San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission

3rd Quarter Budget Update

May 22, 2012

Todd L. Rydstrom
AGM Business Services & CFO

Key Budgetary Variances

Water Use & Sales Lower than assumed in Budget

- Retail ↓ 1.8%, Wholesale ↓ 2.2% thru March, vs. Prior Year

Water

↑ • Sources Better…property sale offsets lower water demand

↑ • Uses Savings…debt service lower, general reserve

Wastewater

— • Sources, at budget

↑ • Uses Savings

Power Enterprise

↓ • Sources below budget… CREBs Funding, Power Sales

↑ • Uses Savings … Power Purchases lower, CAISO charges lower

Current Year Projected vs. Prior Year End

$Millions

	Prior Year End	3rd Qtr
Water	22.4	33.6
Wastewater	41.0	52.9
Hetch Hetchy	88.4	66.4

Key Reserve Ratios

Fund Balance Reserves meet one or more

	Water	Wastewater	Hetchy/Power
• 15% of Annual Revenues	☐	☑	☑
• 15% of Annual Expenses	☑	☑	☑
• 1.25 Debt Service Coverage Ratio	☑	☑	☑

Debt Service Coverage, exceeds 1.25 times requirement

- Indenture Basis … includes *current year* results & fund balance
- Current Basis … includes <u>only</u> *current year results*

Questions

San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission

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

MEMORANDUM

DATE: **APRIL 16, 2012**

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

THROUGH: ED HARRINGTON, GENERAL MANAGER, SFPUC

FROM: TODD L. RYDSTROM, AGM BUSINESS SERVICES & CFO

CC: MICHAEL 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
KATE HOWARD, BUDGET DIRECTOR, MAYOR'S OFFICE
BEN ROSENFIELD, CONTROLLER

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

Enclosed are the third quarter budgetary reports for the three Enterprises' annual operating budgets for FY 2011-12. Water revenues are slightly higher than budget primarily from property sales; however, water sales are still below budget. Revenues for the Wastewater Enterprise are projected at budget. Hetchy revenues are projected below budget due to lower power sales to City departments, Western System Power Pool and Irrigation Districts due to dry year conditions and the elimination of the Clean Renewable Energy Bonds. Wastewater and Water are projected to have a net operating surplus at the end of the fiscal year. Hetchy is projected to have a net operating shortfall for the current fiscal year due to revenue weakness. All debt service coverage requirements continue to be met, and reserve ratios are adequate.

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Current Year Operations: Revenue Surplus / (Shortfall)	Current Year Operations: Expenditure Savings / (Shortfall)	Current Year Operations: Surplus / (Shortfall)	Projected Year End Available Fund Balance
Water	$ 22.4	$ -	$ 1.3	$ 9.9	$ 11.2	$ 33.6
Wastewater	$ 41.0	$ -	$ 0	$ 11.9	$ 11.9	$ 52.9
Hetch Hetchy	$ 88.4	$ (21.2)	$ (16.0)	$ 15.2	$ (0.8)	$ 66.4

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

W:\FINANCE\DATA\BUDGET OPERATING\Quarterly Variance Rpts\Qrtly Rpts FY2012\Commission Rpts\Q3 Com Rpts\Q3 FY 2011-2012 MEMO.doc

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2011-12 3rd Quarter - Budgetary Basis, 5W AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	Original Budget	Revised Budget	Projected	Variance	
Available Fund Balance as a Source	**$ 6.0**	**$ 0.0**	**$ 62.9**	**$ 85.2**	**$ 22.4**	
Sources						
Retail Water Sales	133.2	149.6	149.6	147.3	(2.3)	**A**
Retail Water Sales - In-City Departments	4.6	5.6	5.6	4.5	(1.1)	**B**
Wholesale Water Sales Revenue	135.3	184.0	184.0	182.7	(1.3)	**C**
Interest Income	0.9	1.7	1.7	0.5	(1.2)	**D**
Rental Income	9.4	9.3	9.3	10.0	0.7	**E**
Miscellaneous Revenues	10.2	8.1	9.8	16.3	6.5	**F**
Departmental Transfer Adjustment	-	(30.6)	(30.6)	(30.6)	-	
Total Operating Sources	**293.6**	**327.7**	**329.4**	**330.7**	**1.3**	
Proceeds from Debt	-	19.4	33.5	33.5	-	
Federal Interest Subsidy	17.7	26.0	26.0	26.0	-	
Total Bond Proceeds & Interest Subsidy Sources	**17.7**	**45.4**	**59.5**	**59.5**	**-**	
Operating Uses						
Personnel	72.6	76.8	75.9	74.7	1.2	**G**
Non-Personal Services	14.3	16.6	40.0	40.0	-	
Materials and Supplies	12.5	12.5	12.8	12.8	-	
Equipment	0.8	1.8	3.9	3.9	-	
Light, Heat and Power	6.5	6.7	6.7	7.4	(0.7)	**H**
Overhead (SFPUC Bureaus) & COWCAP	35.9	40.8	45.2	45.2		
Services of Other Departments	6.6	9.3	10.3	10.1	0.2	**I**
Total Operating Uses	**149.1**	**164.6**	**194.8**	**194.1**	**0.7**	
Debt Service	98.3	157.3	157.3	152.4	4.9	**J**
Capital Projects	42.7	34.7	75.4	75.4	-	
Facilities Maintenance/Programmatic	4.8	12.2	20.0	20.0	-	
General Reserve	-	4.3	4.3	-	4.3	**K**
Total Uses - Operating, Debt Service, Capital & Other	**$ 294.8**	**$ 373.1**	**$ 451.8**	**$ 441.9**	**$ 9.9**	
Net FY 2011-12 Results					**$ 11.2**	
Available Fund Balance as of Fiscal Year End	**$ 22.4**				**$ 33.6**	
Available Fund Balance Reserves as a % of … (L)						
Total Operating Sources	**7.6%**	**7.4%**		**9.3%**		
Total Operating Uses	**15.0%**	**16.2%**		**17.3%**		
Total Uses (excluding General Reserve)	**7.6%**	**7.8%**		**8.1%**		
Debt Service Coverage… Year End Budgetary Basis (M)						
Indenture Basis (includes Available Fund Balance)	**1.65**	**1.55**		**1.43**		
Current Basis	**1.42**	**1.42**		**1.16**		

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2011-12 3rd Quarter - Budgetary Basis, 5W AAA
($ Millions)

Revenue Variances

A. Through March the quantity of actual water sales was down 1.8% as compared to the same July through March period in the prior year. The revenue projection in this 3rd Quarter Report assumes that by fiscal year end the quantity of sales will be down only 1.8% for the entire fiscal year as compared to prior year sales of 68.4 MGD. The budget assumed sales of 68.3 MGD in Fiscal Year 2011-12, this revenue projection assumes sales of 67.0 MGD.

B. Water consumption by municipal departments resulting in slightly lower revenues than assumed in the budget.

C. Through March the actual water sales have declined by 2.2% compared to the same July through March period of the prior year. The revenue projection in this 3rd Quarter Report assumes by fiscal year end, water sales projected at 139 MGD will decrease by an estimate of 1% for the entire fiscal year 2012 compared to the budget assumed sales of 140 MGD.

D. Lower interest revenues projected due to lower cash balance, and low pooled interest rate earned at the City Treasury.

E. Higher rental income projected than budgeted.

F. Higher non-operating revenues resulting from a $0.3 million payment from Mountain View (wholesale customer) currently projected not to meet FY 2011-12 minimum purchase quantities and sale of Artichoke Joe's property in San Bruno for $2.9 million and the sale of 17th and Folsom property for $3.7 million.

Expenditure Variances

G. Savings in salaries due to vacant positions and corresponding fringe benefits.

H. The projected shortfall reflects increased pumping at Crystal Springs, Sunol, and Harry Tracy plants and the addition of the Tesla Portal Disinfection facility load.

I. Projected savings based ond 3rd quarter spending for Worker's Compensation.

J. Borrowing costs charged to the Operating Fund lower than budget.

K. General Reserve was intentionally budgeted to go unspent and build up fund balance reserves.

Other Notes

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

M. FY 2011-12 debt service coverage calculations made including the Federal Interest Subsidy as an offset to Debt Service.

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2011-12 3rd Quarter - Budgetary Basis, 5C AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	Original Budget	Revised Budget	Projected	Variance	
Available Fund Balance as a Source	**$ 18.8**	**$ -**	**$ 26.5**	**$ 67.5**	**$ 41.0**	
Sources						
Sewer Service Charge	219.5	224.8	224.8	226.3	1.5	**A**
Sewer Service Charges City Departments	4.9	6.0	6.0	5.1	(0.9)	**B**
Interest Income	0.8	1.5	1.5	0.8	(0.7)	**C**
Other Miscellaneous Income	1.8	1.7	1.7	1.9	0.2	**D**
Total Operating Sources	**227.0**	**234.1**	**234.1**	**234.1**	**0.0**	
Proceeds from Debt	-	3.3	3.3	3.3	-	
Federal Interest Subsidy	3.3	4.3	4.3	4.3	-	
Total Bond Proceeds & Interest Subsidy Sources	**3.3**	**7.5**	**7.5**	**7.5**	**-**	
Operating Uses						
Personnel	54.7	58.2	58.1	58.1	-	**E**
Non-Personal Services	12.3	14.6	16.4	14.4	2.0	**F**
Materials and Supplies	7.8	9.4	10.3	9.8	0.5	**G**
Equipment	2.1	1.3	2.9	2.9	-	
Light, Heat, and Power	9.0	10.1	10.1	9.2	0.8	**H**
Overhead (SFPUC Bureaus) & COWCAP	21.4	25.9	28.8	28.8	-	
Services of Other Departments	22.3	22.1	23.8	24.4	(0.6)	**I**
Total Operating Uses	**129.6**	**141.6**	**150.4**	**147.7**	**2.7**	
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	**J**
Total Uses - Operating, Debt Service, Capital & Other	**$ 208.1**	**$ 241.6**	**$ 268.2**	**$ 256.3**	**$ 11.9**	
Net FY 2011-12 Results					**$ 11.9**	
Available Fund Balance as of Fiscal Year End	**$ 41.0**				**$ 53.0**	
Available Fund Balance Reserves as a % of … (K)						
Total Operating Sources	**18.1%**	**21.5%**		**22.6%**		
Total Operating Uses	**31.7%**	**35.5%**		**35.9%**		
Total Uses (excluding General Reserve)	**20.0%**	**22.0%**		**21.0%**		
Debt Service Coverage… Year End Budgetary Basis (L)						
Indenture Basis (includes Available Fund Balance)	**2.34**	**2.63**		**2.73**		
Current Basis	**1.63**	**1.99**		**1.66**		

Revenue Variances

A. Projected sewer service charges are slightly higher than budget.
B. Lower City department revenues are due to lower water deliveries than were assumed in the budget.
C. Lower interest income due to lower cash balance, and low pooled interest rates at City Treasurer.
D. Other miscellaneous income is slightly higher due to higher revenues from biodiesel revenue.

Expenditure Variances

E. The overtime budget is projected to be over-budget by $250,000 by fiscal year-end; a supplemental appropriation reappropriating funds from permanent salaries has been submitted in anticipation of this deficit.

F. The surplus reflects an expanded timeline for contractual services based on revised spending schedule.
G. The surplus reflects lower than anticipated pumping due to dry weather.
H. The surplus reflects less chemical use because of dry weather.
I. The shortfall reflects workers' compensation projections based on third quarter billing.
J. General Reserve was intentionally budgeted to go unspent to supplement fund balance reserves.

Other Notes

K. GFOA Recommended Best Practice is at least 5-15% of revenues or 1-2 months of expenditures.
L. Debt Service Coverage includes the Federal Interest Subsidy as an offset to debt service expense starting in FY 2010-11.

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2011-12 3rd Quarter - Budgetary Basis, 5T AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	**Original Budget**	**Revised Budget**	**Projected**	**Variance**	
Available Fund Balance as a Source	**$ 54.3**	**$ 21.2**	**$ 172.7**	**$ 239.9**	**$ 67.2**	
Sources						
Electric Sales - City Work Orders - General Fund Depts.	8.7	10.2	10.2	9.9	(0.3)	**A**
Electric Sales - City Work Orders - Enterprise Depts.	54.9	57.4	57.4	55.3	(2.1)	**B**
Electric Sales - Modesto & Turlock Irrigation Districts, WSPP	26.9	16.6	16.6	10.9	(5.7)	**C**
Electric Sales - Direct, Non-City Depts. (Housing Authority …)	15.2	16.9	16.9	16.6	(0.3)	**D**
Electric Sales - Treasure Island	2.0	2.3	2.3	2.7	0.4	**E**
Subtotal - Electric Revenues	**107.8**	**103.4**	**103.4**	**95.5**	**(8.0)**	
Water Sales - Transfer from Water Department	29.7	30.6	30.6	30.6	-	
Water Sales - Groveland, Lawrence Livermore Labs	1.6	1.5	1.5	1.7	0.2	**F**
Subtotal - Water Revenues	**31.3**	**32.1**	**32.1**	**32.3**	**0.2**	
Natural Gas & Steam - City Work Orders	10.5	11.9	11.9	9.9	(2.0)	**G**
Interest Income	1.9	2.7	2.7	2.3	(0.4)	**H**
Other Miscellaneous Income (property rental, loan repayments, Transbay Cable proceeds, other income)	4.2	8.4	8.4	4.4	(4.1)	**I**
Total Operating Sources	**155.7**	**158.6**	**158.6**	**144.3**	**(14.3)**	
Proceeds from Debt	13.6	24.1	24.1	22.4	(1.7)	**J**
Operating Uses						
Personnel	30.4	33.4	33.3	32.8	0.6	**K**
Non-Personal Services	17.1	20.9	24.6	24.6	-	
Power Purchases	1.2	11.7	11.7	6.5	5.2	**L**
Transmission Fees	18.0	19.4	19.4	16.8	2.6	**M**
Materials and Supplies	2.5	2.7	3.0	3.0	-	
Equipment	1.2	0.9	2.4	2.4	-	
Overhead (SFPUC Bureaus) & COWCAP	9.7	14.1	15.3	15.3	-	
Services of Other Departments	4.4	5.8	6.1	6.4	(0.3)	**N**
Natural Gas & Steam	10.5	11.9	11.9	9.9	2.0	**O**
Total Operating Uses	**95.1**	**120.8**	**127.7**	**117.7**	**10.0**	
Debt Service	0.4	1.8	1.8	0.7	1.1	**P**
Capital Projects	36.8	70.7	215.2	215.2	-	
Facilities Maintenance/Programmatic	3.0	6.6	6.6	6.6	-	
General Reserve Contingency	-	4.0	4.0	-	4.0	**Q**
Total Uses	**$ 135.3**	**$ 203.9**	**$ 355.3**	**$ 340.1**	**$ 15.2**	
Net FY 2011-12 Results					**$ (0.7)**	
Available Fund Balance as of Fiscal Year End	**$ 88.4**				**$ 66.4**	
Available Fund Balance Reserves as a % of … (R)						
Total Revenues (Excluding Bond Proceeds)	**56.8%**	**44.9%**		**46.0%**		
Total Uses (Excluding General Reserve)	**93.0%**	**58.9%**		**56.5%**		
Total Operating Uses	**65.3%**	**35.6%**		**19.5%**		
Debt Service Coverage… Year End Budgetary Basis						
Indenture Basis (includes Available Fund Balance)	**346.4**	**53.3**		**123.6**		
Current Basis	**136.7**	**19.1**		**28.7**		

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2011-12 3rd Quarter - Budgetary Basis, 5T AAA
($ Millions)

Revenue Variances

A. Power revenues are projected slightly below budget due to lower usage.

B. Enterprise Department power revenues are projected below budget due to lower usage at the Airport.

C. Lower than anticipated sales to Western System Power Pool and Irrigation Districts due to dry year conditions (precipitation stands at 68% of normal; budget based on median hydro year).

D. Projected consumption is slightly lower than budget.

E. Higher revenues are projected due to higher consumption than budgeted.

F. Slightly higher than planned water revenues due to Groveland rate increase.

G. Lower than planned rates for natural gas and slightly lower usage for natural gas and steam (see O below).

H. Lower interest revenues projected due to lower cash balance, and low pooled interest rates at the City Treasury.

I. Lower revenue projection than planned based on actuals received through March, 2012, similar to prior year.

J. Clean Renewable Energy Bonds (CREBs) financing is no longer expected due to non-renewal by the Federal government.

Expenditure Variances

K. Under spending of 0.6 million in salaries is due to vacant positions. A supplemental appropriation request was submitted to the Mayor and the Board of Supervisors on March 16th, reappropriating $70,000 from salaries to the overtime budget to support the powerhouse operation for the remainder of the fiscal year.

L. The net savings of $5.2 million include: $0.1 million less for Independent System Operator (ISO) transmission charges due to a Federal Energy Regulatory Commission (FERC) wheeling rate reduction; $0.4 million less for power purchased from the Sunset Solar project due to lower than expected generation; $0.9 million less for local capacity charges because the ISO has no need to procure power for local reliability; and $3.8 million less in projected purchases from Western System Power Pool (WSPP) due to less time required for system maintenance and shutdown of the powerhouses in December and January.

M. California Independent Systems Operator (CAISO) control area transmission fees of $2.6 million are lower than anticipated due to depressed market power prices and less reliance of APX's consulting services. Also, PG&E's transmission and distribution rates pursuant to the Interconnection Agreement (IA) have not increased as much as forecasted.

N. Reflects Workers' Compensation projections based on expenditures through the third quarter.

O. Lower than planned rates for natural gas and slightly lower usage for natural gas and steam.

P. Debt service savings due to delayed CREBs bond sales (from prior year's Federal allocation) for power-related projects.

Q. Intentionally budgeted as an available reserve and dry year/power price volatility contingency, if unused, builds up fund balance reserves.

Other Notes

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