

FY 2022-23 and FY 2023-24 Budget Introduction

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September 28, 2021

Agenda

1. Introduction
2. Budget Policy Framework
3. Budget Context
4. Economic Outlook
5. Historical budget and rate growth
6. Rate outlook
7. Budget focus areas
8. Timeline

Introduction

- SFPUC has a fixed, two-year budget
- City modified budget process to adapt to pandemic impact
- Three Commission budget actions in 1 year
 1. Commission adopted FY 2020-21 and 2021-22 budget, February 2020
 2. COVID impact, rebalanced budget completed July 2020, cut ~\$90M
 3. FY 2021-22 budget reopening, adopted by Commission Feb 2021, added back resources for priority items; Racial Equity, COVID response
- Planning for biennial budget for FY 2022-23, FY 2023-24
 - Staff kicked off process in August 2021
 - Schedule check ins with Commission and public hearings
- February 8, 2022—consider adoption of
 - FY 2022-23, FY 2023-24 Biennial Operating and Capital Budget
 - 10-Year Capital Plan
 - 10-Year Financial Plan



Budget Policy Framework

- City budget policies and legislation
- Ratepayer Assurance Policy
- Financial and Debt Policies
- Asset Management Policy
- Environmental Justice Policy
- Racial Equity Action Plan
- Racial Justice Resolution
- Technology Policy

Budget Context—Pandemic Impacts

- Economic recovery and commodity demands
- The future of work and workforce
 - Need for an even more resilient and safety-focused organization
 - Managing a hybrid workforce
 - Staff burnout
 - Silver tsunami + great resignation
 - Retaining and attracting talent and advancing racial equity
- Historic federal and state attention and support for our industries
 - Financial support for water, wastewater and power infrastructure investment
 - Cost pressures—tight markets for construction-related inputs
 - Focus on service equity and affordability
 - Focus on cybersecurity for critical industries
- Accelerated pace of technological change and employee, customer and stakeholder expectations



Budget Context—Other Impacts

- Increased frequency and severity of climate-related risks
 - Water shortage and drought
 - Wildfires and related power shutoffs
 - Power market impacts
- Cost of purchased power—significant budget item
- Regulatory issues on multiple fronts
 - SWRCB, EPA, CPUC, FERC
- City public corruption scandal
 - Importance of impeccable stewardship
 - Restoration/maintenance of public trust
- Rates and charges
 - Hetchy Power/CleanPowerSF rate study in process
 - Water/Wastewater rate study to follow
 - Affordability—particularly for low-income customers



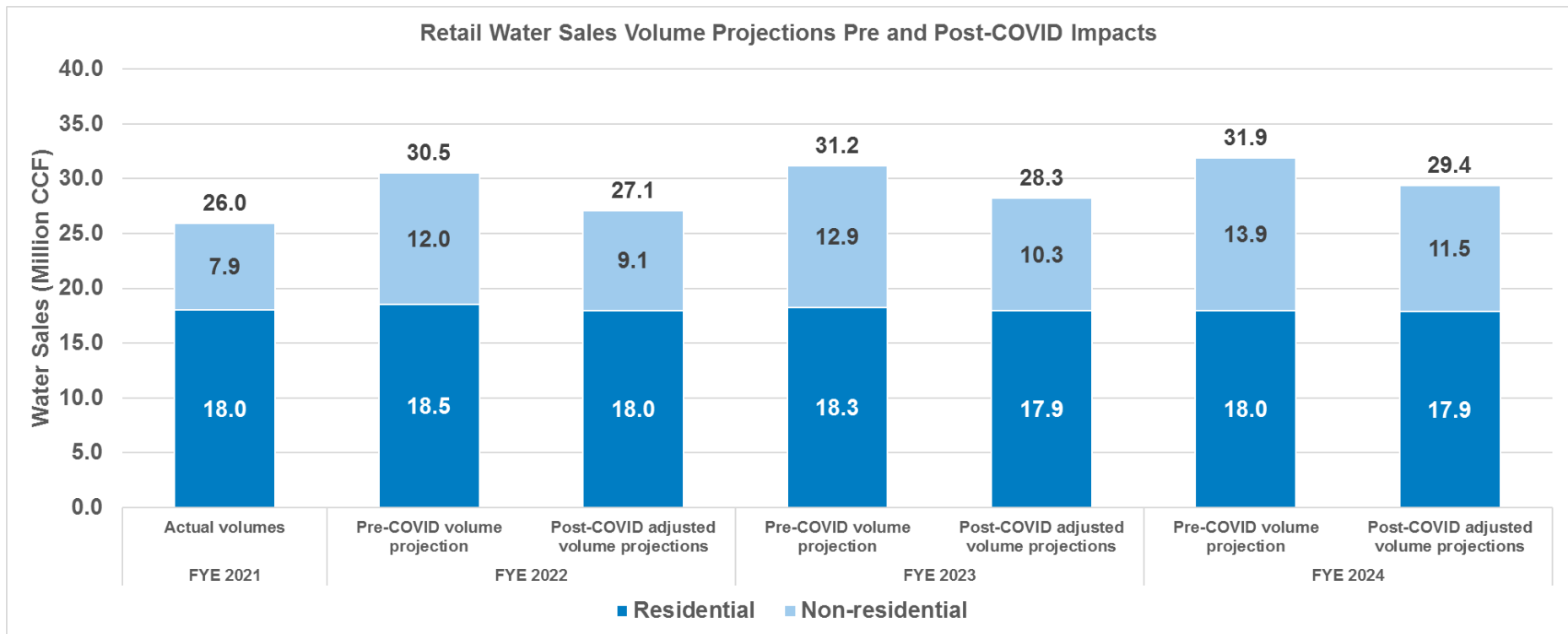
Economic Outlook–High Level Observations

- **City Economist**
 - Commercial sector deeply impacted by COVID-19 restrictions with tourism-dependent economic activity and associated city revenues projected to recover to pre-pandemic levels by FYE 2024
 - Monthly reporting on Economic Indicators since city-wide re-opening in June 2021 suggest the possibility of a slower and prolonged commercial sector recovery
- **Bay Area Council**
 - Employment loss in the Bay Area much deeper vs. prior recessions, Great Recession and Dot Com bubble
 - Disproportionate socio-economic impact on service workers, low-income communities and communities of color
 - Macro changes in housing and transportation trends – outmigration from in-city to suburban areas



Retail Water Sales Projections Pre and Post COVID

- Projected retail water sales volumes for biennial budget years incorporate COVID impact, FYE 2023 and FYE 2024 are 91% and 92% of pre-COVID projections



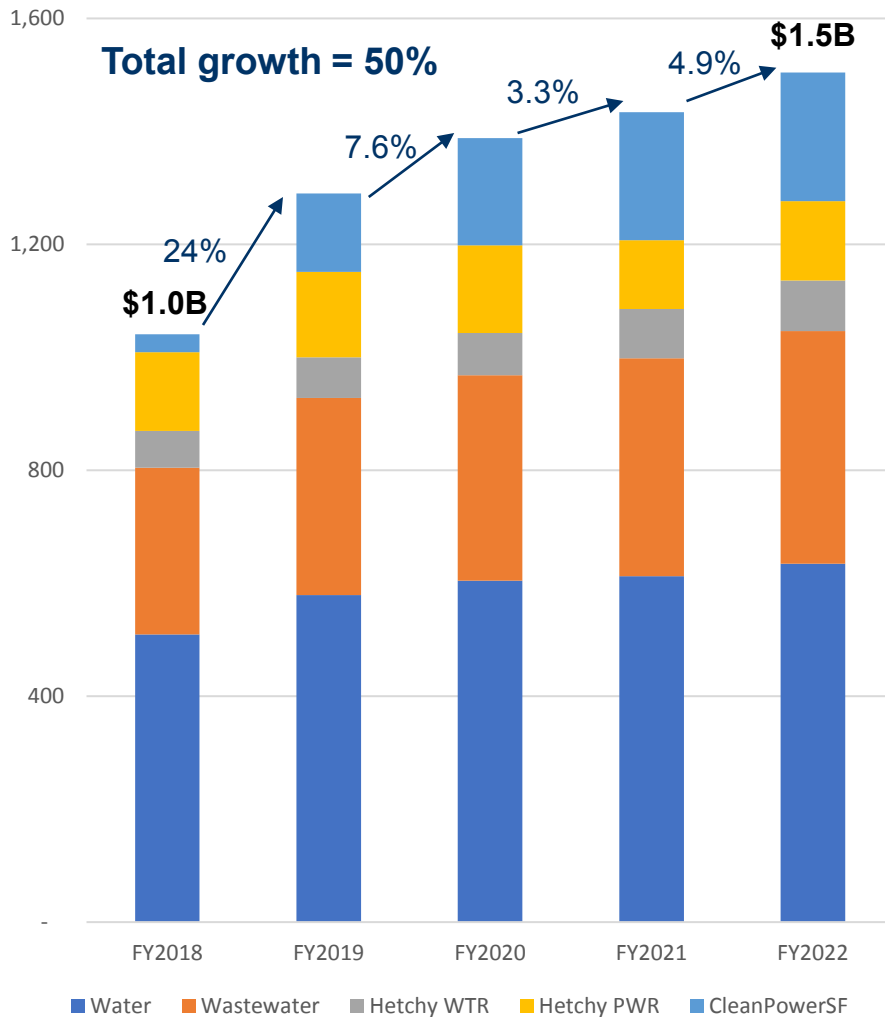
Updating Volumetric Sales Projections

- Updated volumetric projections will incorporate
 - FYE 2021 and FYE 2022 actual sales volumes
 - City Economist's office macroeconomic trend forecast
 - Other relevant regional data
- Updates will vary by Enterprise/Program given service area and industry characteristics
 - Customers, customer mix
 - Competition, customer growth and acquisition
- Unknown, but significant impact of drought-related water use reductions restrictions

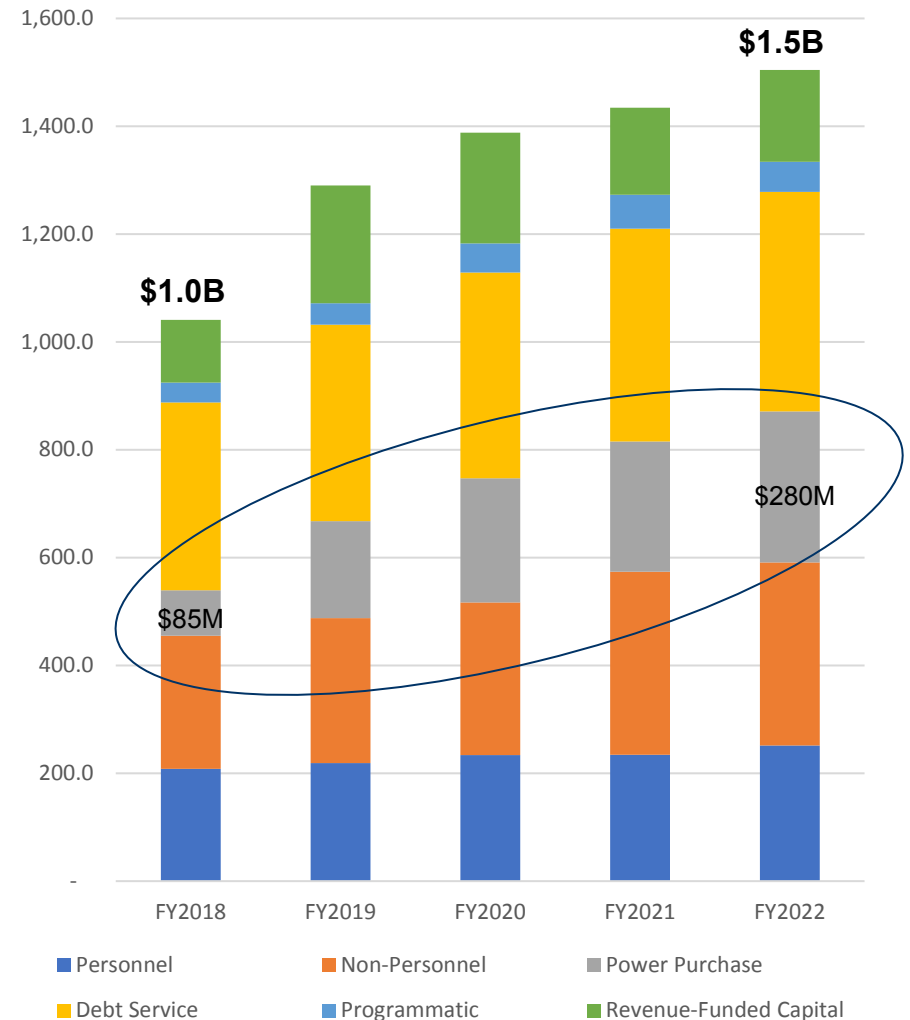


Budget Growth Driven mainly by CPSF and Capital Investments

SFPUC budget by enterprise over 5 years \$M



SFPUC budget by expenditure type over 5 years \$M





Cumulative Retail Water and Wastewater Rate Increases

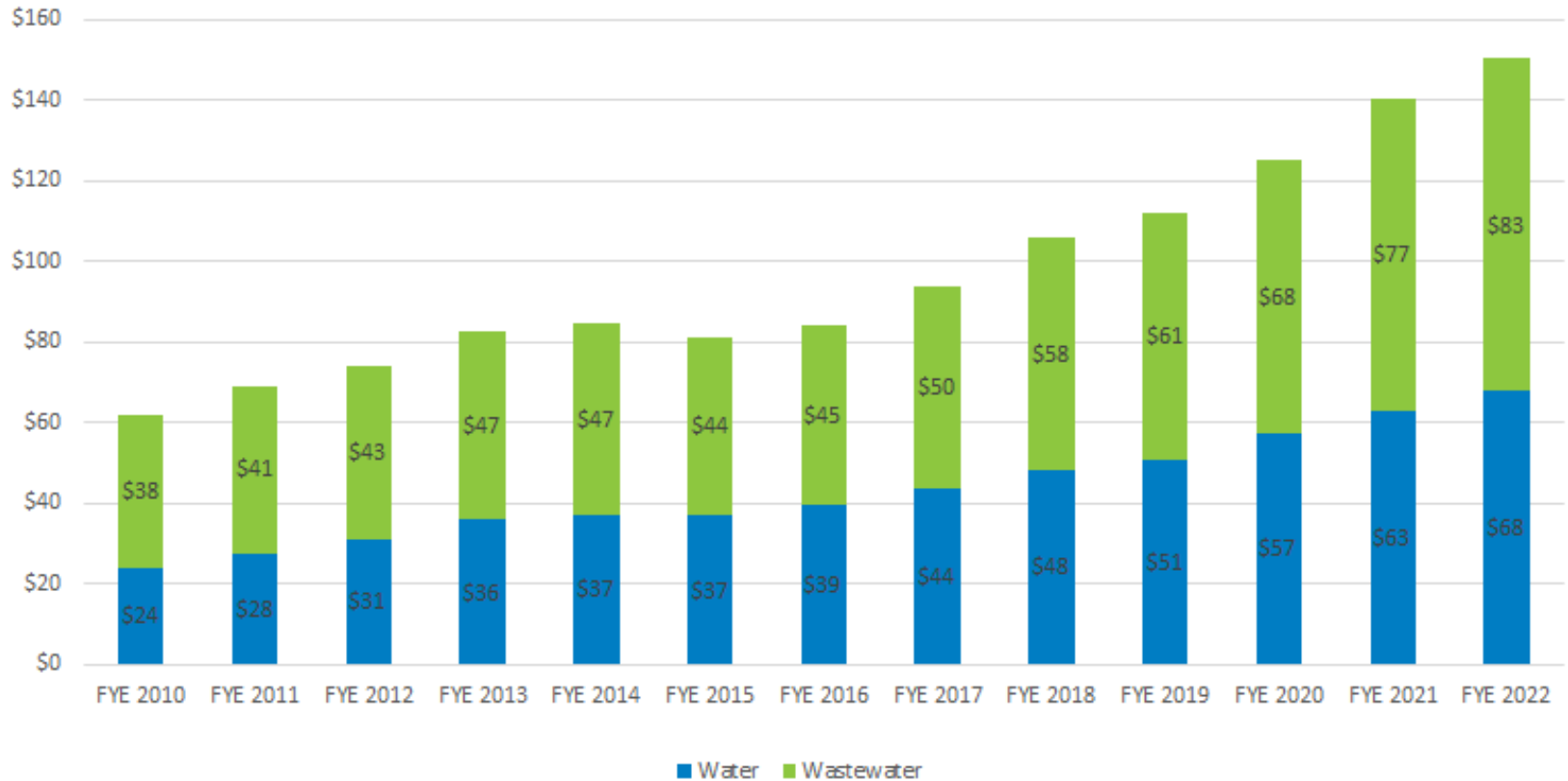
Fiscal Year	Water	Wastewater
FYE 2010	15.0%	7.0%
FYE 2011	15.0%	7.0%
FYE 2012	12.5%	5.0%
FYE 2013	12.5%	5.0%
FYE 2014	6.5%	5.0%
FYE 2015	12.0%	5.0%
FYE 2016	12.0%	5.0%
FYE 2017	10.0%	7.0%
FYE 2018	7.0%	11.0%
FYE 2019	7.8%	5.9%
FYE 2020	8.3%	7.0%
FYE 2021	7.8%	8.0%
FYE 2022	7.9%	8.0%



Historic Average Annual Water and Wastewater Bills

Average Single Family Residential Water and Wastewater Bill

Combined Bill CAGR 7.6%





Changing Retail Rate Projections

- Pre-pandemic retail rate change projections from FYE 2022 10 Year Financial Plans

	FYE 2023	FYE 2024
Retail Water	4%	4%
Wastewater	5%	5%

- Updated retail rate change projections – for biennial budget adoption
- Comprehensive 2022 Power Cost of Service Study will inform Hetchy and CleanPowerSF power rate increases

	FYE 2023	FYE 2024
Retail Water	0%	6%
Wastewater	0%	6%



Retail Rate Change Assumptions: Water & Wastewater

- Rate change assumptions for biennial budget years approximate rate of inflation; 0% Water and WW retail rate increase in FYE 2023
- Significant operating environment shifts underlie this decision:
 - Can be prudently managed through multi-year budgeting and financial planning
 - Better lay groundwork for successful multi-year rate package
 - Fuller understanding of COVID demand impacts
 - Comprehensive update of ten-year capital plan
 - Enhanced customer assistance program
 - Progress/completion of critical audits
 - Execute comprehensive outreach campaign

Budget Focus Areas

- **Right Size Capital Plans**
 - Prudently reassess and reprioritize capital plans for delivery and cost
- **Focus on Affordability**
 - Contain future rate increases
 - Continue to mitigate impact on low-income customers
- **Future of Work and Workforce**
 - Adapt to changing talent economy
- **Racial Equity**
 - Ensure adequate resources to meet our commitments
- **Financial Sustainability**
 - Maintain financial strength, tools, and flexibility to mitigate risks



Timeline

Month	Major Tasks
August 2021	Internal budget instructions issued to enterprises
September 2021	Commission budget introduction
October 2021	Budget reviews with Steering Committee begin
November 2021	Commission update on budget progress
December 2021	Commission public hearing on Budget Priorities (required per Section 3.3 of City Admin Code) Budget prepared for Commission review
January 2022	TBD Commission hearings on budget, 10-year Capital and Financial Plans
February 2022	Commission Adopts 10-year Financial Plan, Capital Plan and Budget Budget submitted to Mayor's Office and Controllers Office
May 2022	Budget proposed to Board Of Supervisors
July 2022	Budget adopted by Mayor and Board

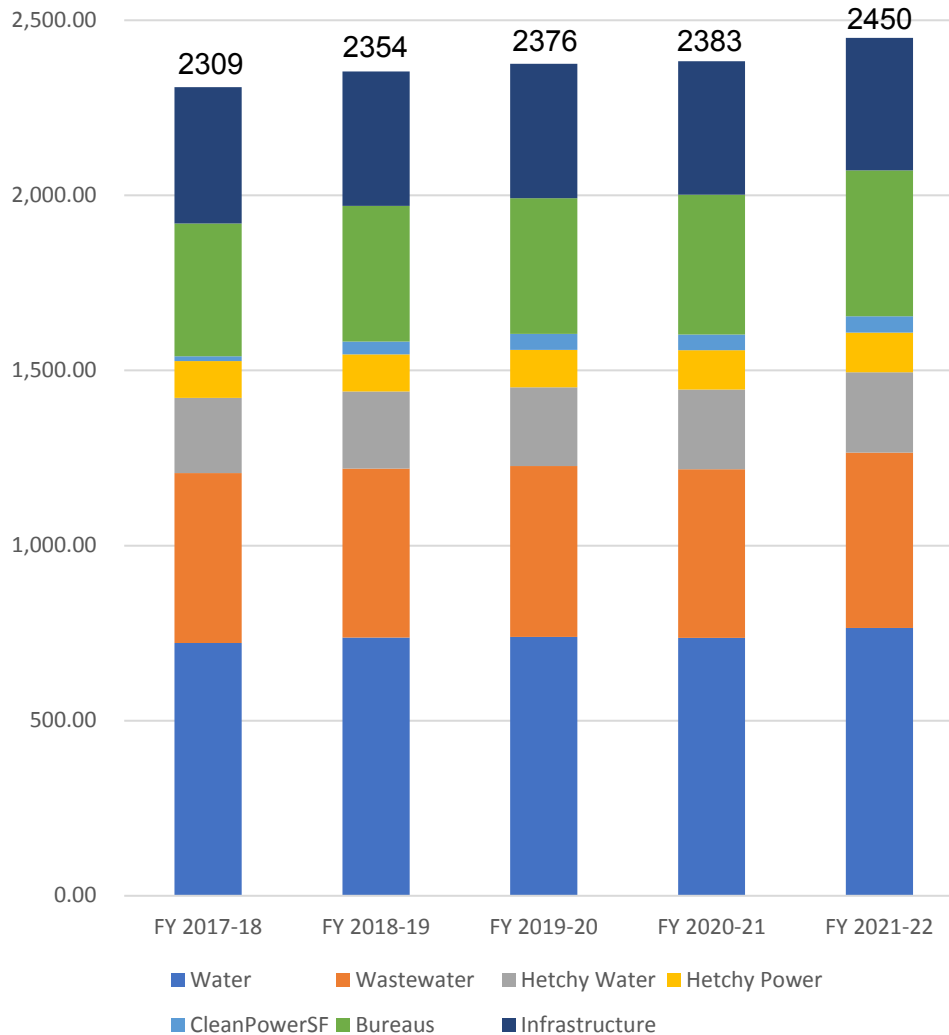


Discussion



Backup Slides

FTE growth



FTE has grown by 6% over the last 5 years, or 141 positions.

Division	FTE added	% Growth
Water	43	6%
Wastewater	15	3%
Hetchy Water	15	7%
Hetchy Power	8	8%
CleanPowerSF	33	234%
Bureaus	38	10%
Infrastructure	(11)	-3%
	141	6%



Changing Retail Rate Projections

- Pre-pandemic retail rate change projections from FYE 2022 10 Year Financial Plans

	FYE 2023	FYE 2024
Retail Water	4%	4%
Wastewater	5%	5%
Hetch Hetchy Power	3%	3%
CleanPowerSF	-3%	-2%

- Updated retail rate change projections – for biennial budget adoption
- Comprehensive 2022 Power Cost of Service Study will inform Hetchy and CleanPowerSF power rate increases

	FYE 2023	FYE 2024
Retail Water	0%	6%
Wastewater	0%	6%