FY 2022-23 and FY 2023-24 Budget Introduction

Eric Sandler, CFO and AGM Business Services

September 28, 2021
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2. Budget Policy Framework
3. Budget Context
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5. Historical budget and rate growth
6. Rate outlook
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Introduction

• SFPUC has a fixed, two-year budget
• City modified budget process to adapt to pandemic impact
• Three Commission budget actions in 1 year
  2. COVID impact, rebalanced budget completed July 2020, cut ~$90M
  3. FY 2021-22 budget reopening, adopted by Commission Feb 2021, added back resources for priority items; Racial Equity, COVID response
• Planning for biennial budget for FY 2022-23, FY 2023-24
  • Staff kicked off process in August 2021  
  • Schedule check ins with Commission and public hearings
• February 8, 2022—consider adoption of
  • FY 2022-23, FY 2023-24 Biennial Operating and Capital Budget
  • 10-Year Capital Plan
  • 10-Year Financial Plan
Budget Policy Framework

- City budget policies and legislation
- Ratepayer Assurance Policy
- Financial and Debt Policies
- Asset Management Policy
- Environmental Justice Policy
- Racial Equity Action Plan
- Racial Justice Resolution
- Technology Policy
Budget Context—Pandemic Impacts

- Economic recovery and commodity demands
- The future of work and workforce
  - Need for an even more resilient and safety-focused organization
  - Managing a hybrid workforce
  - Staff burnout
  - Silver tsunami + great resignation
  - Retaining and attracting talent and advancing racial equity
- Historic federal and state attention and support for our industries
  - Financial support for water, wastewater and power infrastructure investment
  - Cost pressures—tight markets for construction-related inputs
  - Focus on service equity and affordability
  - Focus on cybersecurity for critical industries
- Accelerated pace of technological change and employee, customer and stakeholder expectations
Budget Context—Other Impacts

- Increased frequency and severity of climate-related risks
  - Water shortage and drought
  - Wildfires and related power shutoffs
  - Power market impacts
- Cost of purchased power—significant budget item
- Regulatory issues on multiple fronts
  - SWRCB, EPA, CPUC, FERC
- City public corruption scandal
  - Importance of impeccable stewardship
  - Restoration/maintenance of public trust
- Rates and charges
  - Hetchy Power/CleanPowerSF rate study in process
  - Water/Wastewater rate study to follow
  - Affordability—particularly for low-income customers
Economic Outlook—High Level Observations

• City Economist
  • Commercial sector deeply impacted by COVID-19 restrictions with tourism-dependent economic activity and associated city revenues projected to recover to pre-pandemic levels by FYE 2024
  • Monthly reporting on Economic Indicators since city-wide re-opening in June 2021 suggest the possibility of a slower and prolonged commercial sector recovery

• Bay Area Council
  • Employment loss in the Bay Area much deeper vs. prior recessions, Great Recession and Dot Com bubble
  • Disproportionate socio-economic impact on service workers, low-income communities and communities of color
  • Macro changes in housing and transportation trends – outmigration from in-city to suburban areas
Retail Water Sales Projections Pre and Post COVID

- Projected retail water sales volumes for biennial budget years incorporate COVID impact. FYE 2023 and FYE 2024 are 91% and 92% of pre-COVID projections.

![Retail Water Sales Volume Projections Pre and Post-COVID Impacts](chart.png)
Updating Volumetric Sales Projections

- Updated volumetric projections will incorporate
  - FYE 2021 and FYE 2022 actual sales volumes
  - City Economist’s office macroeconomic trend forecast
  - Other relevant regional data
- Updates will vary by Enterprise/Program given service area and industry characteristics
  - Customers, customer mix
  - Competition, customer growth and acquisition
- Unknown, but significant impact of drought-related water use reductions restrictions
Budget Growth Driven mainly by CPSF and Capital Investments

SFPUC budget by enterprise over 5 years $M

Total growth = 50%

SFPUC budget by expenditure type over 5 years $M

Total growth = 50%

FY2018 FY2019 FY2020 FY2021 FY2022

Water Wastewater Hetchy WTR Hetchy PWR CleanPowerSF

FY2018 FY2019 FY2020 FY2021 FY2022

Personnel Non-Personnel Power Purchase Programmatic Revenue-Funded Capital

$1.5B $1.0B $1.0B $1.5B

$85M $280M

$1.0B

$24%

3.3%

7.6%

4.9%

24% $1.0B $1.5B
## Cumulative Retail Water and Wastewater Rate Increases

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water</th>
<th>Wastewater</th>
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</thead>
<tbody>
<tr>
<td>FYE 2010</td>
<td>15.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>FYE 2011</td>
<td>15.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>FYE 2012</td>
<td>12.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FYE 2013</td>
<td>12.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FYE 2014</td>
<td>6.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FYE 2015</td>
<td>12.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FYE 2016</td>
<td>12.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FYE 2017</td>
<td>10.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>FYE 2018</td>
<td>7.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>FYE 2019</td>
<td>7.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>FYE 2020</td>
<td>8.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>FYE 2021</td>
<td>7.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>FYE 2022</td>
<td>7.9%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
Historic Average Annual Water and Wastewater Bills

Average Single Family Residential Water and Wastewater Bill

Combined Bill CAGR 7.6%
Changing Retail Rate Projections

- Pre-pandemic retail rate change projections from FYE 2022 10 Year Financial Plans

<table>
<thead>
<tr>
<th></th>
<th>FYE 2023</th>
<th>FYE 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Water</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>5%</td>
<td>5%</td>
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- Updated retail rate change projections – for biennial budget adoption

- Comprehensive 2022 Power Cost of Service Study will inform Hetchy and CleanPowerSF power rate increases

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<tr>
<td>Retail Water</td>
<td>0%</td>
<td>6%</td>
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<td>0%</td>
<td>6%</td>
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Retail Rate Change Assumptions: Water & Wastewater

• Rate change assumptions for biennial budget years approximate rate of inflation; 0% Water and WW retail rate increase in FYE 2023

• Significant operating environment shifts underlie this decision:
  • Can be prudently managed through multi-year budgeting and financial planning
  • Better lay groundwork for successful multi-year rate package
    - Fuller understanding of COVID demand impacts
    - Comprehensive update of ten-year capital plan
    - Enhanced customer assistance program
    - Progress/completion of critical audits
    - Execute comprehensive outreach campaign
Budget Focus Areas

• **Right Size Capital Plans**
  - Prudently reassess and reprioritize capital plans for delivery and cost

• **Focus on Affordability**
  - Contain future rate increases
  - Continue to mitigate impact on low-income customers

• **Future of Work and Workforce**
  - Adapt to changing talent economy

• **Racial Equity**
  - Ensure adequate resources to meet our commitments

• **Financial Sustainability**
  - Maintain financial strength, tools, and flexibility to mitigate risks
## Timeline

<table>
<thead>
<tr>
<th>Month</th>
<th>Major Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2021</td>
<td>Internal budget instructions issued to enterprises</td>
</tr>
<tr>
<td><strong>September 2021</strong></td>
<td><strong>Commission budget introduction</strong></td>
</tr>
<tr>
<td>October 2021</td>
<td>Budget reviews with Steering Committee begin</td>
</tr>
<tr>
<td>November 2021</td>
<td>Commission update on budget progress</td>
</tr>
<tr>
<td>December 2021</td>
<td>Commission public hearing on Budget Priorities (required per Section 3.3 of City Admin Code)</td>
</tr>
<tr>
<td></td>
<td>Budget prepared for Commission review</td>
</tr>
<tr>
<td>January 2022</td>
<td>TBD Commission hearings on budget, 10-year Capital and Financial Plans</td>
</tr>
<tr>
<td>February 2022</td>
<td>Commission Adopts 10-year Financial Plan, Capital Plan and Budget</td>
</tr>
<tr>
<td></td>
<td>Budget submitted to Mayor’s Office and Controllers Office</td>
</tr>
<tr>
<td>May 2022</td>
<td>Budget proposed to Board Of Supervisors</td>
</tr>
<tr>
<td>July 2022</td>
<td>Budget adopted by Mayor and Board</td>
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Discussion
Backup Slides
FTE growth

FTE has grown by 6% over the last 5 years, or 141 positions.

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<thead>
<tr>
<th>Division</th>
<th>FTE added</th>
<th>% Growth</th>
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<tbody>
<tr>
<td>Water</td>
<td>43</td>
<td>6%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>15</td>
<td>3%</td>
</tr>
<tr>
<td>Hetchy Water</td>
<td>15</td>
<td>7%</td>
</tr>
<tr>
<td>Hetchy Power</td>
<td>8</td>
<td>8%</td>
</tr>
<tr>
<td>CleanPowerSF</td>
<td>33</td>
<td>234%</td>
</tr>
<tr>
<td>Bureaus</td>
<td>38</td>
<td>10%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(11)</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141</strong></td>
<td><strong>6%</strong></td>
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<td>5%</td>
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<tr>
<td>Hetch Hetchy Power</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>CleanPowerSF</td>
<td>-3%</td>
<td>-2%</td>
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