

Services of the San Francisco Public Utilities Commission

1st Quarter Budget Update

November 08, 2011 Frances Lee Deputy CFO



Key Budgetary Variances

Water Use & Sales Lower than assumed in Budget

• Retail \$\frac{1}{2}\$.2%, Wholesale \$\frac{1}{2}\$.6% thru September, vs. Prior Year

Water & Wastewater Sources Under Budget

- Sources Under Budget ... lower water demand
- Uses Savings, partially offsets lower Water revenue
- Uses Savings, <u>fully offsets</u> lower Wastewater revenue

Power Enterprise

- • Sources neutral... CREBs Funding ↓, Power Sales ↑
- Uses Savings ... Power Purchases lower, CAISO charges lower



Water Power Sewer Current Year Projected vs. Prior Year End

\$Millions

	Prior Year End	1 st Qtr
Water	\$ 22.4	\$ 18.4
Wastewater	\$ 41.0	\$ 48.4
Hetch Hetchy	\$ 88.4	\$ 76.9

Key Reserve Ratios

Fund Balance Reserves meet one or more

	Water	Wastewater	Hetchy/Power
 15% of Annual Revenues 		$\overline{\mathbf{V}}$	V
 15% of Annual Expenses 			V
• 1.25 Debt Service Coverage Ratio	V	$\overline{\checkmark}$	$\overline{\checkmark}$

Debt Service Coverage, exceeds 1.25 times requirement

- Indenture Basis ... includes *current year* results & fund balance
- Current Basis ... includes only current year results



Questions



San Francisco **Public Utilities Commission FINANCIAL SERVICES** 1155 Market St., 5th Floor San Francisco, CA 94103



MEMORANDUM

DATE:

OCTOBER 28, 2011

TO:

ANSON B. MORAN, PRESIDENT ART TORRES, VICE PRESIDENT ANN MOLLER CAEN, COMMISSIONER FRANCESCA VIETOR, COMMISSIONER VINCE COURTNEY, COMMISSIONER

THROUGH: ED HARRINGTON, GENERAL MANAGER, SFP

FROM:

TODD L. RYDSTROM, AGM BUSINESS SERVICES & CFO 11R

CC:

MIKE CARLIN, DEPUTY GENERAL MANAGER, SFPUC JULIET ELLIS, AGM, EXTERNAL AFFAIRS, SFPUC

BARBARA HALE, AGM, POWER, SFPUC

HARLAN KELLY JR., AGM, INFRASTRUCTURE, SFPUC TOMMY MOALA, AGM, WASTEWATER, SFPUC

STEVE RITCHIE, AGM, WATER, SFPUC

RICK WILSON, BUDGET DIRECTOR, MAYOR'S OFFICE

BEN ROSENFIELD, CONTROLLER

SUBJECT: SFPUC FIRST QUARTER BUDGETARY STATUS REPORT FY 2011-2012

Enclosed are the first quarter budgetary reports for the three Enterprises' annual operating budgets for FY 2011-12. Revenues for the Water and Wastewater Enterprises are projected lower than budget due to lower water consumption. Expenditure savings offset Wastewater's revenue shortfall and partially offset Water's revenue shortfall. Hetch Hetchy revenues overall are projected within budget and expenditure savings are projected. Water is projected to have a net operating shortfall for the current fiscal year due to revenue weakness. Both Wastewater and Hetch Hetchy are projected to have a net operating surplus for the fiscal year due to expenditure savings. All debt service coverage requirements continue to be met, and reserves are projected to result, albeit at lower levels than previously planned for the Water Enterprise in particular.

Beginning Fund						Curr	Projected Year End					
A 2	Av	ailable Fund alance	Balance Budgeted to be (Used)		Revenue Surplus / (Shortfall)		Sav	enditure rings / ortfall)	urplus hortfall)	Available Fund		
Water	\$	22.4	\$	-	\$	(13.0)	\$	9.0	\$ (4.0)	\$	18.4	
Wastewater	\$	41.0	\$	-	\$	(4.8)	\$	12.2	\$ 7.4	\$	48.4	
Hetch Hetchy	\$	88.4	\$	(21.2)	\$	0.0	\$	9.8	\$ 9.8	\$	76.9	

W:\/FINANCE\DATA\BUDGET OFERATING\Quarterly Variance Rpts\\Qtrly Rpts FY2012\Commission Rpts\\Q1 Com Rpts\\Q1 Tranmittal Letter.REVISED 11.03.11:

If you have questions, please contact me at (415) 554-3155 at your earliest convenience.

Appendix A Water Enterprise Appendix B Wastewater Enterprise Appendix C Hetch Hetchy Water & Power, including the Power Enterprise

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5W AAA (\$ Millions)

			FY 2011-12								
		2010-11 ctuals	Original Budget		Revised Budget		Drainatad		Variance	•	
Available Fund Balance as a Source	\$	6.0	\$	0.0	\$	62.9	\$	85.2	\$ 2	2.4	
Revenue											
Retail Water Sales		133.2		149.6		149.6		144.6	(5	5.0)	Α
Retail Water Sales - In-City Departments		4.6		5.6		5.6		4.7	((0.9)	В
Wholesale Water Sales Revenue		135.3		184.0		184.0		174.5	(9	9.5)	С
nterest Income		0.9		1.7		1.7		0.6	(*	.1)	D
Rental Income		9.4		9.3		9.3		9.3		-	
ederal Interest Subsidy		17.7		26.0		26.0		26.0		-	
Proceeds from Debt		-		19.4		33.5		33.5		-	
liscellaneous Revenues		10.2		8.1		9.8		13.3		3.5	Е
Departmental Transfer Adjustment		-		(30.6)		(30.6)		(30.6)		-	
otal Operating Revenue		311.3		373.1		388.9		375.9	(13	3.0)	
perating Expenses											
ersonnel		72.6		76.8		75.9		74.0		1.9	F
Ion-Personal Services		14.3		16.6		40.4		40.4		-	
laterials and Supplies		12.5		12.5		12.8		12.8		-	
quipment		0.8		1.8		3.9		3.9		-	
ight, Heat and Power		6.5		6.7		6.7		6.9	(().2)	G
Overhead (SFPUC Bureaus) & COWCAP		35.9		40.8		43.1		43.1	`	,	
ervices of Other Departments		6.6		9.3		12.0		12.0		_	
otal Operating Expenses		149.1		164.6		194.8		193.1		1.7	
ebt Service		98.3		157.3		157.3		154.3		3.0	Н
apital Projects		42.7		34.7		75.4		75.4		-	
acilities Maintenance/Programmatic		4.8		12.2		20.0		20.0		-	
General Reserve		-		4.3		4.3		-		4.3	ı
otal Uses	\$	294.8	\$	373.1	\$	451.8	\$	442.8	\$	9.0	
let FY 2011-12 Results								-	\$ (4	l.0)	
vailable Fund Balance as of Fiscal Year End	\$	22.4						Ċ	\$ 1	8.4	\ ¹
vailable Fund Balance Reserves as a % of (J)											
Total Operating Revenues		7.2%		5.5%				4.5%			
Total Uses (excl. General Reserve)		7.6%		6.1%				4.1%			
Total Operating Expenses		15.0%		13.6%				9.5%			
Debt Service Coverage Year End Budgetary Basis											
Indenture Basis (includes Available Fund Balance)		1.88		1.65				1.34			
Current Basis		1.65		1.42				1.20			

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5W AAA (\$ Millions)

Revenue Variances

- **A.** Retail water deliveries averaging 5.2% fiscal YTD below prior year, resulting in lower revenues. This projection assumes a slowing of that decline, i.e. a 3.3% shortfall for the entire fiscal year.
- B. Lower water consumption by municipal departments resulting in lower revenues.
- **C.** Wholesale water deliveries are 9.6% YTD below prior year, resulting in lower revenues. This projection assumes a slowing of that decline, i.e. a 5.2% shortfall for the entire fiscal year.
- D. Lower interest revenues projected due to lower interest yields than assumed in the budget.
- **E.** Higher non-operating revenues resulting from payments from two wholesale customers currently projected to not meet FY 2011-12 minimum purchase quantities.

Expenditure Variances

- **F.** Savings in salaries due to vacant positions and corresponding fringe benefits.
- **G.** The projected shortfall reflects more pumping at Crystal Springs, Sunol, and Harry Tracy plants and the addition of the Tesla Portal Disinfection facility load.
- **H.** Borrowing cost projection lower.
- I. General Reserve was intentionally budgeted to go unspent and build up fund balance reserves.

Other Notes

J. GFOA Recommended Best Practice is at least 5-15% of revenues or 1-2 months of expenditures.

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5C AAA (\$ Millions)

	(Ψ	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,										
				FY 2011-12								
Available Fund Balance as a Source		2010-11 ctuals	Original Budget		Revised Budget		Pro	jected	Variance			
		18.8	\$	-	\$	26.5	\$	67.5	\$	41.0		
Revenue												
Sewer Service Charge		219.5		224.8		224.8		221.8		(3.0)		
Sewer Service Charges City Departments		4.9		6.0		6.0		4.8		(1.2)		
Federal Interest Subsidy		3.3		4.3		4.3		4.3		-		
Proceeds from Debt		-		3.3		3.3		3.3		-		
Interest Income		8.0		1.5		1.5		0.9		(0.6)		
Other Miscellaneous Income		1.8		1.7		1.7		1.7		_		
Total Operating Revenue		230.3		241.6		241.6		236.8		(4.8)		
Operating Expenses												
Personnel		54.7		58.2		58.2		55.2		3.0		
Non-Personal Services		12.3		14.6		16.5		16.5		-		
Materials and Supplies		7.8		9.4		10.6		10.6		-		
Equipment		2.1		1.3		2.9		2.9		-		
Light, Heat, and Power		9.0		10.1		10.1		10.1		-		
Overhead (SFPUC Bureaus) & COWCAP		21.4		25.9		28.7		28.7		-		
Services of Other Departments		22.3		22.1		23.4		23.4		-		
Total Operating Expenses		129.6		141.6		150.4		147.4		3.0		
Debt Service		61.4		53.8		53.8		53.8		-		
Capital Projects		14.6		33.9		50.4		50.4		-		
Facilities Maintenance/Programmatic		2.5		3.2		4.4		4.4		-		
General Reserve				9.2		9.2		-		9.2		
Total Uses	\$	208.1	\$	241.6	\$	268.2	\$	256.0	\$	12.2		
Net FY 2011-12 Results								-	\$	7.4		
Available Fund Balance as of Fiscal Year End	\$	41.0						-	(\$	48.4		
Available Fund Delence December on a 0/ of (F)												
Available Fund Balance Reserves as a % of (F)		47.00/		20.007				20.40/				
Total Uses (evel Conord Record)		17.8% 19.7%		20.8% 21.6%				20.4% 18.9%				
Total Uses (excl. General Reserve) Total Operating Expenses		31.7%		21.6% 35.5%				32.8%				
		31.170		33.3%				32.0%				
Debt Service Coverage Year End Budgetary Basic	S	0.04		0.70				2.50				
Indenture Basis (includes Available Fund Balance)		2.31		2.73				2.50				

1.64

1.97

1.66

Current Basis

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5C AAA (\$ Millions)

Revenue Variances

- **A.** Sewer service charges are lower due to a decline in water deliveries. Retail water deliveries averaging 5.2% fiscal YTD below prior year.
- **B.** Sewer service charges for City departments are lower due to a decline in water deliveries.
- C. Interest Income is lower due to lower pooled interest earnings at the City Treasury.

Expenditure Variances

- **D.** The surplus reflects position vacancies.
- **E.** General Reserve was intentionally budgeted to go unspent and supplements fund balance reserves.

Other Notes

F. GFOA Recommended Best Practice is at least 5-15% of revenues or 1-2 months of expenditures.

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5T AAA (\$ Millions)

	(\$ IVIII	lions)	FY 2011-12									
		2010-11 ctuals		iginal udget		evised udget	Pro	ojected	Varia	nce		
Available Fund Balance as a Source	\$	54.3	\$	21.2	\$	173.0	\$	240.2	\$	67.2		
Revenue												
Electric Sales - City Work Orders - General Fund Depts.		8.7		10.2		10.2		10.1		(0.1) A		
Electric Sales - City Work Orders - Enterprise Depts.		54.9		57.4		57.4		56.9		(0.5) B		
Electric Sales - Modesto & Turlock Irrigation Districts, WSPF)	26.9		16.6		16.6		20.2		3.6 C		
Electric Sales - Direct, Non-City Depts. (Housing Authority	.)	15.2		16.9		16.9		16.8		(0.1) D		
Electric Sales - Treasure Island		2.0		2.3		2.3		2.3		-		
Subtotal - Electric Sales		107.8		103.4		103.4		106.3		2.8		
Vater Sales - Transfer to Water Department		29.7		30.6		30.6		30.6		-		
Vater Sales - Groveland, Lawrence Livermore Labs		1.6		1.5		1.5		1.6		0.1 E		
latural Gas & Steam - City Work Orders		10.5		11.9		11.9		11.4		(0.5) F		
nterest Income		1.9		2.7		2.7		1.9		(0.8) G		
Proceeds from Debt		13.6		24.1		24.1		22.4		(1.7) H		
Other Miscellaneous Income		4.2		8.4		8.4		8.4		_		
otal Operating Revenue		169.4		182.6		182.6		182.6		0.0		
perating Expenses												
Personnel		30.4		33.4		33.4		32.5		0.9 I		
Ion-Personal Services		17.1		20.9		24.9		24.9		-		
Power Purchases		1.2		11.7		11.7		8.8		2.8 J		
ransmission Fees		18.0		19.4		19.4		19.0		0.4 K		
Materials and Supplies		2.5		2.7		3.0		3.0		-		
Equipment		1.2		0.9		2.4		2.4		_		
Overhead (SFPUC Bureaus)		9.7		2.4		2.4		2.4		-		
Services of Other Departments		4.4		17.5		19.0		19.0		-		
latural Gas & Steam		10.5		11.9		11.9		11.4		0.5 L		
otal Operating Expenses		95.1		120.8		128.1		123.4		4.6		
Debt Service		0.4		1.8		1.8		0.7		1.1 M		
Capital Projects		36.8		70.7		215.2		215.2		-		
acilities Maintenance/Programmatic		3.0		6.6		6.6		6.6		_		
General Reserve Contingency		-		4.0		4.0		-		4.0 N		
otal Uses	\$	135.3	\$	203.9	\$	355.7	\$	345.9	\$	9.8		
let FY 2011-12 Results								-	\$	9.8		
vailable Fund Balance as of Fiscal Year End	\$	88.4						ž	\$	76.9		
	•							•				
vailable Fund Balance Reserves as a % of (O)		ED 20/		36.00/				40.40/				
Total Operating Revenues		52.2%		36.8%				42.1%				
Total Uses (excl. General Reserve)		65.3%		33.6%				22.2%				
Total Operating Expenses	,	93.0%		55.6%				62.3%				
Debt Service Coverage Year End Budgetary Basis												
Indenture Basis (includes Available Fund Balance)		353.5		56.9				162.5				
Current Basis		143.8		22.6				52.6				

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS FY 2011-12 1st Quarter - Budgetary Basis, 5T AAA (\$ Millions)

Revenue Variances

- A. Power revenues are projected below budget due to lower usage.
- B. Power revenues are projected below budget primarily due to lower usage at the Airport.
- **C.** Higher than planned Western System Power Pool (WSPP) power revenues due to later than normal snow melt, and additional power generation.
- **D.** Power revenues are projected below budget due to lower usage.
- **E.** Higher than planned power revenues due to Groveland rate increase.
- F. Lower than planned gas and steam usage resulting in lower revenues.
- G. Lower interest revenues projected due to lower cash balance, and low pooled interest rates at the City Treasury.
- **H.** Clean Renewable Energy Bonds (CREBs) financing is no longer expected due to non-renewal of program by Congress.

Expenditure Variances

- I. Salaries surplus is due to vacant positions in Hetchy Water.
- J. Savings of \$2.8 million include the following: \$2.1 million in savings in power procurement due to adequate supply from Hetchy hydro-generation, \$0.3 million surplus due to lower than anticipated California Independent System Operator (CAISO) charges for Local Capacity Requirements, and \$0.4 million in savings due to lower than anticipated generation from the Sunset Reservoir Solar project.
- K. CAISO control area charges slightly less than anticipated as well as less reliance on APX consulting services.
- L. Lower than planned gas and steam usage resulting in lower costs.
- M. Debt service savings due to delayed CREBs bond sales for power-related projects.
- **N.** Intentionally budgeted as an available reserve and dry year/power price volatility contingency, if unused, builds up fund balance reserves.

Other Notes

O. GFOA Recommended Best Practice is at least 5-15% of revenues or 1-2 months of expenditures.