is the policy of the SFPUC when adopting budgets, developing financial and capital plans, and setting retail rates, to review the following metrics. The SFPUC’s capital and operating budgets should be developed based on retail rates that keep residential bills under the targets within a 20-year planning horizon. If this is not possible, each impacted Enterprise will include with their budget proposal to the Commission (1) an identification of the which targets are exceeded, (2) the rationale for exceeding the targets, and (3) proposed strategies to address affordability. These strategies might include cost management (operating expenditure cuts, reducing or deferring capital spending), securing alternative revenue sources (grants, federal and state loans, voter-approved taxes, fees for service, and resource recovery initiatives), or developing programs to assist low-income customers. Cost management and other strategies will be consistent with cost of service requirements of the California Constitution and San Francisco Charter.

If it is necessary or prudent to adopt rates exceeding these affordability targets, SFPUC management will provide a rationale accompanying the rate proposal. This rationale will describe the progress toward or infeasibility of implementing the previously identified strategies to avoid rate increases exceeding the targets, and the reasons staff nonetheless recommends these rate increases.

Both of the below affordability metrics follow the same general calculation:

$$\frac{\text{Average Bill}}{\text{Income}} = \text{Affordability Metric}$$

The SFPUC's rate metrics are as follows:

1. **Typical Customer Affordability Metric:** The average individually-metered residential bill as a percentage of the 40<sup>th</sup> percentile income (second quintile income)
  - a. The combined water and sewer bill will target less than 3% of the typical customer's income.
  - b. The CleanPowerSF and Hetch Hetchy Power bills will be evaluated under this policy, but the target for power affordability has not been determined. Power affordability targets will be developed and included in a future version of this policy.
2. **Low-Income Customer Affordability Metric:** The average individually-metered residential bill as a percentage of the 20<sup>th</sup> percentile income (lowest quintile income)
  - a. The combined water and sewer bill will target less than 7% of the low-income customer's income using standard rates, and will target less than 5% of the low-income customer's income after accounting for enrollment in applicable bill discount programs.
  - b. The CleanPowerSF and Hetch Hetchy Power bills will be evaluated under this policy, but the target for power affordability has not been determined. Power affordability targets will be developed and included in a future version of this policy.

Income data will be sourced from the US Census Bureau's latest available 5-year American Community Survey estimates for San Francisco, or an equivalent source if this information is no longer available. Bills and incomes will be expressed annually and include all relevant line items of the applicable rates schedules. Average bill calculations will assume the mean utility volumetric usage for all individually-metered residential accounts, fixed service charges based on the most common meter and/or parcel size, and the default residential rate schedule if there is more than one choice.

*Adopted by Resolution 23-0215 on November 28, 2023*