

FUND BALANCE RESERVE POLICY

The San Francisco Charter Section 8B.125 requires the SFPUC to be a financial steward by establishing “rates, fees and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures... and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice.” To most effectively meet this requirement, the SFPUC will utilize financial policies that foster financial stability, support fiscal discipline, and maintain credit ratings at or above levels equivalent to highly rated utilities. Institutionalized policies signal to rating agencies and the capital markets that an entity is well managed and committed to prudent financial practices.

The SFPUC faces a number of risks to revenue stability, including multi-year rate packages, drought and weather variability, and highly volumetric rates. To manage these risks and reduce susceptibility to emergency rate increases, the SFPUC will ensure adequate ratepayer protection in the form of a Fund Balance Reserve. For each enterprise, the SFPUC will adopt budgets and establish rates to maintain undesignated fund balances that provide sufficient capacity to bridge shortfalls in cash flow and cover unanticipated expenditures, while also considering ratepayer impact and fairness in compliance with the San Francisco Charter.

Specifically, for the time period covered in the SFPUC's Charter-mandated 10-Year Financial Plan, operating and capital budgets and rates will be proposed for adoption such that the Fund Balance Reserve totals **a minimum of 90 days or 25% of Operations & Maintenance Expenses** (including programmatic projects, and excluding debt service and revenue-funded capital) throughout the forecast period. Amounts in excess of the minimum will be considered for contingencies and rate stabilization.

In the event that Fund Balance Reserve exceeds 250 days or 68% of Operations & Maintenance Expenses, this fact will be brought to the Commission during the subsequent biannual budget process for consideration for uses, including:

- The reduction of future customer rate increases,
- Management of unanticipated one-time events (such as an earthquake or disaster), or any ongoing impairment to revenues (such as a drought or economic downturn), or
- Revenue-funded capital projects, which will reduce projected future debt issuance.

To monitor compliance with this policy, SFPUC Finance staff will present this metric to the Commission as part of the annual 10-Year Financial Plan and Quarterly Budget Status Report.