

Resolutions to Adopt:

FY 2023-24 Operating Budget Midcycle changes

FY 2023-24 Capital Budget

10 Year Capital Plan

10 Year Financial Plan

February, 14 2023 regular meeting of the Commission
Nancy L. Hom, CFO and AGM of Business Services

Policies That Guide Financial Planning

- Set guidelines for rate-setting and budgeting decisions
- Approved by Commission and reviewed periodically

Fund Balance Reserve Policy

- Sets minimum reserves as a % of operating expenses or “days cash on hand”
- Provides cushion of reserves for emergencies

Debt Service Coverage Policy

- Ensures sufficient revenues to pay debt service
- Meets bond indenture requirements

Capital Financing Policy

- Guides balance between revenue-funded and debt-funded projects

Affordability Level of Service

- Sets maximum bill as a % of average household income
- Limits rate increases above set level
- Water/wastewater only

Ratepayer Assurance Policy

- Requires prudent use of ratepayer funds and transparency in budgeting and rate-setting processes
- Sets priorities for establishing rates and charges

Technology Policy

- Guides technology use and adoption to ensure ratepayer benefit

Asset Management Policy

- Guides infrastructure investments to maximize asset value while meeting level of service and performance goals

Item 11: 10-Year Financial Plan FY 2023-24 to FY 2032-33



10-Year Financial Plan Background

- Updated annually on a rolling basis, as required by SF Charter
- Plans are complex Excel-based financial models
 - Forecast revenues, expenses, and rates
 - Confirm compliance with all financial policies
 - Inputs from Capital Finance, Budget, Power Risk Management, and Water Resources Planning
- Accompanying written report details assumptions and key takeaways

Proposed Plans Meet All Financial Policies

Metric	Policy Requirements	Water	Wastewater	Hetch Hetchy Power	CleanPowerSF
Avg. Single Family Residential Bill (Water & WW)	Max. 2.5% median household inc.	1.5% - 2.0%		n/a	n/a
Fund Balance as a % of Operating Expenses	Minimum 25% and if >68% note plan	39% - 81%	45 - 94%	28% - 63%	n/a
Days Cash on Hand (CleanPowerSF)	Minimum 150 and target 180	n/a	n/a	n/a	112 - 239
Current Debt Service Coverage	Minimum 1.10x	1.11x - 1.24x	1.41x - 2.28x	1.23x - 3.89x	n/a
Indenture Debt Service Coverage	Minimum 1.35x	1.51x - 2.00x	1.77x - 3.90x	4.37x - 25.29x	n/a
Revenue-Funded % of Capital Plan	Minimum 15-30%	23%	27%	17%	100%

Near-Term Rate Increases

Enterprise	FY 2023-24	FY 2024-25	FY 2025-26	10-Year Annual Avg.
Retail Water	5.0%	5.0%	5.0%	3.9%
Wholesale Water	11.6%	0.0%	0.0%	2.5%
Wastewater	9.0%	9.0%	9.0%	8.5%
Hetch Hetchy Power	14.0%	10.0%	9.0%	6.7%
CleanPowerSF Generation	15.0%	0.0%	0.0%	1.1%

- Hetch Hetchy Power rates were approved in May 2022
- Other rates will be brought to the Commission in May
 - Wholesale water rates updated annually per contract
 - Three years of retail water and wastewater rates will be proposed from ongoing 2023 rate study
 - CleanPowerSF rates are currently being adopted annually to respond to power market price volatility

*Hetch Hetchy Power rates shown are for retail, non-municipal customers
CleanPowerSF rate increase is only the generation portion of the bill; the FY 2023-24 increase in the total bill, including PG&E delivery charges, is approximately 5%*

Expense Assumptions

Operating Expenses

- Base of FY 2023-24 proposed budget
- Assume savings based on historic spending levels (water/wastewater only)
 - Reduces operating expenses ~2-4%
- Inflationary growth afterward
 - 4.4% on fringe benefits
 - 3% elsewhere

Capital Financing

- Interim financing with commercial paper
- Revenue bonds refund commercial paper
 - 5% interest rate
 - 30 year amortization
 - Level debt service
- Federal and state low-cost loans (WIFIA and SRF) incorporated only if executed

Mitigating Risk of Volume Forecast Uncertainty



Conservative
Growth
Assumptions

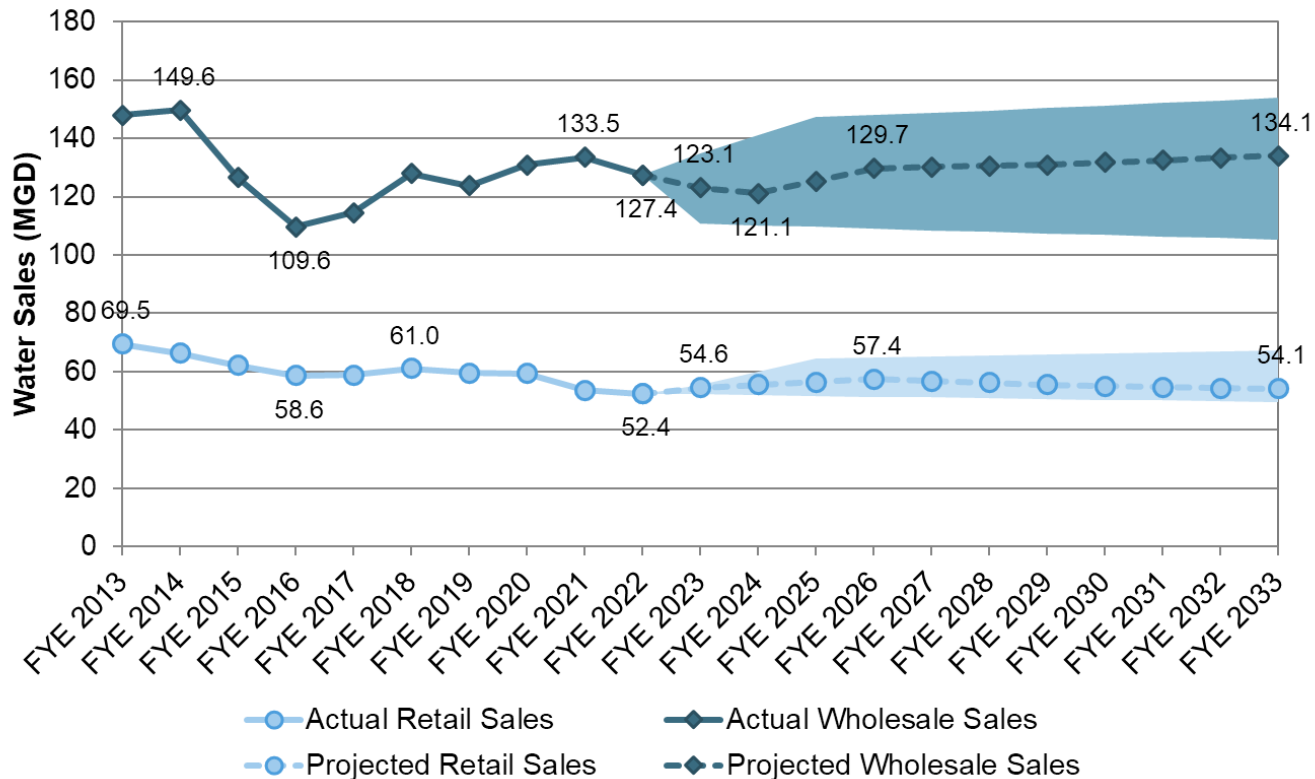
Safeguards
for the
Unexpected

Financial
Sustainability

- Population and job growth from current levels
- Declining per capita usage
- Delays in construction and recovery from shocks (drought, pandemic)

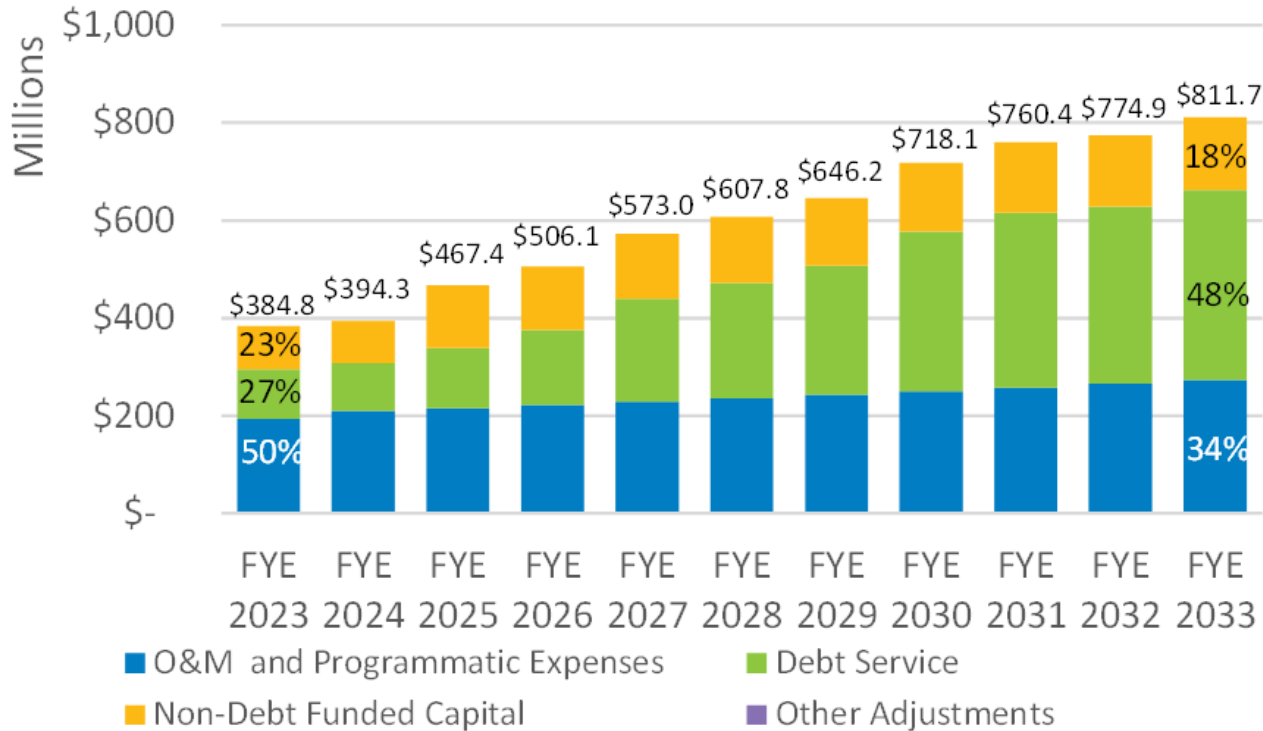
- More frequent rate updates
- Automatic adjustments such as drought surcharge
- Considering increasing fixed charges in wastewater rate study

Water & Wastewater Sales Recovery by FY 2025-26



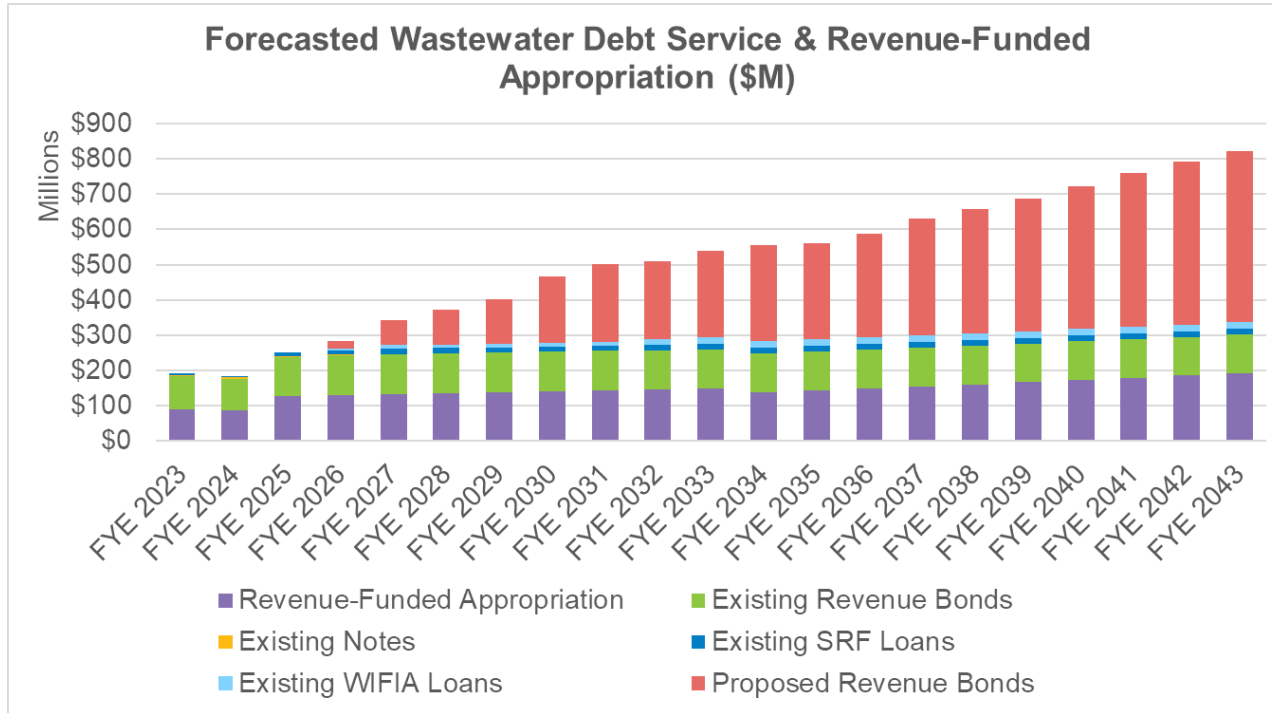
- Pandemic recovery to “new normal” with lingering impact by FY 2023-24
- Drought ends FY 2023-24, recovery over two years
- Long-term trends from planning documents
 - Price elasticity
 - Conservation
 - Job & population growth
- Wastewater volumes are based on retail water

Wastewater Expenses More than Double



- Average annual growth: 7.5%
- Capital is the driver
 - Sizeable revenue-funded capital program throughout
 - Huge increase in capital costs translates into higher debt service costs

Wastewater Capital Plans Financially Challenging



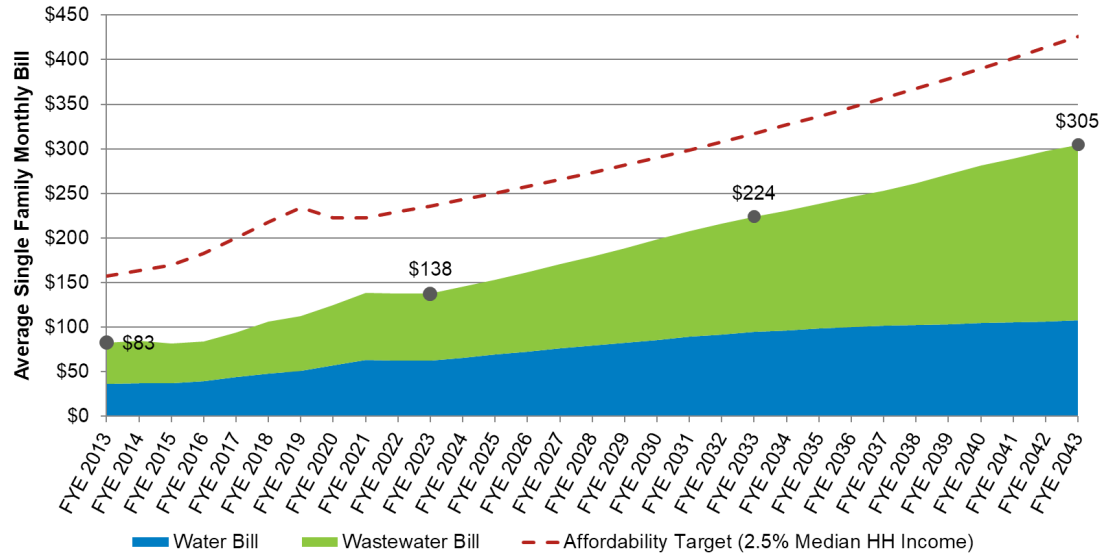
- Revenue-funding vs. debt-funding has tradeoffs
- **CIP is 27% revenue-funded** (highest of any Enterprise)
- Approx. **\$4.1B in bonds to be issued in next 10 years**
- Current strategies to mitigate impact of borrowing
 - Short debt strategies
 - Refinancing existing debt
 - Securing low-cost Federal and State financing
- Can't avoid costs unless projects are cut

Projected Water & Wastewater Rate Increases

Historic

Fiscal Year	Water Rate Increase	Wastewater Rate Increase	Combined Bill Increase
FYE 2018	7.0%	11.0%	9.2%
FYE 2019	7.8%	5.9%	6.8%
FYE 2020	8.3%	7.0%	7.6%
FYE 2021	7.8%	8.0%	7.9%
FYE 2022	7.9%	8.0%	8.0%
FYE 2023	0.0%	0.0%	0.0%
FYE 2024	5.0%	9.0%	7.2%
FYE 2025	5.0%	9.0%	7.2%
FYE 2026	5.0%	9.0%	7.3%
FYE 2027	4.0%	10.0%	7.5%
FYE 2028	4.0%	10.0%	7.6%
FYE 2029	4.0%	10.0%	7.7%
FYE 2030	4.0%	9.0%	7.1%
FYE 2031	3.0%	9.0%	6.8%
FYE 2032	3.0%	5.0%	4.3%
FYE 2033	3.0%	5.0%	4.3%

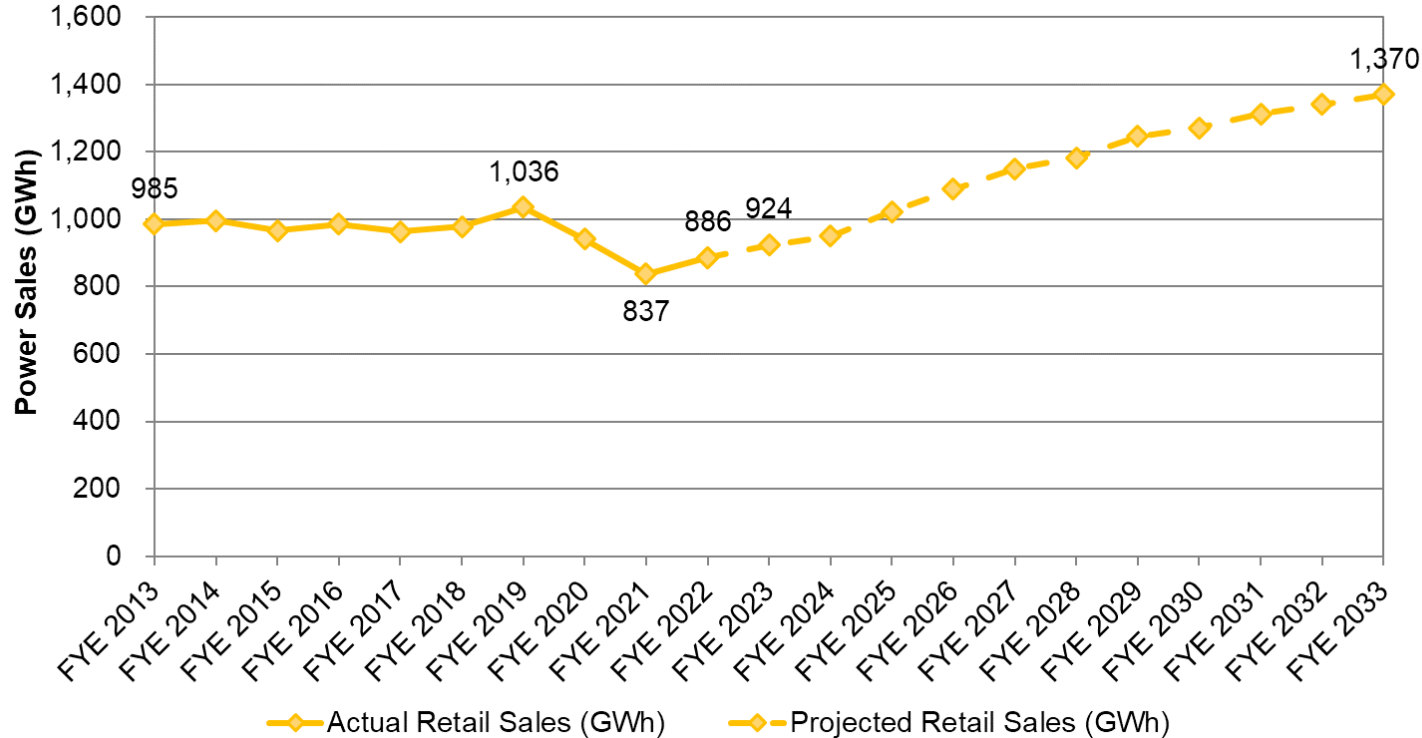
Projected



Combined Water/Wastewater Bill:

- 10 Year Growth: 90% (6.6% annually)
- 20 Year Growth: 164% (5% annually)

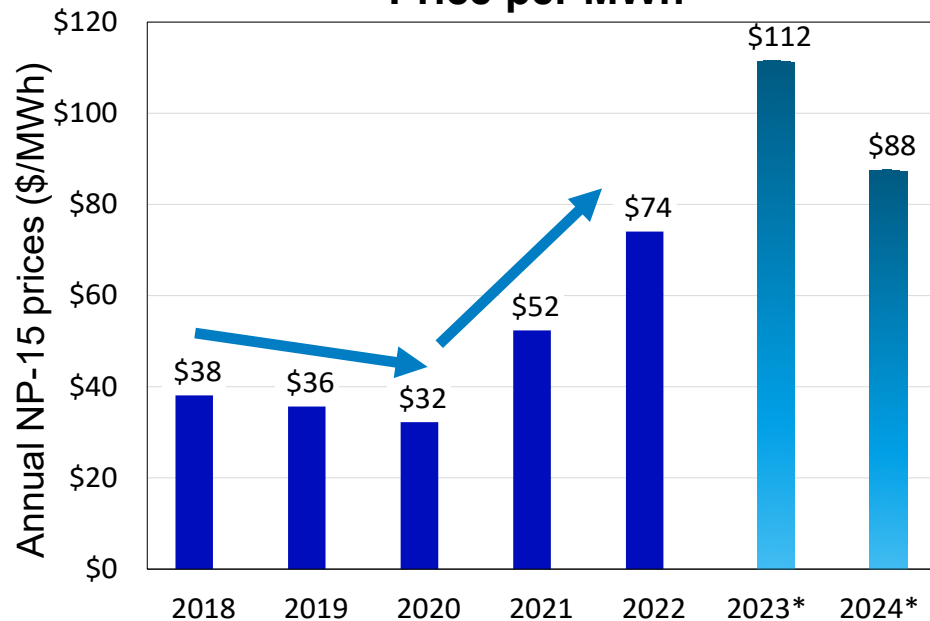
Hetch Hetchy Growing Customer Base



- Current customer recovery from pandemic at different times based on economic outlook
- 4% annual growth reflects new customers in redevelopment and infill areas
 - Conservative adjustments incorporated

Purchased Power Supply & Delivery Expenses Skyrocketing

Annual Actual and Projected Energy Price per MWh

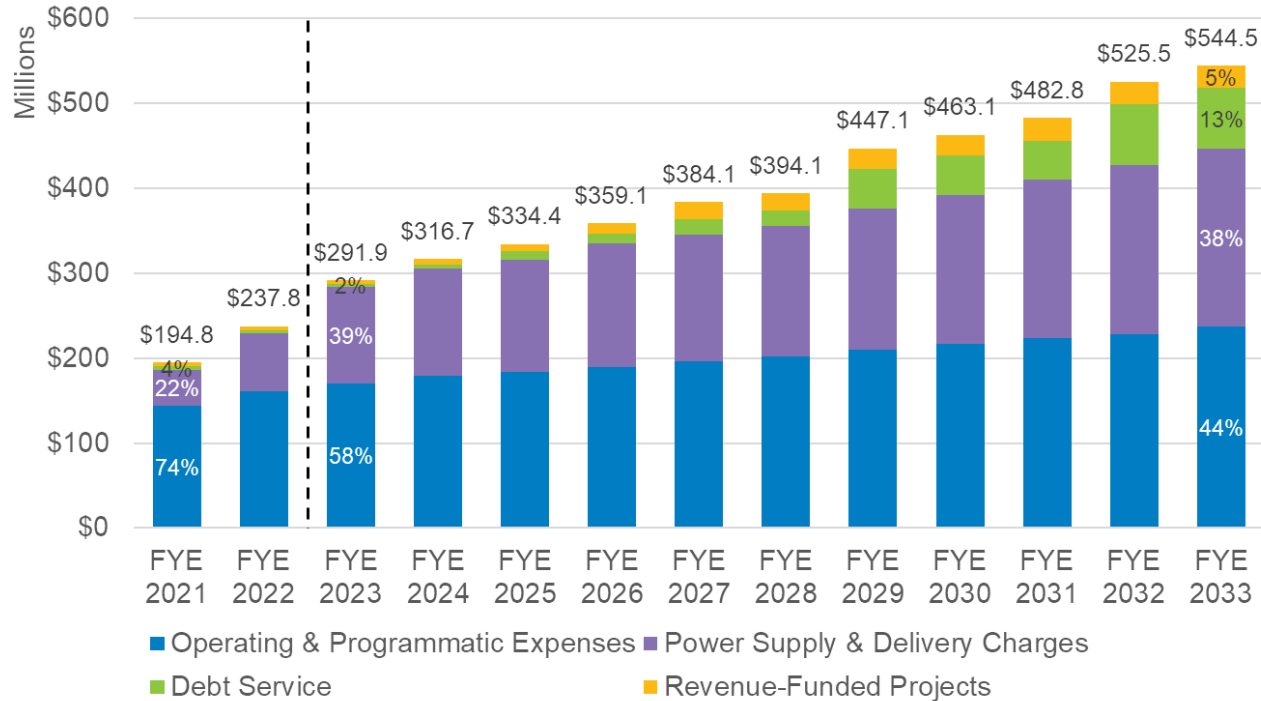


2018-2022: Day-Ahead Settlement NP-15 LMP prices

2023-2024 (*): Average of Platts NP-15 forward price curves from 12/12/2022 to 1/11/2023

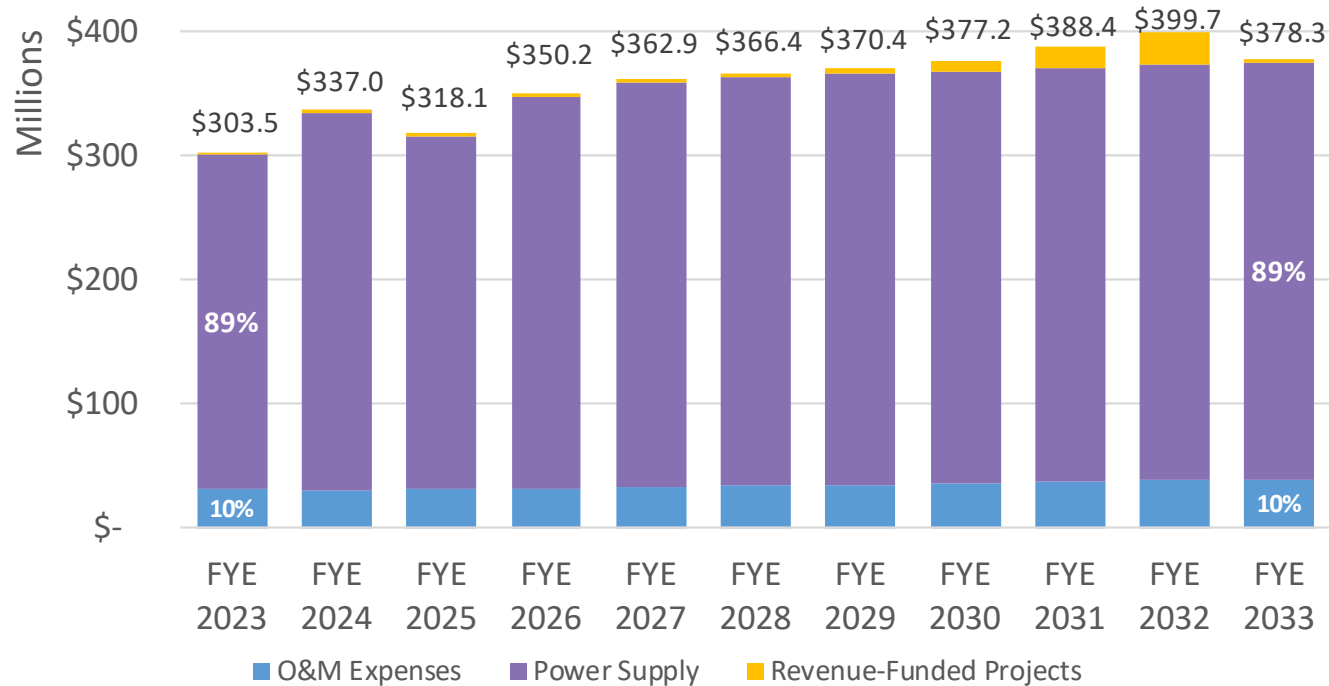
- Huge increases and volatility in power markets driving up costs immensely
- New “Wholesale Distribution Tariff” (WDT3) methodology increases interconnection costs for Hetchy customers
- Spent significant extra time this year modelling different expenditures
 - Proposed budgets assume higher end of forecasts
 - Also increased budgeted contingency to account for risk of fluctuations beyond what we assumed

Hetch Hetchy Power Expenses



- Average annual growth: 6.4%
- Power Supply & Delivery steady at 39%, but was only 22% in FY 2020-21
- Debt service increasing from almost nothing to 13% of annual expenses

CleanPowerSF Expenses Steady



- Average annual growth: 2.2%
- Driven by power supply costs, and subject to resulting risks

Power Rate Increases

Program	Hetch Hetchy Power	CleanPowerSF Generation
FYE 2024	14.0%	15.0%
FYE 2025	10.0%	0.0%
FYE 2026	9.0%	0.0%
FYE 2027	8.5%	0.0%
FYE 2028	7.0%	-1.0%
FYE 2029	6.0%	-1.0%
FYE 3030	4.0%	-1.0%
FYE 2031	3.0%	0.0%
FYE 2032	3.0%	0.0%
FYE 2033	3.0%	0.0%
10-Year Average	6.7%	1.1%

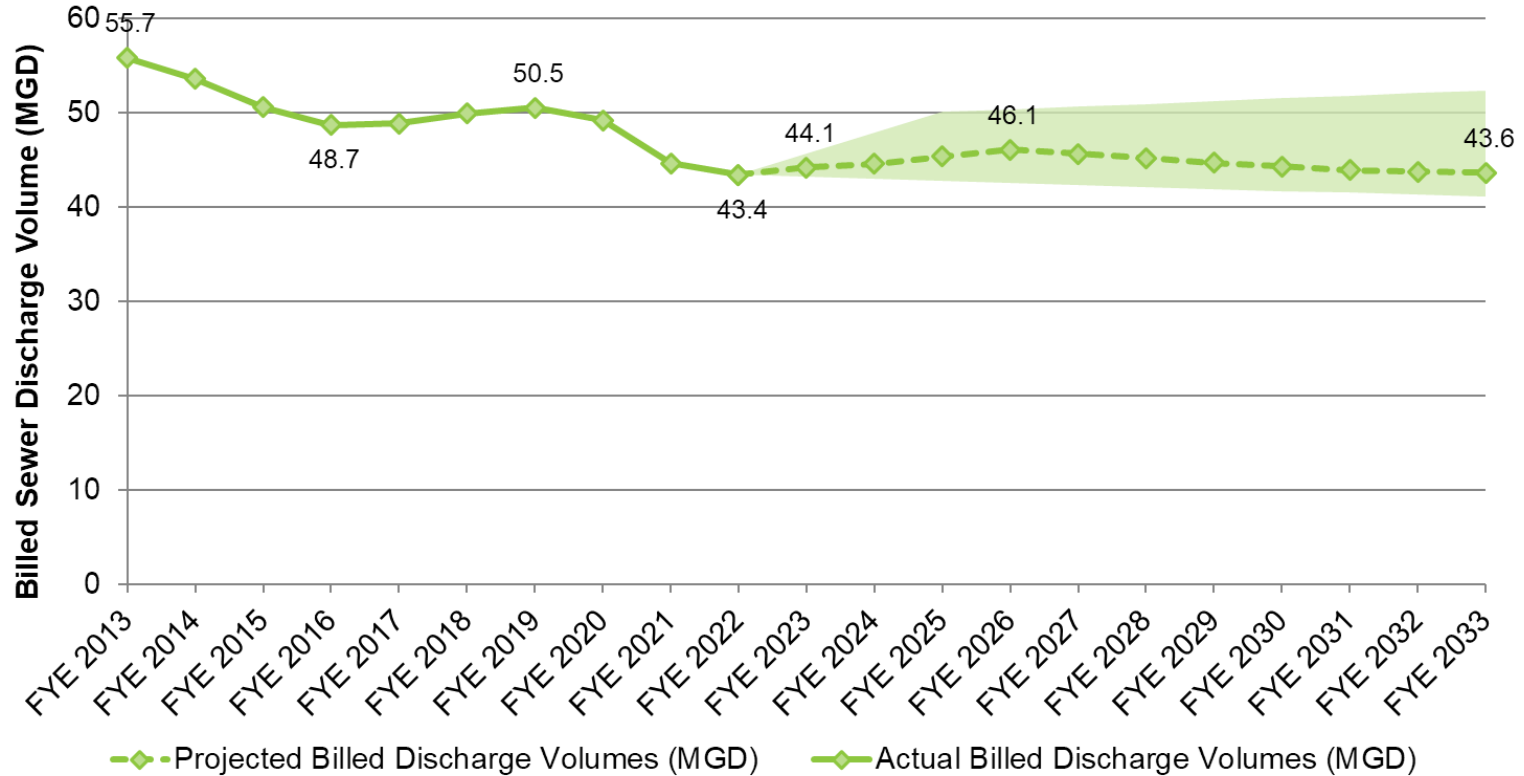
- Both programs facing short-term increases that drop down in outer years
 - Responding to increasing supply costs
 - CleanPowerSF needs to build up reserves
- Hetch Hetchy’s longer-term trajectory driven by capital spending
- CleanPowerSF’s flat trajectory subject to change if power markets increase further
 - *Hetch Hetchy Power rates shown are for retail, non-municipal customers*
 - *Hetch Hetchy FY 2023-24 rates were approved in May 2022*
 - *CleanPowerSF rate increase is only the generation portion of the bill; the FY 2023-24 increase in the total bill, including PG&E delivery charges, is approximately 5%*

Questions?

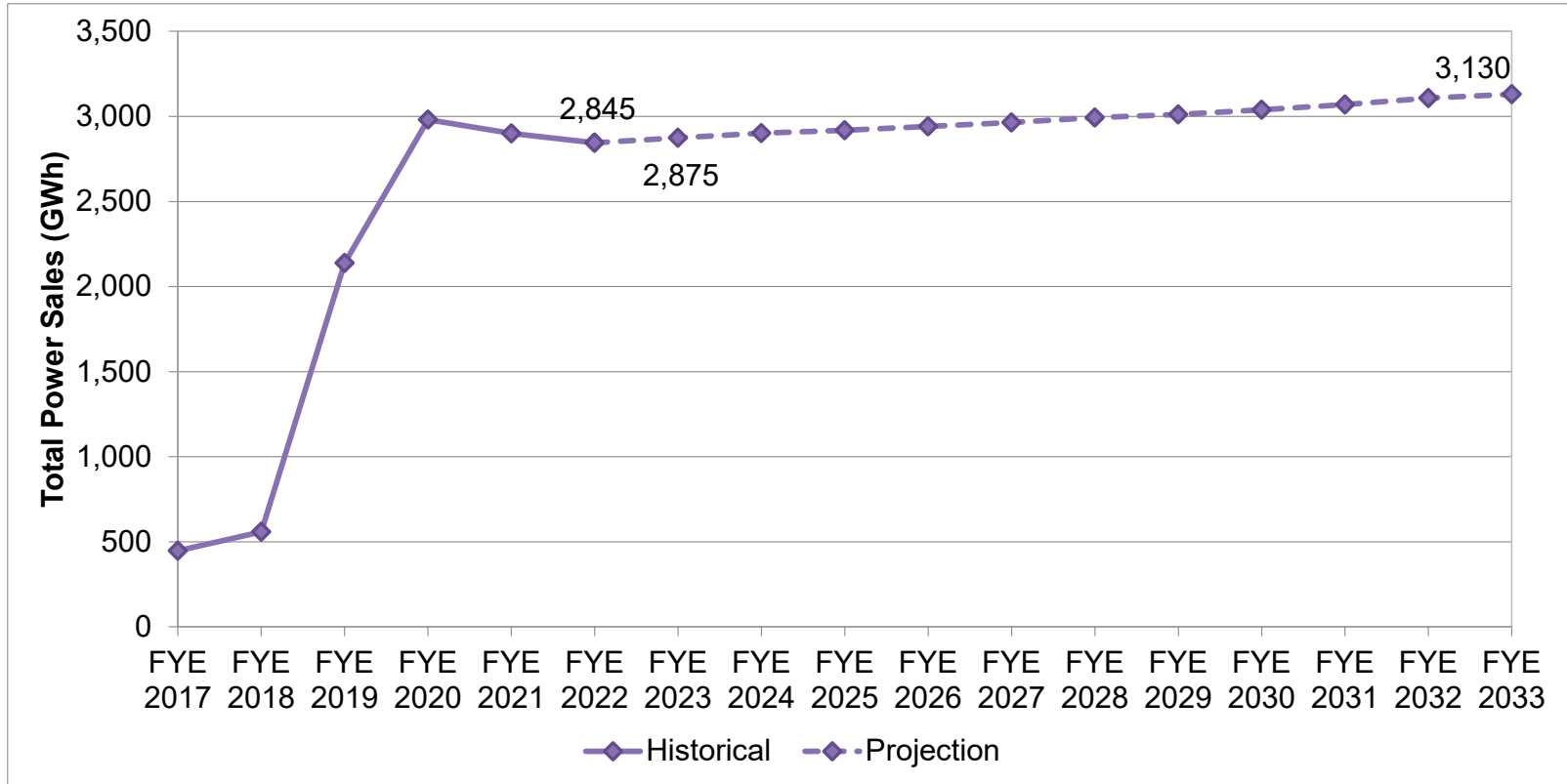
Appendices

10-Year Financial Plan Details

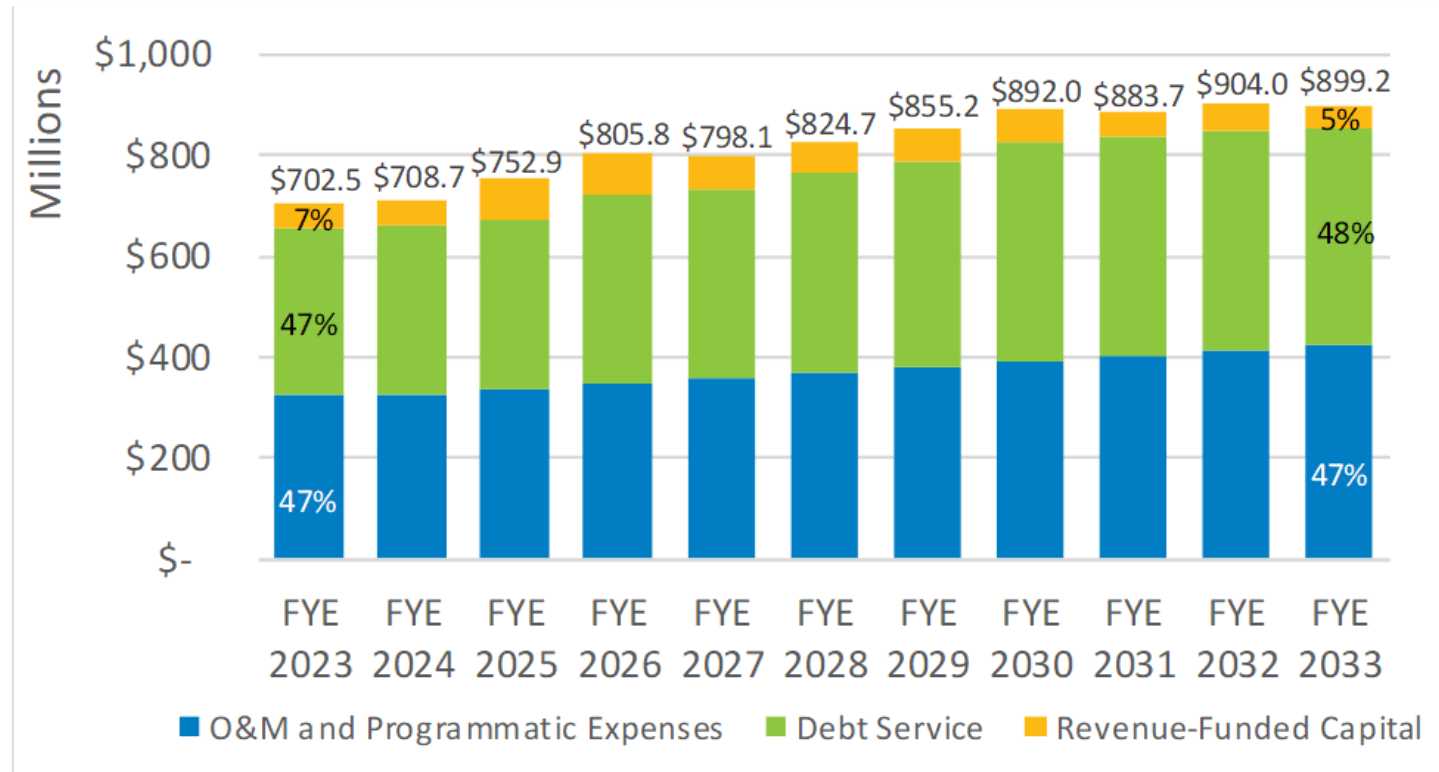
Wastewater Volumes



CleanPowerSF Volumes



Water Expenses





Water 10-Year Financial Plan

(\$M)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
Beginning Fund Balance	\$ 284.5	\$ 253.7	\$ 266.3	\$ 252.7	\$ 220.2	\$ 208.5	\$ 201.0	\$ 189.4	\$ 166.9	\$ 165.5	\$ 161.9
Sources											
Retail Water Sales	326.8	343.4	350.3	373.5	385.2	398.2	409.6	422.7	432.3	444.9	455.8
Wholesale Water Sales	289.6	318.2	328.3	339.7	340.7	358.0	370.9	383.4	386.3	391.6	401.4
Other Miscellaneous Income	55.3	59.8	60.6	60.2	60.5	61.1	63.1	63.3	63.8	63.9	63.4
Total Sources	\$ 671.7	\$ 721.3	\$ 739.2	\$ 773.4	\$ 786.4	\$ 817.3	\$ 843.6	\$ 869.4	\$ 882.4	\$ 900.4	\$ 920.6
Uses											
Operations & Maintenance	277.4	281.6	289.4	297.5	306.0	314.7	323.7	332.9	342.5	352.4	362.6
Hetchy Transfer	49.6	46.0	49.5	51.0	52.6	54.0	55.5	57.2	58.9	60.7	62.7
Debt Service	328.4	333.5	335.4	373.7	374.5	399.4	407.4	434.8	433.1	433.7	427.4
Revenue-Funded Projects	47.1	47.6	78.6	83.6	65.1	56.6	68.6	67.0	49.2	57.2	46.5
Total Uses	\$ 702.5	\$ 708.7	\$ 752.9	\$ 805.8	\$ 798.1	\$ 824.7	\$ 855.2	\$ 892.0	\$ 883.7	\$ 904.0	\$ 899.2
Net Revenues	\$ (30.8)	\$ 12.6	\$ (13.7)	\$ (32.5)	\$ (11.7)	\$ (7.4)	\$ (11.6)	\$ (22.6)	\$ (1.3)	\$ (3.6)	\$ 21.4
Ending Fund Balance	\$ 253.7	\$ 266.3	\$ 252.7	\$ 220.2	\$ 208.5	\$ 201.0	\$ 189.4	\$ 166.9	\$ 165.5	\$ 161.9	\$ 183.3
Rate Increase - Retail	0.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	2.0%
Rate Increase - Wholesale	15.9%	11.6%	0.0%	0.0%	0.0%	4.5%	3.6%	2.8%	0.2%	0.5%	2.2%
Fund Balance as % of Op. Expenses	78%	81%	75%	63%	58%	55%	50%	43%	41%	39%	43%
Debt Service Coverage (Current)	1.27	1.24	1.21	1.15	1.15	1.13	1.15	1.11	1.12	1.13	1.17
Debt Service Coverage (Indenture)	1.73	1.91	2.00	1.83	1.74	1.66	1.64	1.55	1.51	1.52	1.55



Wastewater 10-Year Financial Plan

(\$M)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
Beginning Fund Balance	\$ 157.8	\$ 158.8	\$ 197.1	\$ 186.4	\$ 184.1	\$ 158.4	\$ 147.1	\$ 146.7	\$ 125.0	\$ 115.3	\$ 126.5
Sources											
Sewer Charges	378.6	418.0	441.1	488.3	532.0	580.7	630.5	681.3	736.2	771.9	805.3
Interest Income	1.6	1.7	2.4	2.3	2.2	2.7	2.5	2.3	2.0	1.8	1.9
Federal Bond Interest Subsidy	4.0	3.9	3.7	3.6	3.4	3.3	3.1	2.9	2.7	2.5	2.3
Other Miscellaneous Income	9.3	9.2	9.4	9.6	9.7	9.7	9.8	9.8	9.9	9.9	10.0
Total Sources	\$ 393.5	\$ 432.7	\$ 456.7	\$ 503.8	\$ 547.4	\$ 596.4	\$ 645.9	\$ 696.3	\$ 750.8	\$ 786.1	\$ 819.5
Uses											
Operations & Maintenance	201.6	209.7	215.9	222.4	229.0	235.9	243.0	250.3	257.8	265.6	273.4
Debt Service	102.2	97.9	123.1	152.9	210.7	236.0	264.8	326.7	358.8	362.7	388.9
Revenue-Funded Projects	88.7	86.7	128.4	130.8	133.3	135.9	138.5	141.1	143.8	146.6	149.4
Total Uses	\$ 392.5	\$ 394.3	\$ 467.4	\$ 506.1	\$ 573.0	\$ 607.8	\$ 646.2	\$ 718.1	\$ 760.4	\$ 774.9	\$ 811.7
Net Revenues	\$ 1.0	\$ 38.4	\$ (10.7)	\$ (2.3)	\$ (25.7)	\$ (11.4)	\$ (0.3)	\$ (21.8)	\$ (9.6)	\$ 11.2	\$ 7.7
Ending Fund Balance	\$ 158.8	\$ 197.1	\$ 186.4	\$ 184.1	\$ 158.4	\$ 147.1	\$ 146.7	\$ 125.0	\$ 115.3	\$ 126.5	\$ 134.3
Retail Rate Increase	0.0%	9.0%	9.0%	9.0%	10.0%	10.0%	10.0%	9.0%	9.0%	5.0%	5.0%
Fund Balance as % of Op. Expenses	79%	94%	86%	83%	69%	62%	60%	50%	45%	48%	49%
Debt Service Coverage (Current)	1.88	2.28	1.96	1.91	1.59	1.60	1.58	1.41	1.42	1.50	1.48
Debt Service Coverage (Indenture)	3.42	3.90	3.56	3.17	2.51	2.30	2.16	1.88	1.77	1.83	1.82



Hetch Hetchy Power 10-Year Plan

(\$M)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
Beginning Fund Balance	\$ 136.7	\$ 123.3	\$ 90.4	\$ 77.9	\$ 77.2	\$ 87.4	\$ 119.4	\$ 136.5	\$ 163.0	\$ 198.0	\$ 214.9
Sources											
Power Sales - Retail	155.6	168.2	205.7	242.4	281.1	310.1	346.6	369.9	394.8	416.1	439.6
Power Sales - Wholesale	35.5	31.7	27.2	24.3	19.0	18.4	16.9	16.2	16.2	16.1	15.7
Gas & Steam Sales	21.4	24.7	25.4	26.2	27.0	27.8	28.6	29.5	30.4	31.3	32.2
Water Sales	2.5	2.6	2.7	2.9	3.0	3.1	3.2	3.4	3.5	3.6	3.6
Hetchy Transfer	49.6	46.3	49.7	51.2	52.8	54.2	55.6	57.2	58.8	60.4	62.3
Other Misc Income	13.9	10.5	11.2	11.3	11.5	12.5	13.3	13.5	14.2	14.9	15.2
Total Sources	\$ 278.5	\$ 283.9	\$ 321.9	\$ 358.3	\$ 394.4	\$ 426.2	\$ 464.2	\$ 489.6	\$ 517.8	\$ 542.4	\$ 568.7
Uses											
Power Supply & Delivery Charges	113.2	127.0	132.4	145.9	149.3	153.4	166.2	175.4	186.7	198.8	208.9
Other Operations & Maintenance	170.5	178.9	183.8	189.7	195.8	202.1	210.4	217.0	223.2	228.6	237.6
Debt Service	4.0	3.8	10.5	10.5	18.3	18.0	46.5	46.5	46.5	71.7	71.6
Revenue-Funded Projects	4.3	7.0	7.8	13.0	20.7	20.7	24.1	24.3	26.4	26.4	26.4
Total Uses	\$ 291.9	\$ 316.7	\$ 334.4	\$ 359.1	\$ 384.1	\$ 394.1	\$ 447.1	\$ 463.1	\$ 482.8	\$ 525.5	\$ 544.5
Net Revenues	\$ (13.5)	\$ (32.8)	\$ (12.5)	\$ (0.8)	\$ 10.2	\$ 32.0	\$ 17.1	\$ 26.5	\$ 35.0	\$ 16.8	\$ 24.2
Ending Fund Balance	\$ 123.3	\$ 90.4	\$ 77.9	\$ 77.2	\$ 87.4	\$ 119.4	\$ 136.5	\$ 163.0	\$ 198.0	\$ 214.9	\$ 239.1
Retail Rate Change	6.6%	14.0%	10.0%	9.0%	8.5%	7.0%	6.0%	4.0%	3.0%	3.0%	3.0%
Fund Balance as % of Power Op. Expenses	53%	35%	30%	28%	30%	40%	43%	49%	57%	60%	63%
Debt Service Coverage (Current)	1.16	1.34	1.23	2.11	2.66	3.89	1.87	2.08	2.31	1.59	1.70
Debt Service Coverage (Indenture)	46.49	25.29	9.14	10.40	7.19	9.00	4.46	5.04	5.84	4.37	4.70
Revenue-Funded % of Capital		17%									



CleanPowerSF 10-Year Financial Plan

(\$M)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
Beginning Fund Balance	\$ 51.3	\$ 69.4	\$ 102.8	\$ 157.2	\$ 184.5	\$ 205.4	\$ 224.6	\$ 238.6	\$ 241.0	\$ 232.0	\$ 217.5
Sources											
Retail Power Sales	317.9	367.4	369.5	372.3	375.1	375.1	373.5	373.2	376.9	381.6	384.3
Wholesale Power Sales	3.7	1.6	1.3	3.5	6.8	8.6	8.9	4.3	0.4	1.5	1.3
Other Miscellaneous Income	0.0	1.5	1.7	1.7	1.9	1.9	2.0	2.0	2.1	2.2	2.2
Total Sources	\$ 321.6	\$ 370.4	\$ 372.5	\$ 377.5	\$ 383.8	\$ 385.6	\$ 384.4	\$ 379.5	\$ 379.4	\$ 385.2	\$ 387.8
Uses											
Power Supply	270.5	305.3	284.2	315.3	327.1	329.4	332.2	332.2	333.2	335.2	336.0
Other Operations & Maintenance	31.4	30.1	30.9	31.9	32.9	33.9	34.9	36.0	37.1	38.3	39.5
Revenue-Funded Projects	1.6	1.6	2.9	3.0	3.0	3.1	3.3	8.9	18.1	26.3	2.8
Total Uses	\$ 303.5	\$ 337.0	\$ 318.1	\$ 350.2	\$ 362.9	\$ 366.4	\$ 370.4	\$ 377.2	\$ 388.4	\$ 399.7	\$ 378.3
Net Revenues	\$ 18.1	\$ 33.4	\$ 54.4	\$ 27.3	\$ 20.9	\$ 19.2	\$ 14.0	\$ 2.4	\$ (9.0)	\$ (14.5)	\$ 9.5
Ending Fund Balance	\$ 69.4	\$ 102.8	\$ 157.2	\$ 184.5	\$ 205.4	\$ 224.6	\$ 238.6	\$ 241.0	\$ 232.0	\$ 217.5	\$ 227.0
Retail Rates Change	-10.8%	15.0%	0.0%	0.0%	0.0%	-1.0%	-1.0%	-1.0%	0.0%	0.0%	0.0%
Days Cash On Hand	84	112	182	194	208	226	237	239	229	213	221
Fund Balance as % of Op. Expenses	23%	31%	50%	53%	57%	62%	65%	65%	63%	58%	60%