



Date: September 25, 2018

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

Through: Harlan L. Kelly Jr., General Manager *HK*

From: Charles Perl, Acting CFO and AGM Business Services *CP*

Subject: SFPUC FY 2017-18 Year-End, Budgetary Report

Summary: Attached are the FY 2017-18 year-end budgetary reports for the three Enterprises and CleanPowerSF. Water, Wastewater and CleanPowerSF revenues are higher than budget; Power revenues were below budget. The table below summarizes high-level changes to revenues and expenses, with positive net revenues projected for all operations. Detail on the revenues and expenditures are provided in the narratives on the following pages and attached reports.

FY 2017-18 Year-End Operations (Millions)

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Revenue Surplus / (Shortfall)	Expenditure Savings / (Shortfall)	Surplus / (Shortfall)	General Reserve	Projected Year-End Available Fund Balance
Water	\$ 174.1	\$ (1.5)	\$ 47.7	\$ 3.8	\$ 51.5	\$ 1.6	\$ 225.7
Wastewater	144.7	-	10.4	29.7	40.1	16.9	201.7
Hetch Hetchy	56.8	(5.5)	(30.0)	30.8	0.8	0.8	52.7
CleanPowerSF	8.9	-	0.3	1.2	1.5	-	10.4

London Breed
Mayer

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Harlan L. Kelly, Jr.
General Manager

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.



Water Enterprise

- Higher Water Sales Revenue: Water sales revenue is \$38.5M higher than budget due to higher sales volumes; Retail revenue is higher than budget by \$8.5M (3.4%), and wholesale water sales revenues are higher than budget by \$30.0M (13.0%).
- Water sales volumes are 190.2 MGD which is higher than budget by 18.1 MGD (10.5%). Of this total, retail water sales volumes are 61.0 MGD, 3.1% higher than budget and wholesale water sales volumes are 129.2 MGD which is 16.2 MGD (14.3%) higher than budget.
- Other miscellaneous income is projected to be higher than budget by \$10.0M mainly due to a one-time legal settlement.
- Cost savings includes \$1.6M general reserve, \$1.3M water conservation grants and \$2.5M in chemicals.

Wastewater Enterprise

- Higher Wastewater Sales Revenue: Wastewater sales revenue is higher than budget by \$10.2M (3.4%). 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 49.9 MGD, 1.4 MGD or 2.9% higher than budget.
- Cost savings includes \$16.9M general reserve, \$25.7M savings in debt service, and \$4.0M in operating savings.

Hetch Hetchy Water & Power, including the Power Enterprise

- Lower Power Sales Revenue: Power sales revenue is below budget by \$21.2M. Power sales from City and non-City departments are \$8.2M lower due to lower power usage; power sales to the Western Systems Power Pool (WSPP) is \$4.6M lower than budget; power sales to the Irrigation Districts is \$9.9M lower than budget due to no excess energy sales to Turlock Irrigation District, and retail power sales \$1.5M higher than budget due to new customers.
- Cost savings of \$30.8M offsets lower power sales revenue and includes \$4.2M in salary and fringe benefit savings, \$18.0M Transmission Distribution savings, \$8.1M savings in gas, steam and power purchases and \$0.6M general reserve unspent.

CleanPowerSF

- Higher Power sales revenue: higher enrollment resulting in sales revenue \$0.3M higher than budget.
- Cost savings of \$1.2M includes: \$0.9M in personnel costs savings and \$0.3M in debt service savings.
- \$10.4M operating reserve includes \$3.0M in Calpine Reserve Account. Program reserve target projected to be met.

If you have questions, please contact me at (415) 487-5262.

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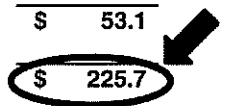
Attachments:

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 4th Quarter - Budgetary Basis, 5W AAA
 (\$ Millions)

	FY 2016-17 Actuals	FY 2017-18			Variance	
		Original Budget	Revised Budget	Pre-Audit Actuals		
Available Fund Balance as a Source	\$ 134.0	\$ 1.5	\$ 17.6	\$ 190.3	\$ 172.6	
Sources						
Retail Water Sales	221.6	237.0	237.0	244.9	7.9	A
Retail Water Sales - City Departments	10.8	11.2	11.2	11.8	0.6	B
Wholesale Water Sales	232.2	230.4	230.4	260.4	30.0	C
Interest Income	2.2	1.8	1.8	1.8	-	
Rental Income	9.2	13.1	13.1	12.3	(0.8)	D
Miscellaneous Income	21.1	15.2	15.2	25.2	10.0	E
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	547.8	47.7	
Operating Uses						
Personnel	86.1	93.5	91.6	91.6	-	
Non-Personnel Services	14.0	16.5	24.9	23.6	1.3	F
Materials and Supplies	11.9	13.6	17.5	15.0	2.5	G
Equipment	2.2	3.0	3.8	3.8	-	
Light, Heat, and Power	8.5	9.7	9.0	9.0	-	
Overhead (SFPUC Bureaus)	41.9	45.7	48.3	48.3	-	
Services of Other Departments	12.1	11.4	14.4	14.4	-	
Total Operating Uses	176.6	193.4	209.6	205.8	3.8	
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	H
Total Uses - Operating, Debt Service, Capital & Other	\$ 446.6	\$ 501.7	\$ 517.8	\$ 512.4	\$ 5.4	
Net FY 2017-18 Results					\$ 53.1	
Available Fund Balance as of Fiscal Year-End	\$ 174.1				\$ 225.7	
Available Fund Balance, % of Operating Uses (I) 25-68%	87.1%	80.0%		105.4%		
Debt Service Coverage (Year-End Budgetary Basis)						
Indenture Basis (includes Available Fund Balance) (J) ≥ 1.35	1.90	1.81		1.95		
Current Basis (K) ≥ 1.10	1.15	1.14		1.28		



Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2017-18 4th Quarter - Budgetary Basis, 5W AAA (\$ Millions)

Revenue Variances

- A. Retail water sales were 58.2 MGD, a 3.0% increase from budget of 56.5 MGD, and a 3.7% increase from prior year actuals of 56.1 MGD.
- B. City department water sales were 2.8 MGD, a 7.0% increase from budget of 2.6 MGD and a 3.3% increase from prior year actuals of 2.7 MGD.
- C. Wholesale water sales were 129.2 MGD, a 14.3% increase from budget of 113 MGD, and a 12.1% increase from prior year actuals of 115.2 MGD.
- D. Rental revenue decreased from budget due to a \$745K rent reduction for a property near Crystal Springs.
- E. Miscellaneous income increased from budget primarily due to \$8.25M in Pacific Rod and Gun Club settlement and sale of Sunol Property at Sheridan Road.

Expenditure Variances

- F. Participation in water grant conservation program lower than anticipated.
- G. Chemical usage less than projected.
- H. General reserve to go unspent to supplement reserves.

Other Notes

- I. 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%.
- J. 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.
- K. 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 4th 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	\$ -	\$ 27.1	\$ 171.8	\$ 144.7
Sources					
Sewer Service Charges	264.9	291.3	291.3	301.0	9.7 A
Sewer Service Charges - City Departments	6.3	6.7	6.7	7.2	0.5 B
Interest Income	1.5	1.5	1.5	1.5	-
Miscellaneous Income	3.9	3.8	3.8	4.0	0.2 C
Federal Bond Interest Subsidy	4.0	4.0	4.0	4.0	-
Total Sources	280.6	307.3	307.3	317.6	10.4
Operating Uses					
Personnel	65.1	70.2	69.8	66.0	3.9 D
Non-Personnel Services	14.2	17.1	22.7	22.7	-
City Grant Programs	0.1	0.3	0.3	0.2	0.1 E
Materials and Supplies	8.1	10.4	12.3	12.3	-
Equipment	0.9	0.9	1.6	1.6	-
Light, Heat, and Power	10.7	10.8	10.8	10.8	-
Overhead (SFPUC Bureaus)	26.3	28.7	30.6	30.6	-
Services of Other Departments	22.8	23.6	26.0	26.0	-
Total Operating Uses	148.2	161.9	174.1	170.2	4.0
Debt Service	52.3	76.2	76.2	50.5	25.7 F
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 G
Total Uses - Operating, Debt Service, Capital & Other	\$ 250.2	\$ 307.3	\$ 334.4	\$ 287.9	\$ 46.6
Net FY 2017-18 Results				\$ 57.0	
Available Fund Balance as of Fiscal Year-End	\$ 144.7			\$ 201.7	
Available Fund Balance, % of Operating Uses (H) 25-68%	93.0%	95.5%		122.1%	
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (I) ≥ 1.35	4.16	3.75		6.04	
Current Basis (J) ≥ 1.10	1.99	1.85		2.96	

Appendix B

**WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2017-18 4th Quarter - Budgetary Basis, 5C AAA
(\$ Millions)**

Revenue Variances

- A. Sewer service volumes were 48.7 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 volumes were 1.2 MGD, a 6.1% increase from budget of 1.1 MGD, and a 2.3% increase from prior year actuals of 1.2 MGD.
- C. Miscellaneous income increased slightly from budget due to \$619K in unbudgeted biofuel revenues, partially offset by a \$170K reduction in rental revenue.

Expenditure Variances

- D. Savings resulting from vacant positions.
- E. City Flood grants applications lower than projected.
- F. \$25.7M debt service variance resulting from capitalized interest on 2016AB wastewater bonds.
- G. General Reserve to go unspent to supplement reserves.

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. 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.
- J. 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 4th 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	\$ 16.4	\$ 67.7	\$ 51.3	
Sources						
Electric Sales - City Work Orders - General Fund Depts.	20.0	23.3	23.3	22.6	(0.7)	A
Electric Sales - City Work Orders - Enterprise Depts.	67.8	72.9	72.9	67.5	(5.3)	B
Electric Sales - Modesto & Turlock Irrigation Districts	9.0	12.9	12.9	3.0	(9.9)	C
Electric Sales - WSPP & CleanPowerSF	2.3	8.8	8.8	4.2	(4.6)	D
Electric Sales - Direct, Non-City Depts., SFUSD, Community College	18.3	20.8	20.8	18.5	(2.2)	E
Electric Sales - Retail	0.3	1.7	1.7	4.0	2.3	F
Electric Sales - Treasure Island	3.0	3.3	3.3	2.5	(0.8)	G
Subtotal - Electric Revenues	120.6	143.7	143.7	122.4	(21.2)	
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	0.8	(1.4)	H
Subtotal - Water Revenues	35.0	34.9	34.9	33.4	(1.4)	
Natural Gas & Steam - City Work Orders	10.6	11.3	16.1	9.7	(6.4)	I
Interest Income	1.6	1.3	1.3	1.3	-	
Federal Interest Subsidy - Power Bonds	0.5	0.6	0.6	0.6	-	
Miscellaneous Income	6.4	6.3	6.3	5.3	(1.0)	J
Total Sources	175.8	198.1	202.8	172.7	(30.0)	
Operating Uses						
Personnel	36.9	43.3	42.3	38.1	4.2	K
Non-Personnel Services	20.0	22.2	17.9	17.9	-	
Power Purchases	2.5	8.6	9.9	12.2	(2.3)	L
Transmission Distribution & Related Charges	18.4	35.7	46.0	28.0	18.0	M
Materials and Supplies	2.4	2.7	3.2	2.7	0.5	N
Equipment	1.2	0.4	0.8	0.8	-	
Overhead (SFPUC Bureaus)	14.3	16.0	17.5	17.5	-	
Services of Other Departments	6.6	7.4	8.4	8.4	-	
Natural Gas & Steam	10.6	11.3	16.1	9.7	6.4	O
Total Operating Uses	113.0	147.6	162.0	135.3	26.8	
Debt Service	2.3	4.8	4.8	4.8	-	
Capital Projects	36.8	33.0	33.0	33.0	-	
Facilities Maintenance/Programmatic	14.8	14.8	14.8	14.8	-	
Contingency/Purchase of Power	-	4.6	4.6	-	4.6	P
Total Uses - Operating, Debt Service, Capital & Other	\$ 166.9	\$ 204.8	\$ 219.3	\$ 187.9	\$ 31.4	
Net FY 2017-18 Results				\$ 1.4		
Available Fund Balance as of Fiscal Year-End	\$ 56.8			\$ 52.7		
Available Fund Balance, % of Operating Uses (Q) 25-68%	44.4%	34.4%		38.9%		
Debt Service Coverage... Year-End Budgetary Basis						
Indenture Basis (includes Available Fund Balance) (R) ≥ 1.35	N/A	31.54		28.18		
Current Basis (S) ≥ 1.10	25.89	7.32		10.40		

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS FY 2017-18 4th Quarter - Budgetary Basis, 5T AAA (\$ Millions)

Revenue Variances

- A. Lower sales due to lower load from Streetlight/General Hospital, Central Subway delay, and Asian Art Museum.
- B. Lower sales mainly from Airport, Water department and loss of revenue due to departure of Port tenant (BAE Systems - ship repair).
- C. Lower sales due to no TID Class 1 and excess energy sales, no MID Class 1 sales after December, and lower-than-budgeted sales to Riverbank due to tenant vacancy. Excess supplies are instead being sold to the CAISO market, and appear here as an offset to T&D Charges (see Note M).
- D. Lower sales primarily due to hydro facility maintenance work at Cherry Lake, resulting in less power available for sale. In addition the majority of excess supplies are being sold to the CAISO market instead of via 3rd party contracts (WSPP), and are represented as offsets in T&D Charges (see Note M).
- E. Primarily due to Academy of Science changing payment method from direct pay to work order and lower sales to SF Housing Authority.
- F. Increase due to new transfer customer Digital Realty beginning December 2017, partially offset by lower sales revenue from redevelopment projects due to slower build-out.
- G. Treasure Island utility sales decreased from budget due to lower gas and electric usage by TIDA customers.
- H. Water Sales lower than budget due to Lawrence Livermore National Labs not buying water for July-November; sales resumed in December, but did not buy water in March and June.
- I. Gas and steam sales are a pass-through, and have offsetting expense savings (see Note O).
- J. Miscellaneous revenue higher primarily due to \$430K over budget in Transbay Cable revenues, \$167K unbudgeted revenue from the sale of scrap and fixed assets, and \$105K unbudgeted payment from Rec & Park for installation of carbon monoxide detectors.

Expenditure Variances

- K. Savings resulting from vacant positions.
- L. Western System Power Pool (WSPP) purchase is higher due to lower generation from hydro facility maintenance work.
- M. Variance driven by closeout of prior year budget amount (~\$7M); higher energy sales to the CAISO market which offset expenses by a net ~\$9M; and an additional ~\$2M in net savings on distribution and CAISO charges.
- N. Savings from lower than anticipated spending.
- O. Gas & Steam savings are offset by revenue decrease (see Note I).
- P. General Reserve to go unspent to supplement reserves.

Other Notes

- Q. 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 25-33%.
- R. 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 in the amount of \$2.6M. 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.
- S. 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 Lien Debt Service in the amount of \$2.6M. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix D
CleanPowerSF
FY 2017-18 4th Quarter - Budgetary Basis, 5Q
(\$ Millions)

	FY 2016-17 Actuals	Original Budget	Revised Budget	Pre-Audit Actuals	Variance
Beginning Fund Balance as a Source	\$ 4.2	\$ -	\$ 0.8	\$ 9.7	\$ 8.9
Operating Sources					
Electric Sales - Green Product	31.0	39.8	39.8	40.0	0.2
Electric Sales - SuperGreen Product	0.2	0.4	0.4	0.5	0.1
Subtotal - Electric Revenues	31.2	40.2	40.2	40.5	0.3 A
Interest Income	0.1	-	-	-	-
Total Sources	31.3	40.2	40.2	40.5	0.3
Operating Uses					
Personnel	1.1	2.2	2.2	1.3	0.9 B
Overhead	1.1	1.5	1.5	1.5	-
Non Personnel Services	1.8	2.8	3.5	3.5	-
Power Purchases	21.9	25.0	30.3	30.3	-
Services of Other Departments	0.7	1.2	1.6	1.6	-
Total Operating Uses	26.6	32.7	39.0	38.1	0.9
Debt Service	-	2.0	2.0	1.7	0.3 C
General Reserve	-	5.6	-	-	-
Total Uses	\$ 26.6	\$ 40.3	\$ 41.1	\$ 39.8	\$ 1.2
Net FY 2017-18 Results				\$ 1.5	
Available Fund Balance as of Fiscal Year-End	\$ 8.9			\$ 10.4 *	
Beginning Fund Balance					

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

Sources

A. Revenues slightly above budget, due to increased loads from additional customers.

Uses

B. Savings resulting from vacant positions.

C. Resulting from credit agreement restrictions on loan repayment.