San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission

FY 2011-12 4th Quarter Pre-Audit Report

August 28, 2012

Todd L. Rydstrom
AGM Business Services & CFO

Key Budgetary Variances

Water Use & Sales Higher than assumed in Budget

- Retail ↑2.3%, Wholesale ↑3.4% vs. Budget

Water

↑ • Sources Better…retail and wholesale water sales up

↑ • Uses Savings…debt service lower, planned reserves achieved

Wastewater

↑ • Sources…higher retail water sales means higher treatment volume

↑ • Uses Savings…debt service lower, planned reserves achieved

Power Enterprise

↓ • Sources below budget… power sales lower

↑ • Uses Savings … power purchases and CAISO charges lower

FY 2011-12 Year-End vs. Prior Year

$Millions	Prior Year- End	FY 2011-12 3rd Quarter Projected	FY 2011-12 Year-End (Pre-audit)
Water	22.4	33.6	33.4
Wastewater	41.0	52.9	61.4
Hetch Hetchy	88.4	66.4	64.8

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
525 Golden Gate Ave., 4th Floor
San Francisco, CA 94102

MEMORANDUM

DATE: **AUGUST 28, 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 TR

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 FY 2011-12 4TH QUARTER BUDGET REPORT (PRE-AUDIT)**

Enclosed are the pre-audit, year-end reports for the Water, Wastewater and Power Enterprises' annual operating budgets for FY 2011-12. Water and Wastewater revenues for the fiscal year were slightly better than budget due to higher water sales. Hetchy revenues were below budget due primarily to lower power sales as a result of dry year conditions. Wastewater and Water completed the fiscal year with a net operating surplus. Hetchy, including the Power Enterprise, ended the fiscal year with a net operating shortfall due primarily to lower power sales. All debt service coverage requirements continue to be met, and reserve ratios are adequate.

			Current Year Operations			
	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Revenue Surplus / (Shortfall)	Expenditure Savings / (Shortfall)	Surplus / (Shortfall)	Projected Year-End Available Fund Balance
Water	$ 22.4	$ -	$ 4.7	$ 6.3	$ 11.0	$ 33.4
Wastewater	$ 41.0	$ -	$ 5.7	$ 14.7	$ 20.3	$ 61.4
Hetch Hetchy	$ 88.4	$ (21.2)	$ (20.3)	$ 17.9	$ (2.4)	$ 64.8

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\Qtrly Rpts FY2012\Commission Rpts\Q4 Com Rpts\Q4 FY 2011-2012 MEMO.doc

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2011-12 4th Quarter - Budgetary Basis, 5W AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	Original Budget	Revised Budget	Pre-Audit Actuals	Variance	
Available Fund Balance as a Source	**$ 6.0**	**$ 0.0**	**$ 58.1**	**$ 80.5**	**$ 22.4**	
Sources						
Retail Water Sales	133.2	149.6	149.6	153.1	3.5	**A**
Retail Water Sales - In-City Departments	4.6	5.6	5.6	4.7	(0.9)	**B**
Wholesale Water Sales Revenue	135.3	184.0	184.0	186.5	2.5	**C**
Interest Income	0.9	1.7	1.7	0.5	(1.2)	**D**
Rental Income	9.4	9.3	9.3	9.6	0.3	**E**
Miscellaneous Revenues	10.2	8.1	8.2	8.7	0.5	**F**
Departmental Transfer Adjustment	-	(30.6)	(30.6)	(30.6)	-	
Total Operating Sources	**293.6**	**327.7**	**327.8**	**332.5**	**4.7**	
Proceeds from Debt	-	19.4	24.2	24.2	-	
Federal Interest Subsidy	17.7	26.0	26.0	26.0	-	
Total Bond Proceeds & Interest Subsidy Sources	**17.7**	**45.4**	**50.2**	**50.2**	**-**	
Operating Uses						
Personnel	72.6	76.8	75.9	75.3	0.6	**G**
Non-Personal Services	14.3	16.6	23.9	23.9	-	
Materials and Supplies	12.5	12.5	12.7	12.7	-	
Equipment	0.8	1.8	3.9	3.9	-	
Light, Heat and Power	6.5	6.7	6.7	6.7	-	
Overhead (SFPUC Bureaus) & COWCAP	35.9	40.8	45.2	45.2	-	
Services of Other Departments	6.6	9.3	10.7	10.7	-	
Total Operating Uses	**149.1**	**164.6**	**179.1**	**178.5**	**0.6**	
Debt Service	98.3	157.3	157.3	155.9	1.4	**H**
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	**I**
Total Uses - Operating, Debt Service, Capital & Other	**$ 294.8**	**$ 373.1**	**$ 436.1**	**$ 429.8**	**$ 6.3**	
Net FY 2011-12 Results					**$ 11.0**	
Available Fund Balance as of Fiscal Year-End	**$ 22.4**				**$ 33.4**	
Available Fund Balance Reserves as a % of … (J)						
Total Operating Sources	**7.6%**	**7.4%**		**9.2%**		
Total Operating Uses	**15.0%**	**16.2%**		**18.7%**		
Total Uses (excluding General Reserve)	**7.6%**	**7.8%**		**8.3%**		
Debt Service Coverage… Year-End Budgetary Basis (K)						
Indenture Basis (includes Available Fund Balance)	**1.65**	**1.55**		**1.52**		
Current Basis	**1.42**	**1.42**		**1.27**		

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2011-12 4th Quarter - Budgetary Basis, 5W AAA
($ Millions)

Revenue Variances

A. Retail water sales were $3.5 million above budget. The budget assumed a slight decrease in water sales as compared to prior year, however actual sales were flat at 68.1 MGD.

B. Water consumption by municipal departments were lower than assumed in the budget mainly from the following departments: (1) Recreation & Park, (2) Public Works, (3) Sheriff, and (4) Real Estate.

C. Wholesale water consumption was 144.7 MGD for the fiscal year FY 2011-12 compared to 140.0 MGD assumed by budget.

D. Lower interest revenues were due to lower cash balances and lower pooled earnings of invested cash.

E. Higher rental income than budget due to CPI increases of leases.

F. Slightly higher non-operating revenues than budgeted from water service installation charges and payment of $0.1 million from the City of Mountain View for not meeting their minimum annual purchase requirement.

Expenditure Variances

G. Savings in salaries due to vacant positions.

H. Borrowing costs lower than budget.

I. General Reserve was intentionally budgeted and planned to go unspent to 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.

K. 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 4th Quarter - Budgetary Basis, 5C AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	Original Budget	Revised Budget	Pre-Audit Actuals	Variance	
Available Fund Balance as a Source	**$ 18.8**	**$ -**	**$ 25.2**	**$ 66.1**	**$ 41.0**	
Sources						
Sewer Service Charge	219.5	224.8	224.8	231.1	6.3	**A**
Sewer Service Charges City Departments	4.9	6.0	6.0	5.8	(0.1)	**B**
Interest Income	0.8	1.5	1.5	0.9	(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**	**239.7**	**5.7**	
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	-	
Non-Personal Services	12.3	14.6	16.3	16.3	-	
Materials and Supplies	7.8	9.4	10.2	10.2	-	
Equipment	2.1	1.3	2.9	2.9	-	
Light, Heat, and Power	9.0	10.1	9.2	9.2	-	
Overhead (SFPUC Bureaus) & COWCAP	21.4	25.9	28.6	28.6	-	
Services of Other Departments	22.3	22.1	23.6	23.6	-	
Total Operating Uses	**129.6**	**141.6**	**149.0**	**149.0**	**-**	
Debt Service	61.4	53.8	53.8	48.3	5.5	**E**
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	**F**
Total Uses - Operating, Debt Service, Capital & Other	**$ 208.1**	**$ 241.6**	**$ 266.8**	**$ 252.1**	**$ 14.7**	
Net FY 2011-12 Results					**$ 20.3**	
Available Fund Balance as of Fiscal Year-End	**$ 41.0**				**$ 61.4**	
Available Fund Balance Reserves as a % of … (G)						
Total Operating Sources	**18.1%**	**21.5%**		**25.6%**		
Total Operating Uses	**31.7%**	**35.5%**		**41.2%**		
Total Uses (excluding General Reserve)	**20.0%**	**22.0%**		**24.8%**		
Debt Service Coverage… Year-End Budgetary Basis (H)						
Indenture Basis (includes Available Fund Balance)	**2.34**	**2.63**		**3.36**		
Current Basis	**1.63**	**1.99**		**1.96**		

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS
FY 2011-12 4th Quarter - Budgetary Basis, 5C AAA
($ Millions)

Revenue Variances

A. Higher retail water revenues result in more sewer treatment and related revenue than were assumed in the budget.

B. Water consumption by municipal departments were slightly lower than assumed in the budget, primarily from the following departments: Recreation & Park, Public Works, Sheriff, and Real Estate.

C. Lower interest income is due to lower cash balances and lower earnings from invested cash.

D. Other miscellaneous income is higher due to biofuel revenue, which totaled $0.8 million for the year compared to $0.5 million in FY 2010-11.

Expenditure Variances

E. The surplus reflects lower borrowing costs than budgeted.

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

Other Notes

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

H. 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 4th Quarter - Budgetary Basis, 5T AAA
($ Millions)

		FY 2011-12				
	FY 2010-11 Actuals	Original Budget	Revised Budget	Pre-Audit Actuals	Variance	
Available Fund Balance as a Source	**$ 54.3**	**$ 21.2**	**$ 172.1**	**$ 239.3**	**$ 67.2**	
Sources						
Electric Sales - City Work Orders - General Fund Depts.	8.7	10.2	10.2	9.7	(0.5)	**A**
Electric Sales - City Work Orders - Enterprise Depts.	54.9	57.4	56.5	53.0	(3.5)	**B**
Electric Sales - Modesto & Turlock Irrigation Districts, WSPP	26.9	16.6	16.6	10.7	(6.0)	**C**
Electric Sales - Direct, Non-City Depts. (Housing Authority …)	15.2	16.9	16.9	16.3	(0.5)	**D**
Electric Sales - Treasure Island	2.0	2.3	2.6	2.5	(0.1)	**E**
Subtotal - Electric Revenues	**107.8**	**103.4**	**102.8**	**92.2**	**(10.6)**	
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	1.5	0.0	
Subtotal - Water Revenues	**31.3**	**32.1**	**32.1**	**32.1**	**0.0**	
Natural Gas & Steam - City Work Orders	10.5	11.9	11.9	8.5	(3.4)	**F**
Interest Income	1.9	2.7	2.7	2.0	(0.7)	**G**
Other Miscellaneous Income (property rental, loan repayments, Transbay Cable proceeds, other income)	4.2	8.4	8.7	4.8	(3.9)	**H**
Total Operating Sources	**155.7**	**158.6**	**158.2**	**139.6**	**(18.6)**	
Proceeds from Debt	13.6	24.1	24.1	22.4	(1.7)	**I**
Operating Uses						
Personnel	30.4	33.4	33.3	33.3	-	
Non-Personal Services	17.1	20.9	23.4	23.4	-	
Power Purchases	1.2	11.7	11.7	6.0	5.6	**J**
Transmission Fees	18.0	19.4	19.4	16.0	3.4	**K**
Materials and Supplies	2.5	2.7	3.0	3.0	-	
Equipment	1.2	0.9	2.4	2.4	-	
Overhead (SFPUC Bureaus) & COWCAP	9.7	14.1	15.2	15.2	-	
Services of Other Departments	4.4	5.8	6.5	6.4	0.1	**L**
Natural Gas & Steam	10.5	11.9	11.9	8.5	3.4	**M**
Total Operating Uses	**95.1**	**120.8**	**126.8**	**114.3**	**12.5**	
Debt Service	0.4	1.8	1.8	0.4	1.4	**N**
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	**O**
Total Uses	**$ 135.3**	**$ 203.9**	**$ 354.4**	**$ 336.5**	**$ 17.9**	
Net FY 2011-12 Results					**$ (2.4)**	
Available Fund Balance as of Fiscal Year-End	**$ 88.4**				**$ 64.8**	
Available Fund Balance Reserves as a % of … (P)						
Total Revenues (Excluding Bond Proceeds)	**56.8%**	**44.9%**		**46.4%**		
Total Uses (Excluding General Reserve)	**93.0%**	**58.9%**		**56.7%**		
Total Operating Uses	**65.3%**	**35.6%**		**19.2%**		
Debt Service Coverage… Year-End Budgetary Basis						
Indenture Basis (includes Available Fund Balance)	**346.4**	**53.3**		**198.0**		
Current Basis	**136.7**	**19.1**		**44.4**		

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
FY 2011-12 4th Quarter - Budgetary Basis, 5T AAA
($ Millions)

Revenue Variances

A. Power revenues exceed FY 2010-11 actuals due to higher consumption, but are slightly below FY 2011-12 budget due to lower usage versus budget, primarily in the MTA and the Public Library.

B. Enterprise department power revenues are below budget due to lower usage at the Airport and Department of Public Works.

C. Lower than anticipated sales to wholesale customers, primarily driven by Western System Power Pool sales ending the fiscal year at 50% of expectation. Irrigation District sales also less than expected (75% of budget). Lower than anticipated sales due to dry year conditions (precipitation stands at 64% of normal; budget based on median hydro year).

D. FY 2011-12 revenues exceeded prior year due to higher consumption at the Airport and Community Colleges but was still lower than assumed in the FY 2011-12 budget.

E. Slightly lower revenues are due to lower consumption than budgeted.

F. Lower than planned rates for natural gas and slightly lower usage for natural gas and steam (see offsetting amount noted in "M" below).

G. Lower interest revenues are due to lower cash balances and lower interest earnings on invested cash.

H. Lower revenues than budget as one-time settlements were received in the prior year.

I. Clean Renewable Energy Bonds (CREBs) financing anticipated in the budget was not renewed by the Federal government.

Expenditure Variances

J. The net savings of $5.6 million includes: $0.1 million less for Independent System Operator (ISO) transmission charges due to a Federal Energy Regulatory Commission (FERC) wheeling rate reduction; $0.5 million less for power purchased from the Sunset Solar project due to lower than expected generation; $1.3 million less for local capacity charges because the ISO has no need to procure power for local reliability; and $3.7 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 than assumed in the budget.

K. California Independent Systems Operator (CAISO) control area transmission fees are $1.7 million 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 previously.

L. Savings from worker's compensation as actual costs lower than budget.

M. Lower than planned rates for natural gas and slightly lower usage for natural gas and steam, offset by lower revenues of the like amount. (See Note "F" above.)

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

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

Other Notes

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