





Date: August 25, 2020

To: Commissioner Ann Moller Caen, President
 Commissioner Francesca Vietor, Vice President
 Commissioner Anson Moran
 Commissioner Sophie Maxwell
 Commissioner Tim Paulson

Through: Harlan L. Kelly Jr., General Manager 

From: Eric Sandler CFO and AGM Business Services 

Subject: SFPUC Year End Budgetary Report
 through June 30, 2020

The FY 2019-20 year end budgetary reports are attached for the three Enterprises and CleanPowerSF, with high-level changes to revenues and expenses summarized in the following table:

FY 2019-20 Operations

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Projected Sources	Projected Uses (excluding Capital & General Reserve)	Net Operating Results Surplus / (Shortfall)	General Reserve	Projected Year End Available Fund Balance
Water	\$ 231.1	\$ (17.2)	\$ 646.7	\$ 567.2	\$ 79.5	\$ -	\$ 293.2
Wastewater	\$ 210.5	\$ (3.5)	\$ 372.8	\$ 252.9	\$ 119.9	\$ -	\$ 326.9
Power	\$ 52.9	\$ (7.7)	\$ 222.9	\$ 196.0	\$ 26.9	\$ -	\$ 72.1
CleanPowerSF	\$ 8.3	\$ -	\$ 262.9	\$ 196.4	\$ 66.5	\$ 23.5	\$ 74.8

As reported in the Third Quarter report, the impact of the COVID-19 pandemic (“the pandemic”) on the SFPUC has been significant, with negative revenue impacts felt across each of the enterprises and CleanPowerSF, as reflected in this report.

Mid-year rebalancing cuts were put in place in May 2020 to mitigate these effects, which are also reflected in the above year-end results. These represent approximately \$40 million in reductions to the FY 2019-20 budget, and comprise approximately 50% capital and 50% operating expenditure cuts. These cuts did not impact service levels, and allowed the SFPUC to offset initial revenue impacts of the pandemic while

- London N. Breed**
Mayor
- Ann Moller Caen**
President
- Francesca Vietor**
Vice President
- Anson Moran**
Commissioner
- Sophie Maxwell**
Commissioner
- Tim Paulson**
Commissioner
- Harlan L. Kelly, Jr.**
General Manager



maintaining prudent levels of fund balance that can be used to mitigate any longer term financial disruptions.

Variance Report Summary:

- As a result of the budget rebalancing exercise each enterprise is projected to post positive operating results and to meet Commission policy targets at year-end.
- Non-residential Water and Wastewater sales are down from budget primarily due to the impact of the Shelter In Place order on commercial economic activity, but are offset by better than expected wholesale water sales, interest and miscellaneous income, savings in debt service, salaries and mid-year budget rebalancing reductions.
- Power revenues are \$20.1 million below budget primarily from retail, wholesale and municipal energy usage below forecast, the impact of the pandemic on key municipal customers such as SFO and MTA, and delays in transfer customer loads coming online. These losses are offset by better than expected interest income, savings of \$6.1 million for purchase of power and transmission and distribution costs, savings in non personnel services, as well as mid-year rebalancing reductions in the capital and operating budgets. In addition, a further \$16.2 million is shown in capital savings which was cut to meet the FY 2020-21 and FY 2021-22 budget reduction target, as described below.
- CleanPowerSF revenues are projected to be ahead of budget for the year despite lower commercial electric sales resulting from the pandemic. Salary savings, reduced purchase of power and mid-year cuts in the operating budget put the enterprise even further into a positive net operating position at year-end.

FY 2020-21 and FY2021-22 Budget Balancing

The SFPUC Financial Resiliency Team was formed in April to respond to the pandemic. Once the FY 2019-20 budget was rebalanced, attention turned to estimating the revenue shortfalls for the upcoming 2-year budget and reducing expenditures to rebalance. The 2-year budget was reduced by approximately \$136 million, including \$92 million of specific expenditure cuts, with the remainder balanced with citywide labor savings and use of reserves.

As part of the rebalancing cuts, Hetch Hetchy Water and Power closed out \$16.2 million of current capital appropriation to provide a funding source to meet a portion of the 2-year budget shortfall. These cuts will entail minimal service impact as work can be delayed and re-prioritized. These cuts are reflected in the year-end results for the enterprise.

The cuts put in place to rebalance the FY2019-20 budget across all enterprises, as well as the cuts to capital projects in Hetch Hetchy will be included in a citywide retroactive de-appropriation which will occur later this year to ensure the funds cannot be spent and will replenish SFPUC's reserves.

If you have questions, please contact me at esandler@sfgwater.org.

CC: Michael Carlin, Deputy General Manager, SFPUC
Juliet Ellis, AGM, External Affairs, SFPUC
Barbara Hale, AGM, Power Enterprise, SFPUC
Kathryn How, AGM, Infrastructure, SFPUC
Greg Norby, AGM, Wastewater Enterprise, SFPUC
Steve Ritchie, AGM, Water Enterprise, SFPUC
Ashley Groffenberger, Acting 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 2019-20 4th Quarter - Budgetary Basis, 5W AAA
 (\$ Millions)

	FY 2018-19 Actuals	FY 2019-20			Variance (Projection - Revised Budget)	
		Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)		
Sources						
Retail Water Sales	270.1	299.1	299.3	291.9	(7.3)	A
Wholesale Water Sales	255.8	264.9	264.9	270.6	5.6	B
Interest Income	4.6	2.2	2.2	8.7	6.4	C
Rental Income	12.7	13.0	13.0	13.0	-	
Miscellaneous Income	21.2	19.0	14.7	18.9	4.2	D
Departmental Transfer Adjustment	(33.6)	(34.5)	(34.5)	(34.5)	-	
Federal Bond Interest Subsidy	23.9	23.8	23.8	23.8	-	
Appropriated/Budgeted Use of Fund Balance	2.4	17.2	54.4	54.4	-	
Total Sources	557.1	604.7	637.8	646.7	8.9	
Operating Uses						
Personnel	94.0	102.8	100.8	95.6	5.2	E
Non-Personnel Services	17.7	18.3	26.2	25.0	1.2	F
Materials and Supplies	13.9	15.1	14.6	14.6	0.1	G
Equipment	3.5	4.1	8.6	8.6	-	
Light, Heat, and Power	9.5	10.2	10.2	10.2	-	
Overhead (SFPUC Bureaus)	38.7	49.3	54.4	53.2	1.2	H
Services of Other Departments	13.6	13.5	13.9	13.9	-	
Total Operating Uses	190.9	213.4	228.7	221.0	7.8	
Debt Service	283.7	306.3	306.3	291.1	15.1	I
Capital Projects	51.8	51.8	198.8	193.8	5.1	J
Facilities Maintenance/Programmatic	30.6	33.2	55.1	55.1	-	
General Reserve	-	-	-	-	-	
Total Uses - Operating, Debt Service, Capital & Other	\$ 557.1	\$ 604.7	\$ 788.9	\$ 761.0	\$ 28.0	
Net Operating Results (excludes Capital Projects)	51.9			\$ 36.9		
Available Fund Balance as of Fiscal Year-End	\$ 231.1			\$ 250.8		
Available Fund Balance, % of Operating Uses (K) 25-68%	104.3%			90.8%		
Debt Service Coverage (Year-End Budgetary Basis)						
Indenture Basis (includes Available Fund Balance) (L) ≥ 1.35	2.04	1.88			1.97	
Current Basis (M) ≥ 1.10	1.19	1.19			1.32	

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2019-20 4th Quarter - Budgetary Basis, 5W AAA (\$ Millions)

Revenue Variances

- A. Retail water sales were 59.3 MGD, a 1.1% decrease from budget of 60.0 MGD and flat from prior year actuals of 59.5 MGD, driven by decreased non-residential sales from the impact of the pandemic.
- B. Wholesale water sales were 131.8 MGD, a 1.4% increase from budget of 129.9 MGD and a 5.7% increase from prior year actuals of 125.0 MGD. \$3M in prior year minimum purchase revenue and higher-than-average usage during dry winter were the drivers.
- C. Interest income increased from budget due to higher interest rates, as well as higher-than- budgeted cash balances.
- D. Miscellaneous income increased from budget, primarily due to damage claims, misc fees, and sale of land.

Expenditure Variances

- E. Salary savings due to vacant positions.
- F. Savings reflect delays in customer rebate and incentive programs.
- G. Chemical usage less than projected.
- H. Savings are related to salary savings associated with bureau allocation.
- I. Debt Service savings due to issuance of 2019 Series ABC Water Revenue Refunding Bonds.
- J. Savings in capital projects are due to project closeout.

Other Notes

- K. 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%.
- L. 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 to be a minimum of 1.35 times.
- M. 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 2019-20 4th Quarter - Budgetary Basis, 5C AAA
 (\$ Millions)

	FY 2018-19 Actuals	FY 2019-20			Variance (Projection - Revised Budget)	
		Original Budget	Revised Budget (includes carryforwards)	Pre-Audit Actuals (includes carryforwards)		
Sources						
Sewer Service Charges	322.0	350.5	350.5	338.4	(12.1)	A
Interest Income	4.2	2.0	2.0	8.0	6.0	B
Miscellaneous Income	4.1	3.7	3.2	4.4	1.2	C
Federal Bond Interest Subsidy	4.0	4.0	4.0	4.0	-	
Appropriated/Budgeted Use of Fund Balance	-	3.5	18.0	18.0	-	
Total Sources	334.2	363.7	377.7	372.8	(4.9)	
Operating Uses						
Personnel	66.1	75.8	75.5	70.8	4.6	D
Non-Personnel Services	20.2	18.5	23.6	23.0	0.5	E
City Grant Programs	0.0	0.3	0.3	0.0	0.2	F
Materials and Supplies	9.7	11.2	11.1	10.1	1.0	G
Equipment	0.8	1.8	3.8	3.8	-	
Light, Heat, and Power	10.9	11.7	11.2	11.2	-	
Overhead (SFPUC Bureaus)	25.7	29.9	33.7	33.0	0.8	H
Services of Other Departments	23.7	23.6	25.0	25.0	-	
Total Operating Uses	157.2	172.7	184.2	177.0	7.2	
Debt Service	63.2	70.7	70.7	66.3	4.4	I
Capital Projects	57.0	113.0	85.0	74.9	10.2	J
Facilities Maintenance/Programmatic	6.5	7.3	10.4	9.6	0.8	K
Total Uses - Operating, Debt Service, Capital & Other	\$ 283.8	\$ 363.7	\$ 350.3	\$ 327.8	\$ 22.5	
Net Operating Results	107.4			\$ 17.5		
Available Fund Balance as of Fiscal Year-End	\$ 210.5			224.6		
Available Fund Balance, % of Operating Uses (L) 25-68%	128.6%			120.4%		
Debt Service Coverage (Year-End Budgetary Basis)						
Indenture Basis (includes Available Fund Balance) (M) ≥ 1.35	4.20	5.88			6.06	
Current Basis (N) ≥ 1.10	2.49	2.86			3.00	

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2019-20 4th Quarter - Budgetary Basis, 5C AAA (\$ Millions)

Revenue Variances

- A. Wastewater billable volumes were 48.5 MGD, a 2.1% decrease from budget of 49.5 MGD and a 2.3% decrease from prior year actuals of 49.6 MGD.
- B. Interest income increased from budget due to higher interest rates, as well as higher-than-budgeted cash balances.
- C. Miscellaneous income increased from budget due to increase in miscellaneous fees and claims.

Expenditure Variances

- D. Salary savings resulting from vacant positions.
- E. Savings reflect unanticipated delays in contractual services.
- F. Savings related to lower than anticipated grant requests for flood mitigation.
- G. Savings reflect lower chemical usage during the year due to a relatively dry winter.
- H. Savings related to salary savings associated with bureau allocation.
- I. Savings primarily due to lower than projected debt service from the postponement of debt issuance.
- J. Savings resulting from project closeout.
- K. Savings in programmatic projects due to close out of non-critical projects.

Other Notes

- L. 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%.
- M. 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.
- N. 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 2019-20 4th Quarter - Budgetary Basis, 5T AAA
 (\$ Millions)

	FY 2019-20				Variance (Projection - Revised Budget)	
	FY 2018-19 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)		
Sources						
Electric Sales - City Work Orders - General Fund Depts.	24.6	27.8	27.8	24.9	(2.9)	A
Electric Sales - City Work Orders - Enterprise Depts.	73.2	78.5	78.5	74.8	(3.7)	B
Electric Sales - Wholesale (Districts, CAISO, CleanPowerSF, WSPP, Riverbank)	16.5	21.6	21.6	15.9	(5.8)	C
Electric Sales - Non-City Depts. (SFUSD, Community College)	18.8	20.4	20.4	17.4	(3.0)	D
Electric Sales - Retail	8.7	14.3	14.3	9.0	(5.3)	E
Electric Sales - Treasure Island	3.2	3.6	3.6	2.5	(1.1)	F
Subtotal - Electric Revenues	144.8	166.2	166.2	144.5	(21.7)	
Water Sales - Transfer from Water Department	33.6	34.6	34.6	34.6	-	
Water Sales - Groveland, Lawrence Livermore Labs	0.3	2.9	2.9	0.2	(2.7)	G
Subtotal - Water Revenues	33.9	37.5	37.5	34.8	(2.7)	
Natural Gas & Steam - City Work Orders	12.1	10.9	12.8	10.8	(2.1)	H
Interest Income	4.7	0.6	0.6	5.6	5.0	I
Federal Interest Subsidy - Power Bonds	0.6	0.5	0.5	0.5	-	
Miscellaneous Income	7.3	4.6	1.5	2.9	1.4	J
Appropriated/Budgeted Use of Fund Balance	28.2	7.7	23.8	23.8	-	
Total Sources	235.8	228.1	243.0	222.9	(20.1)	
Operating Uses						
Personnel	41.9	48.3	46.1	44.9	1.1	K
Non-Personnel Services	33.9	27.3	35.3	33.7	1.6	L
Power Purchases and Transmission Distribution & Related Charges	53.8	50.8	51.7	51.7	-	
Materials and Supplies	3.1	3.2	3.2	3.2	-	
Equipment	1.5	1.3	2.8	2.8	-	
Overhead (SFPUC Bureaus)	17.1	16.6	18.2	17.7	0.5	M
Services of Other Departments	7.8	8.3	9.8	8.5	1.4	N
Natural Gas & Steam	12.1	10.9	12.8	10.8	2.1	O
Total Operating Uses	171.1	166.6	180.0	173.4	6.6	
Debt Service	4.8	6.0	6.0	4.7	1.3	P
Capital Projects	187.8	38.5	180.1	152.9	27.3	Q
Facilities Maintenance/Programmatic	30.6	13.0	17.8	17.8	-	
Contingency/Purchase of Power	-	4.0	4.0	-	4.0	R
Total Uses - Operating, Debt Service, Capital & Other	\$ 394.3	228.1	\$ 387.9	\$ 348.8	\$ 39.1	
Net Operating Results	\$ 29.2			\$ 3.2	\$ 19.0	
Available Fund Balance as of Fiscal Year-End	\$ 52.9				64.2	
Available Fund Balance, % of Operating Uses (S) 25-68%	32.8%				42.0%	
Debt Service Coverage... Year-End Budgetary Basis						
Indenture Basis (includes Available Fund Balance) (T) ≥ 1.35	27.64	37.33			23.56	
Current Basis (U) ≥ 1.10	15.49	8.45			12.21	

Revenue Variances

- A.** Sales lower than budget mainly due to load reduction due to pandemic and partly due to streetlight volume decreases from LED conversion.
- B.** Sales lower than budget mainly due to load reduction due to pandemic and partly due to SFO load 1.4% lower than budget during the first half of the year. Decreases are partially offset by a higher than expected PG&E rate increase.
- C.** Sales below budget mainly driven by \$4.2M lower irrigation district transmission cost recovery and \$5.7M lower market sales, partly offset by \$2.8M energy sales to MID during Warnerville substation shutdown.
- D.** Lower sales mainly due to lower than expected customer loads related to pandemic.
- E.** Lower sales mainly driven by delays in transferring customer accounts, and delayed load from redevelopment customers.
- F.** Treasure Island utility sales decreased from budget due to lower gas and electric usage by TIDA customers.
- G.** Water sales below budget due to Lawrence Livermore National Labs no longer purchasing water.
- H.** Gas and steam sales slightly below budget due to lower usage than originally projected.
- I.** Interest income projected to increase from budget due to higher interest rates, as well as higher cash balances than budgeted.
- J.** Misc income projected to increase from budget primarily due to Rim Fire insurance payments.

Expenditure Variances

- K.** Salary savings due to vacant positions.
- L.** Savings in professional services due to deferral of engineering consultant contracts as well as business plan implementation
- M.** Savings are related to salary savings associated with bureau allocation.
- N.** Savings in City Attorney workorder consistent with historical savings.
- O.** Savings due to lower usage of of gas and steam.
- P.** Debt service savings due to delayed power bond sale.
- Q.** Savings due to project closeout and deferral of non-critical projects.
- R.** Contingency reserve for dry year/power price volatility for purchase of power unspent.

Other Notes

- S.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Power Operating Uses plus Power Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- T.** 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.
- U.** 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 2019-20 4th Quarter - Budgetary Basis, 5Q
(\$ Millions)

	FY 2019-20				
	FY 2018-19 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (includes carryforwards)	Variance (Projection - Revised Budget)
Operating Sources					
Electric Sales - Green Product	159.6	207.3	216.4	231.2	14.8 A
Electric Sales - SuperGreen Product	7.5	4.7	4.7	11.9	7.1 B
Wholesale Sales	2.9	-	-	-	-
Subtotal - Electric Revenues	170.0	212.1	221.1	243.1	21.9
Interest Income	0.5	0.8	0.8	1.0	0.2 C
Appropriated/Budgeted Use of Fund Balance		-	18.9	18.9	-
Total Sources	170.5	212.9	240.8	262.9	22.1
Operating Uses					
Personnel	1.9	6.6	6.6	3.0	3.6 D
Overhead	2.0	2.1	2.2	2.1	0.1 E
Non Personnel Services	7.7	12.5	12.0	11.4	0.6 F
Materials & Supplies	0.1	0.2	0.2	0.0	0.2 G
Power Purchases	122.6	164.6	183.9	174.4	9.5 H
Services of Other Departments	2.6	3.1	3.1	3.1	-
Total Operating Uses	137.0	189.2	208.0	194.1	13.9
Debt Service	2.0	-	2.0	2.0	-
Programmatic	0.1	0.3	0.3	0.3	-
General Reserve	-	23.5	23.5	-	23.5 I
Total Uses - Operating, Debt Service, Capital & Other	\$ 139.1	\$ 212.9	\$ 233.8	\$ 196.4	\$ 37.5
Net FY 2019-20 Operating Results	\$ 31.4			\$ 36.1	
Available Fund Balance as of Fiscal Year-End	\$ 8.3			61.2	

Revenue Variances

- A.** Electric sales are greater than budget due to higher sales volume and rates than budgeted.
- B.** Electric sales are greater than budget due to higher sales volume and rates than budgeted.
- C.** Interest income is above budget mainly from higher interest rates.

Expenditure Variances

- D.** Salary savings due to vacant positions.
- E.** Savings are related to bureau position vacancy salary savings.
- F.** Savings mainly from budgeted contract work being performed internally.
- G.** Savings are due to 544 Golden Gate improvements deferred to future years.
- H.** Savings are due to conservative assumptions in revised budget.
- I.** General Reserve was intentionally budgeted and planned to go unspent to build reserves.