



**San Francisco
Water Power Sewer**

Services of the San Francisco Public Utilities Commission

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MEMORANDUM

DATE: December 12, 2017

TO: Ike Kwon, Commission President
Vince Courtney, Commission Vice President
Ann Moller Caen, Commissioner
Francesca Vietor, Commissioner
Anson Moran, Commissioner

THROUGH: Harlan L. Kelly, Jr., General Manager *Harlan Kelly*

FROM: Eric L. Sandler, CFO and AGM, Business Services *Eric Sandler*

SUBJECT: SFPUC First Quarter Budgetary Report FY 2018, through 09/30/2017

Summary: Attached are the FY 2018 first quarter budgetary reports for the three Enterprises and CleanPowerSF. Water and Wastewater revenues are higher than budget; CleanPowerSF revenues are at budget and Power are below budget. The table below summarizes high-level changes to revenues and expenses, with net surpluses projected for the three Enterprises' and CleanPowerSF. Detail on the revenues and expenditures are provided in the brief narratives on the following pages and the attached reports.

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	FY 2017-18 Operations				Projected Year End Available Fund Balance
			Revenue Surplus / (Shortfall)	Expenditure Savings / (Shortfall)	Surplus / (Shortfall)	General Reserve	
Water	\$ 174.1	\$ (1.5)	\$ 23.9	\$ -	\$ 23.9	\$ 1.6	\$ 198.1
Wastewater	\$ 144.7	\$ -	\$ 10.8	\$ 28.7	\$ 39.5	\$ 16.9	\$ 201.1
Hetch Hetchy	\$ 56.8	\$ (5.5)	\$ (1.0)	\$ 6.0	\$ 5.0	\$ -	\$ 56.3
CleanPowerSF	\$ 8.3	\$ -	\$ -	\$ 1.0	\$ 1.0	\$ 5.6	\$ 14.9

Edwin M. Lee
Mayor

Ike Kwon
President

Vince Courtney
Vice President

Ann Moller Caen
Commissioner

Francesca Vietor
Commissioner

Anson Moran
Commissioner

Harlan L. Kelly, Jr.
General Manager



Water Enterprise

- Higher Water Sales Revenue: Water sales revenue is \$25.8M higher than budget due to higher sales volumes; Retail revenue is higher than budget by \$4.1M (1.7%) and wholesale water sales revenues are higher than budget by \$21.7M (9.4%).
- Water sales volumes are 180.2 MGD which is higher than budget by 11.1 MGD (6.0%). Of this total, projected retail water sales volumes are 57.2 MGD, 1.2% higher than budget and wholesale water sales volumes are 123.4 MGD which is 10.4 MGD (9.2%) higher than budget.
- Other non-operating revenues are projected to be below budget by \$1.9M due to lower fees and installation charges collections.
- Cost savings includes general reserve savings of \$1.6M.

Wastewater Enterprise

- Higher Wastewater Sales Revenue: Wastewater sales revenue is higher than budget by \$10.5M (3.5%). Wastewater revenues are a function of water sales multiplied by a flow factor which determines a customers' indoor water usage and wastewater flow.
- Wastewater discharge volumes are projected at 49.7 MGD, 1.2 MGD or 2.4% higher than budget.
- Cost savings includes general reserve of \$16.9M, \$25.7M savings in debt services, and \$3.0M in operating savings.

Hetch Hetchy Water & Power, including the Power Enterprise

- Lower Power Sales Revenue: Power sales revenue is below budget by \$0.1M. Power sales from non-City departments are \$0.5M lower due to lower power usage; power sales to the Western Systems Power Pool (WSPPP) is \$2.0M higher than budget; power sales to the Irrigation Districts is \$0.3M lower than budget due to no excess energy sales to Turlock Irrigation District, and power sales to Hunter's Point are \$1.3M lower than budget due to fewer customers than planned.
- Cost savings includes \$2.0M in salary and fringe benefit savings.

CleanPowerSF

- Electric sales revenue is projected at budget, \$40.2M.
- Cost savings include: \$1.0M in operating savings and \$5.6M general reserve.
- \$14.9M operating reserve includes \$3.0M in Calpine Reserve Account. Program reserve targets were met.

If you have questions, please contact me at (415) 934-5707 at your earliest convenience.

CC: Michael Carlin, Deputy General Manager, SFPUC
Juliet Ellis, AGM, External Affairs, SFPUC
Barbara Hale, AGM, Power Enterprise, SFPUC
Kathryn How, AGM, Infrastructure, SFPUC
Brian Henderson, Acting AGM, Wastewater Enterprise, SFPUC
Steve Ritchie, AGM, Water Enterprise, SFPUC
Melissa Whitehouse, 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 2017-18 1st Quarter - Budgetary Basis, 5W AAA
 (\$ Millions)

	FY 2016-17 Actuals	FY 2017-18			
		Original Budget	Revised Budget	Projection	Variance
Available Fund Balance as a Source	\$ 134.0	\$ 1.5	\$ 13.0	\$ 185.7	\$ 172.6
Sources					
Retail Water Sales	221.6	237.0	237.0	241.1	4.1 A
Retail Water Sales - City Departments	10.8	11.2	11.2	11.2	-
Wholesale Water Sales	232.2	230.4	230.4	252.1	21.7 B
Interest Income	2.2	1.8	1.8	1.8	-
Rental Income	9.2	13.1	13.1	13.1	-
Other Miscellaneous Income	21.1	15.2	15.2	13.3	(1.9) C
Departmental Transfer Adjustment	(34.6)	(32.6)	(32.6)	(32.6)	-
Federal Bond Interest Subsidy	24.1	24.0	24.0	24.0	-
Total Sources	486.7	500.2	500.2	524.1	23.9
Operating Uses					
Personnel	86.1	93.5	93.5	93.5	-
Non-Personnel Services	14.0	16.5	16.8	16.8	-
Materials and Supplies	11.9	13.6	13.6	13.6	-
Equipment	2.2	3.0	4.9	4.9	-
Light, Heat, and Power	8.5	9.7	9.7	9.7	-
Overhead (SFPUC Bureaus)	41.9	45.7	53.4	53.4	-
Services of Other Departments	12.1	11.4	13.0	13.0	-
Total Operating Uses	176.6	193.4	205.0	205.0	-
Debt Service	230.0	254.4	254.4	254.4	-
Capital Projects	16.8	27.8	27.8	27.8	-
Facilities Maintenance/Programmatic	23.2	24.4	24.4	24.4	-
General Reserve	-	1.6	1.6	-	1.6 D
Total Uses - Operating, Debt Service, Capital & Other	\$ 446.6	\$ 501.7	\$ 513.2	\$ 511.6	\$ 1.6
Net FY 2016-17 Results				\$ 25.5	
Available Fund Balance as of Fiscal Year-End	\$ 174.1			\$ 198.1	
Available Fund Balance, % of Operating Uses (E) 25-68%	87.1%	80.0%		91.0%	
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (F) ≥ 1.35	1.90	1.78		1.90	
Current Basis (G) ≥ 1.10	1.15	1.11		1.23	

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2017-18 1st Quarter - Budgetary Basis, 5W AAA
(\$ Millions)

Revenue Variances

- A. Retail water sales are projected to be 57.2 MGD, a 1.2% change from budget of 56.5 MGD, and a 1.9% change from prior year actuals of 56.1 MGD.
- B. Wholesale water sales projected to be 123.4 MGD, a 9.2% increase from budget of 113 MGD, and a 7.1% increase from prior year actuals of 115.2 MGD.
- C. Miscellaneous income projected to decrease from budget due to a \$1.3M decrease in other non-operating revenues and a \$0.6M decrease in water service installation charges.

Expenditure Variances

- D. General reserve was intentionally budgeted and planned to go unspent to build up fund balance reserves.

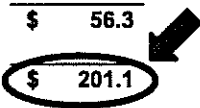
Other Notes

- E. 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%.
- F. 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.
- G. 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 2017-18 1st Quarter - Budgetary Basis, 5C AAA
 (\$ Millions)

	FY 2016-17 Actuals	FY 2017-18			
		Original Budget	Revised Budget	Pre-Audit Actuals	Variance
Available Fund Balance as a Source	\$ 114.3	\$ -	\$ 22.7	\$ 167.4	\$ 144.7
Sources					
Sewer Service Charges	264.9	291.3	291.3	301.9	10.6 A
Sewer Service Charges - City Departments	6.3	6.7	6.7	6.6	(0.1) B
Interest Income	1.5	1.5	1.5	1.5	-
Other Miscellaneous Income	3.9	3.8	3.8	4.1	0.3 C
Federal Bond Interest Subsidy	4.0	4.0	4.0	4.0	-
Total Sources	280.6	307.3	307.3	318.1	10.8
Operating Uses					
Personnel	65.1	70.2	70.2	67.2	3.0 D
Non-Personnel Services	14.2	17.1	17.1	17.1	-
City Grant Programs	0.1	0.3	0.3	0.3	-
Materials and Supplies	8.1	10.4	10.4	10.4	-
Equipment	0.9	0.9	1.1	1.1	-
Light, Heat, and Power	10.7	10.8	10.8	10.8	-
Overhead (SFPUC Bureaus)	26.3	28.7	33.8	33.8	-
Services of Other Departments	22.8	23.6	26.1	26.1	-
Total Operating Uses	148.2	161.9	169.7	166.7	3.0
Debt Service	52.3	76.2	76.2	50.5	25.7 E
Capital Projects	36.8	45.0	56.8	56.8	-
Facilities Maintenance/Programmatic	7.5	7.3	10.5	10.5	-
General Reserve	5.5	16.9	16.9	-	16.9 F
Total Uses - Operating, Debt Service, Capital & Other	\$ 250.2	\$ 307.3	\$ 330.0	\$ 284.4	\$ 45.6
Net FY 2016-17 Results				\$ 56.3	
Available Fund Balance as of Fiscal Year-End	\$ 144.7			\$ 201.1	
Available Fund Balance, % of Operating Uses (G) 25-68%	93.0%	95.5%		121.0%	
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (H) ≥ 1.35	4.16	3.75		5.92	
Current Basis (I) ≥ 1.10	1.99	1.85		3.06	



Appendix B

**WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2017-18 1st Quarter - Budgetary Basis, 5C AAA
(\$ Millions)**

Revenue Variances

- A. Sewer service charge revenue projected to be 48.6 MGD, a 2.7% increase from budget of 47.4 MGD, and a 1.6% increase from prior year actuals of 47.9 MGD.
- B. City department sewer service charges projected to be 1.11 MGD, a 2.7% decrease from budget of 1.14 MGD, and a 6.2% decrease from prior year actuals of 1.18 MGD.
- C. Miscellaneous income projected to increase slightly from budget due to \$110k in unbudgeted settlement payments and \$170k in unbudgeted biofuel revenues.

Expenditure Variances

- D. Personnel savings is due to vacant positions.
- E. Debt service budget included an estimated \$25.7M in debt service on wastewater bonds to be issued in 2016. Debt service on the 2016AB wastewater bonds will be in the capitalized interest period until FY 2019-20, resulting in projected savings.
- F. General Reserve was intentionally budgeted to go unspent to supplement fund balance reserves.

Other Notes

- G. 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%.
- H. 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.
- I. 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 2017-18 1st Quarter - Budgetary Basis, 5T AAA
 (\$ Millions)

	FY 2016-17 Actuals	Original Budget	Revised Budget	Projection	Variance
Available Fund Balance as a Source	\$ 52.4	\$ 5.5	\$ 31.3	\$ 82.6	\$ 51.3
Sources					
Electric Sales - City Work Orders - General Fund Depts.	20.0	21.9	21.9	21.9	-
Electric Sales - City Work Orders - Enterprise Depts.	67.8	71.4	71.4	71.4	-
Electric Sales - Modesto & Turlock Irrigation Districts	9.0	12.9	12.9	12.6	(0.3) A
Electric Sales - WSPP	2.3	8.8	8.8	10.8	2.0 B
Electric Sales - Direct, Non-City Depts., SFUSD, Community	18.3	20.8	20.8	20.2	(0.5) C
Electric Sales - Retail (Hunter's Point)	0.3	1.7	1.7	0.4	(1.3) D
Electric Sales - Treasure Island	3.0	3.3	3.3	3.3	-
Subtotal - Electric Revenues	120.6	140.8	140.8	140.6	(0.1)
Water Sales - Transfer from Water Department	34.6	32.6	32.6	32.6	-
Water Sales - Groveland, Lawrence Livermore Labs	0.4	2.3	2.3	1.4	(0.9) E
Subtotal - Water Revenues	35.0	34.9	34.9	34.0	(0.9)
Natural Gas & Steam - City Work Orders	10.6	11.3	11.3	11.3	-
Interest Income	1.6	1.3	1.3	1.3	-
Federal Interest Subsidy - Power Bonds	0.5	0.6	0.6	0.6	-
Other Miscellaneous Income	6.4	5.3	5.3	5.3	-
Total Sources	175.8	194.1	194.1	193.1	(1.0)
Operating Uses					
Personnel	36.9	43.3	43.3	41.3	2.0 F
Non-Personnel Services	20.0	22.2	25.7	25.7	-
Power Purchases	2.5	12.6	14.7	14.7	-
Transmission Distribution & Related Charges	18.4	35.7	42.6	42.6	-
Materials and Supplies	2.4	2.7	2.7	2.7	-
Equipment	1.2	0.4	0.6	0.6	-
Overhead (SFPUC Bureaus)	14.3	16.0	19.0	19.0	-
Services of Other Departments	6.6	7.4	8.9	8.9	-
Natural Gas & Steam	10.6	11.3	11.3	11.3	-
Total Operating Uses	113.0	151.6	168.8	166.8	2.0
Debt Service	2.3	4.8	4.8	4.8	-
Capital Projects	36.8	35.0	35.0	35.0	-
Facilities Maintenance/Programmatic	14.8	12.8	12.8	12.8	-
Contingency/Purchase of Power	-	4.0	4.0	-	4.0 G
Total Uses - Operating, Debt Service, Capital & Other	\$ 166.9	\$ 208.2	\$ 225.4	\$ 219.4	\$ 6.0
Net FY 2016-17 Results				\$ 5.0	
Available Fund Balance as of Fiscal Year-End	\$ 56.8			\$ 56.3	
Available Fund Balance, % of Operating Uses (H) 25-68%	44.4%	33.6%		34.6%	
Debt Service Coverage... Year-End Budgetary Basis					
Indenture Basis (includes Available Fund Balance) (I) ≥ 1.35	N/A	29.44		24.70	
Current Basis (J) ≥ 1.10	25.89	6.20		7.24	

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2017-18 1st Quarter - Budgetary Basis, 5T AAA
(\$ Millions)

Revenue Variances

- A. Wholesale sales to irrigation districts down slightly from budget due to no excess energy sales to the irrigation districts (only Class 1 power sales) and lower-than-budgeted sales to Riverbank/Norris.
- B. Market sales of power and capacity to WSPP and CleanPowerSF have increased from budget, with \$1.5M of the variance coming from unbudgeted CleanPowerSF sales, and an additional \$400k of sales to WSPP over budget.
- C. Retail & Direct Pay revenues down slightly from budget, driven primarily by volume decreases from general fund and settlement customers.
- D. Retail power sales revenues projected to decrease from budget due to delays in the completion of redevelopment projects at Hunter's Point Shipyard, which have reduced the number of retail customers from projections.
- E. Water sales projected to decrease from budget due to Lawrence Livermore National Labs not purchasing water.

Expenditure Variances

- F. Salary savings due to vacant positions.
- G. Reflects a \$4.0 million contingency reserves including dry year/power price volatility for purchase of power.

Other Notes

- H. 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%.
- I. The Power Enterprise did not have any senior lien debt service prior to FY 2017-18 due to the 2015 Power Bonds' capitalized interest period, and therefore did not have a basis to calculate and report the indenture-based debt service coverage ratio in FY 2016-17. Beginning in FY 2017-18, indenture basis coverage is calculated as the ratio between (a) Total Sources plus Beginning Available Fund Balance, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs, Treasure Island, Gas & Steam, and Transbay Cable revenues), and (b) Senior Lien 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.
- J. Calculated as ratio between (a) Operating Sources plus Fund Balance as a Source, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs, Treasure Island, Gas & Steam, and Transbay Cable revenues), and (b) Senior and Subordinate Lien Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix D
CleanPowerSF
FY 2017-18 1st Quarter - Budgetary Basis, 5Q
(\$ Millions)

	FY 2016-17 Actuals	Original Budget	Revised Budget	Year-End Projection	Variance
Available Fund Balance as a Source	\$ 2.0	\$ -	\$ 1.0	\$ 9.3	\$ 8.3
Operating Sources					
Electric Sales - Green Product	33.4	39.8	39.8	39.8	-
Electric Sales - SuperGreen Product	0.2	0.4	0.4	0.4	-
Subtotal - Electric Revenues	33.6	40.2	40.2	40.2	(0.0)
Interest Income	0.1	-	-	-	-
Total Sources	33.7	40.2	40.2	40.2	(0.0)
Operating Uses					
Personnel	1.1	2.2	2.2	1.2	1.0 A
Overhead	1.1	1.5	1.5	1.5	-
Non Personnel Services	1.6	2.8	3.3	3.3	-
Power Purchases	22.0	25.0	25.0	25.0	-
Materials and Supplies	-	-	-	-	-
Services of Other Departments	0.7	1.2	1.6	1.6	-
Total Operating Uses	26.6	32.6	33.6	32.6	1.0
Debt Service	0.7	2.0	2.0	2.0	-
General Reserve	-	5.6	5.6	-	5.6 B
Total Uses	\$ 27.3	\$ 40.2	\$ 41.2	\$ 34.7	\$ 6.6
Net FY 2016-17 Results				\$ 6.6	
Available Fund Balance as of Fiscal Year-End	\$ 8.3			\$ 14.9*	

*Operating Reserve includes \$3.0M for Calpine Reserve Account

Sources

Uses

- A. Personnel savings is due to vacant positions.
- B. General Reserve was intentionally budgeted to go unspent to supplement fund balance reserves.

