



Date: September 24, 2024

To: Commissioner Tim Paulson, President
 Commissioner Anthony Rivera, Vice President
 Commissioner Newsha K. Ajami
 Commissioner Kate H. Stacy

Through: Dennis J. Herrera, General Manager *(DJH)*

From: Nancy L. Hom, Chief Financial Officer and Assistant
 General Manager, Business Services *(Signature)*

Subject: **SFPUC FY 2023-24 Fourth Quarter Budgetary Report through June 2024**

The FY 2023-24 fourth quarter budgetary reports are attached for the three Enterprises and CleanPowerSF, with high-level changes to revenues and expenses summarized in the following table:

FY 2023-24 Operations

	Beginning Available Fund Balance	Fund Balance Budgeted to be (Used)	Projected Sources	Projected Uses (excluding Capital)	Net Operating Results Surplus / (Shortfall)	Mid-year Adjustments to Fund Balance	Projected Year End Available Fund Balance
Water	211.4	-	(24.4)	20.8	(3.6)	(8.4)	199.4
Wastewater	155.7	-	(21.3)	42.2	20.9	-	176.6
Power	179.3	(35.4)	15.1	57.3	72.4	6.9	223.2
CleanPowerSF	90.1	-	(6.6)	59.3	52.8	-	142.9

Summary:

- Positive year end operating results projected for Wastewater, Power, CleanPowerSF and a negative for Water.
- *Water & Wastewater sources:*
 - Overall year end revenues are down due to
 - Lower volumes due to a longer wet season;
 - Removal of the drought surcharge. The FY2023-24 budget was adopted assuming the 5% drought surcharge would remain in effect. It was removed May of 2023. The surcharge accounted for

London N. Breed
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- approximately \$14.1 million in revenue for Water and \$18.8 million for Wastewater; and
 - Delayed billing for certain customers. There was a delay in the procurement of meter replacement parts, resulting in a number of accounts not being billed dating back to Fall 2023. SFPUC is in the process of recovering the un-transmitted data from the affected meters. However, due to the lead time needed to replace meter parts and calculate the back bills owed, there is approximately \$6.6 million in delayed revenues for Water and approximately \$6.6 million for Wastewater. These revenues will be accrued for FY 2023-24, as billing will resume, and revenues will be collected in FY 2024-25.
 - This is offset by state grant funding for arrearages and discount programs from the pandemic: \$8.2 million for Water and \$11.6 million for Wastewater.
- *Water uses*: fund balance was reduced by \$9.8M due to legal settlements. Such settlements can be paid from fund balance per Appropriation Ordinance No. 165-20 (section 10.10). This is offset by savings in labor costs due to vacant positions, debt service, programmatic closeouts and savings in the Bureau overhead costs as well as general reserve that was budgeted to go unspent.
- *Wastewater uses*: savings in labor costs due to vacant positions, debt service, Bureau overhead savings and a general reserve that was budgeted to go unspent.
- *Power*: Overall year-end results are significantly positive vs budget.
 - Wholesale revenues are projected to exceed the budget due to higher sales from resource adequacy combined with higher generation. This is offset by slightly lower retail revenues and lower gas and steam sales.
 - On the uses side, large savings are projected for power purchases due to higher generation, avoiding \$18M in additional power purchases. Also, \$12M in savings from distribution costs resulting from PG&E's error in calculations discovered by Power staff, \$3M in savings from transmission and related CAISO costs, and \$4M in savings from resource adequacy. This is partially offset by a one-time opportunistic \$4M payment for Cost of Ownership fee to PG&E to save on future operating costs. In addition, lower gas and steam purchases due to reduced demand. The remaining savings are a result of budgeted contingency projected to be unspent, as well as closeout of Rim Fire related project funding.

- *CleanPowerSF*: Overall yearend results are positive vs budget. Retail sales are lower than the budget due to final rates being set lower than budget and lower demand since quarter three. This is offset by slightly higher wholesale sales. On the uses side lower power prices resulted in a large surplus in the power purchase budget, and there is a general reserve which was budgeted to go unspent.
- All enterprises are projected to exceed financial policy minimums and coverage ratios at year end. Finance is currently in the process of reviewing and updating SFPUC's key financial policies, as these policies were last adopted by the Commission in March 2017. Updated policies are expected to be presented to the Commission for adoption during FY 2024-25.

If you have questions, please contact me at NHom@sfgwater.org.

cc:

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Laura Busch, Deputy Chief Financial Officer, SFPUC
Sophia Kittler, Budget Director, Mayor's Office
Greg Wagner, Controller

Attachments:

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

Appendix A

WATER ENTERPRISE OPERATING FUNDS
FY 2023-24 4th Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990, 26570, 26600 & 26603
 (\$ Millions)

	FY 2023-24				
	FY 2022-23 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Sources					
Retail Water Sales	310.3	346.7	347.1	322.1	(25.0) A
Wholesale Water Sales	253.5	318.2	318.2	313.0	(5.2) B
Interest Income	6.8	1.1	1.1	11.1	10.0 C
Rental Income	13.7	13.6	13.6	9.0	(4.6) D
Miscellaneous Income	26.8	17.0	17.5	16.0	(1.4) E
Departmental Transfer Adjustment	-	(46.3)	(46.3)	(46.3)	-
Federal Bond Interest Subsidy	21.3	20.8	20.8	22.8	1.9 F
Appropriated/Budgeted Use of Fund Balance	-	-	79.5	79.5	-
Total Sources	632.3	671.2	751.5	727.2	(24.4)
Operating Uses					
Personnel	105.7	114.9	114.6	112.3	2.3 G
Non-Personnel Services	20.9	21.2	33.0	32.5	0.5 H
Materials and Supplies	20.4	19.1	23.1	23.1	-
Equipment	3.2	2.6	8.4	8.1	0.3
Overhead (SFPUC Bureaus)	55.1	66.1	77.2	73.2	4.0 I
Services of Other Departments	25.6	27.6	31.4	29.9	1.5 J
Debt Service	306.6	333.7	333.7	327.4	6.2 K
General Reserve	-	5.9	5.9	-	5.9 L
Total Operating Uses	537.4	591.2	627.3	606.5	20.8
Net Operating Results	94.9			120.7	(3.6)
Other Impacts to Operating Budget					
	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	57.8	45.6	191.2	191.2	-
Facilities Maintenance/Programmatic	31.7	34.4	78.3	76.9	1.4 M
Legal Settlements	-	-	-	9.8	(9.8) N
Total Adjustments to Operating Fund Balance	\$ 89.4	\$ 79.9	\$ 269.5	\$ 277.9	\$ (8.4)
Available Fund Balance as of Fiscal Year-End	\$ 211.4				\$ 199.4
Available Fund Balance, % of Operating Uses (O) 25-68%	80.5%				56.0%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (P) ≥ 1.35	1.53	1.79			1.58
Current Basis (Q) ≥ 1.10	1.22	1.16			1.12

Appendix A

WATER ENTERPRISE OPERATING FUNDS FY 2023-24 4th Quarter - Budgetary Basis, Funds 25940, 25950, 25960, 25990, 26570, 26600 & 26603 (\$ Millions)

Revenue Variances

- A. The FY 2023-24 budget was adopted assuming the 5% drought surcharge would remain in effect. The surcharge accounted for approximately \$14.1 million in revenues. Additionally, there was a delay in the procurement of meter replacement parts, resulting in a number of accounts not being billed dating back to Fall 2023. SFPUC is in the process of recovering the untransmitted data from the affected meters. However, due to the lead time needed to replace meter parts, calculate the back bills owed, there is approx. \$6.6 million in delayed revenues. These revenues will be accrued for FY 2023-24, as billing will resume and revenues will be collected in FY 2024-25. These two reductions in revenues compared to budget are partially offset by an \$8.2 million in state grant funding for arrearages and discount programs during pandemic.
- B. The FY 2023-24 wholesale budget was adopted assuming higher volumetric rate of \$5.30. The adopted rate was subsequently set at \$5.21, or 1.7% lower, due to higher water sale projections due to the end of drought restrictions. Year end water sales of 123.0 MGD were 0.9% greater than the budgeted assumption of 121.9 MGD. The increased revenues from higher water sales were offset by the resumption of In-Lieu Water Credits totaling \$11.6M.
- C. Assumed interest rate of 3.4% is higher than budget of 0.5%.
- D. Rental revenues came in just above budget; however, \$4.8 million was transferred out to the revenue budget and used to offset the costs of the customer assistance program.
- E. Miscellaneous income is just below budget.
- F. Includes federal subsidy on 525 Golden Gate COPs.

Expenditure Variances

- G. Savings due to vacant positions.
- H. Savings reflect lower spending associated with customer rebate and incentive programs.
- I. Savings reflect lower spending associated with bureau allocation.
- J. Savings reflect lower spending from other City departments.
- K. Debt Service variance due to the issuance of 2023CD refunding bonds and delay of interest payment for the Mt Tunnel SRF loan.
- L. \$5.9M in general reserve due to higher sources than uses.
- M. \$1.4M in savings from programmatic projects identified to be closed out.
- N. \$9.8M in expected legal settlements.

Other Notes

- O. Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- P. Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, excluding all revenues and expenses related to the 525 Golden Gate COPs, and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- Q. Calculated as ratio between (a) Total Sources plus any appropriated fund balance, plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, excluding all revenues and expenses related to the 525 Golden Gate COPs, and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS
 FY 2023-24 4th Quarter - Budgetary Basis, Funds 20160, 20170 & 20550
 (\$ Millions)

	FY 2022-23 Actuals	FY 2023-24			
		Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Sources					
Sewer Service Charges	360.8	415.4	415.8	385.4	(30.4) A
Interest Income	7.6	1.7	1.7	10.6	8.9 B
Miscellaneous Income	7.9	3.8	3.8	3.5	(0.4) C
Federal Bond Interest Subsidy	3.5	3.4	3.4	3.9	0.5 D
Appropriated/Budgeted Use of Fund Balance		-	26.4	26.4	-
Total Sources	379.8	424.2	451.0	429.7	(21.3)
Operating Uses					
Personnel	76.1	87.6	87.6	80.6	6.9 E
Non-Personnel Services	25.5	28.0	31.1	30.1	1.0 F
Materials and Supplies	14.1	13.2	16.3	15.8	0.5 G
Equipment	1.4	2.0	7.7	7.7	-
Overhead (SFPUC Bureaus)	32.9	39.0	45.8	43.7	2.1 H
Services of Other Departments	38.4	38.8	41.1	40.1	1.0 I
Debt Service	98.6	98.0	98.0	95.1	2.9 J
General Reserve		27.8	27.8	-	27.8 K
Total Operating Uses	287.1	334.5	355.4	313.2	42.2
Net Operating Results	92.7			116.5	\$ 20.9
Other Impacts to Operating Budget					
	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Capital Projects	71.6	81.3	263.2	263.2	-
Facilities Maintenance/Programmatic	7.2	8.4	13.6	13.6	-
Total Adjustments to Operating Fund Balance	\$ 78.8	\$ 89.7	\$ 276.8	\$ 276.8	\$ -
Available Fund Balance as of Fiscal Year-End	\$ 155.7				\$ 176.6
Available Fund Balance, % of Operating Uses (L) 25-68%	79.6%				76.2%
Debt Service Coverage (Year-End Budgetary Basis)					
Indenture Basis (includes Available Fund Balance) (M) ≥ 1.35	3.09	3.50			3.55
Current Basis (N) ≥ 1.10	2.01	1.89			2.14

Appendix B

WASTEWATER ENTERPRISE OPERATING FUNDS FY 2023-24 4th Quarter - Budgetary Basis, Funds 20160, 20170 & 20550 (\$ Millions)

Revenue Variances

- A.** The FY 2023-24 budget was adopted assuming the 5% drought surcharge would remain in effect. The surcharge accounted for approximately \$18.8 million in revenues. In addition, some stormwater-only parcels have not yet been billed pending confirmation of responsible account holders. Lastly, there was a delay in the procurement of meter replacement parts, resulting in a number of accounts not being billed dating back to Fall 2023. SFPUC is in the process of recovering the untransmitted data from the affected meters. However, due to the lead time needed to replace meter parts, calculate the back bills owed, there is approx. \$6.6 million in delayed revenues. These revenues will be accrued for FY 2023-24, as billing will resume and revenues will be collected in FY 2024-25. These reductions in revenues are partially offset by \$11.6 million in state grant funding for arrearages and discount programs during the pandemic.
- B.** Assumed interest rate of 3.4% is higher than budget of 0.5%.
- C.** Miscellaneous income lower than budget due to lower permit fees and reduced fees during collections moratorium.
- D.** Includes federal subsidy on 525 Golden Gate COPs, which was not budgeted.

Expenditure Variances

- E.** Salary savings reflect vacant positions.
- F.** Savings reflect lower spending on as-needed maintenance and improvements at wastewater buildings and facilities.
- G.** Savings reflect lower spending on materials & supplies. □
- H.** Savings reflect lower spending associated with bureau allocation.
- I.** Savings reflect lower spending from other City departments.
- J.** Debt service variance mainly due the issuance of the 2023C refunding of 2018C, offset by refunding savings from the issuance of the 2023B refunding bonds and defeasance of the 2021A and 2021B Revenue Notes.
- K.** \$27.8M in general reserve due to higher sources than uses.

Other Notes

- L.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- M.** Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs), and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- N.** Calculated as ratio between (a) Total Sources plus any appropriated fund balance plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs), and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix C

HETCH HETCHY WATER & POWER OPERATING FUNDS
 FY 2023-24 4th Quarter - Budgetary Basis - 24970, 24980, 24990
 (\$ Millions)

	FY 2023-24				
	FY 2022-23 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Sources					
Electric Sales - Retail	159.6	169.1	175.0	170.9	(4.1) A
Electric Sales - Wholesale	48.8	31.7	31.7	48.6	16.9 B
Water Sales - Transfer from Water Department	49.6	46.3	46.3	46.3	-
Natural Gas & Steam - City Work Orders	24.6	24.7	24.7	17.4	(7.3) C
Interest Income	5.6	1.1	1.1	9.5	8.4 D
Federal Interest Subsidy - Power Bonds	0.2	0.4	0.4	0.4	-
Miscellaneous Income	4.8	4.0	4.0	5.2	1.2 E
Appropriated/Budgeted Use of Fund Balance	40.5	35.4	82.2	82.2	-
Total Sources	333.7	312.7	365.3	380.4	15.1
Operating Uses					
Personnel	50.6	54.5	54.5	54.5	-
Non-Personnel Services	36.1	43.8	70.5	70.5	-
Power Purchases, Transmission Distribution & Related Charges	77.9	127.0	135.1	86.1	49.0 F
Natural Gas & Steam	24.6	24.7	24.6	17.4	7.3 G
Materials and Supplies	3.8	3.5	4.2	4.2	-
Equipment	1.2	2.6	8.5	8.5	-
Overhead (SFPUC Bureaus)	21.2	25.0	29.0	28.0	1.0 H
Services of Other Departments	8.8	8.6	9.5	9.5	-
Debt Service	3.5	3.8	3.8	3.8	-
General Reserve	-	-	-	-	-
Total Operating Uses	227.8	293.4	339.9	282.6	57.3
Net Operating Results	105.9			97.8	72.4
Other Impacts to Operating Budget					
	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Legal Settlements	-	-	1.9	1.9	-
Facilities Maintenance/Programmatic	15.2	14.3	19.2	19.2	-
Capital projects	13.5	5.0	76.0	69.1	6.9 I
Total Adjustments to Operating Fund Balance	28.7	19.3	97.1	90.2	6.9
Available Fund Balance as of Fiscal Year-End	179.3				223.2
Available Fund Balance, % of Operating Uses (J) 25-68%	74.9%				93.7%
Debt Service Coverage... Year-End Budgetary Basis					
Indenture Basis (includes Available Fund Balance) (K) ≥ 1.35	56.46	59.39			69.87
Current Basis (L) ≥ 1.10	18.97	3.34			32.02

Revenue Variances

- A.** Retail sales are slightly below budget.
- B.** Wholesale sales are higher than budget mainly due to higher attribute and resource adequacy sales.
- C.** Gas and steam sales below budget due to lower usage. Revenue reduction is offset by equivalent cost savings.
- D.** Interest income forecasted to increase from budget due to higher interest rate than assumed.
- E.** Miscellaneous income projected to exceed budget primarily due to Distributed Antenna System admin fees not budgeted.

Expenditure Variances

- F.** Savings are due to a favorable water year, avoiding \$18M in additional power purchases, \$12M in savings from Distribution costs resulting from PG&E's error in calculations discovered by Power staff, \$3M in savings from Transmission and related CAISO costs, and \$4M in savings for Resource Adequacy. This is partially offset by a one-time opportunistic \$4M payment for Cost of Ownership fee to PG&E. The remaining savings are a result of budgeted contingency projected to be unspent.
- G.** Gas and steam sales below budget due to lower usage. Revenue reduction is offset by equivalent cost savings.
- H.** Savings reflect lower spending associated with bureau allocation.
- I.** Project savings due to closeout of Rim Fire Project.

Other Notes

- J.** Calculated as Ending Available Fund Balance (including additions to General Reserve) as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. SFPUC's Fund Balance Reserve Policy requires this to be within a range of 25-68%.
- K.** Calculated as ratio between (a) Total Sources plus Beginning Available Fund Balance, less Operating Uses, less Facilities Maintenance/Programmatic (excluding all revenues and expenses related to the 525 Golden Gate COPs, Natural Gas and Steam and Treasure Island), and (b) Debt Service. The Indenture requires this ratio to be a minimum of 1.25 times, and SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.35 times.
- L.** Calculated as ratio between (a) Total Sources plus any appropriated fund balance, plus Capacity Charges, less Operating Uses less Facilities Maintenance/Programmatic, (excluding all revenues and expenses related to the 525 Golden Gate COPs, Natural Gas and Steam and Treasure Island), and (b) Debt Service. SFPUC's Debt Service Coverage Policy requires this ratio to be a minimum of 1.10 times.

Appendix D
CleanPowerSF
FY 2023-24 4th Quarter - Budgetary Basis - 24750, 24761, 24762, 24765 & 24870
(\$ Millions)

	FY 2023-24				
	FY 2022-23 Actuals	Original Budget	Revised Budget (includes carryforwards)	Projection (current year spending)	Variance (Projection vs Revised Budget)
Operating Sources					
Electric Sales - Green Product	299.7	338.4	338.4	304.0	(34.5)
Electric Sales - SuperGreen Product	25.6	28.9	28.9	51.7	22.8
Wholesale Sales	3.6	1.6	1.6	5.0	3.4
Subtotal - Electric Revenues	329.0	368.9	368.9	360.7	(8.3) A
Interest Income	1.7	0.6	0.6	2.3	1.7 B
Miscellaneous Income	0.0	-	-	-	-
Appropriated/Budgeted Use of Fund Balance	16.8	-	26.4	26.4	-
Total Sources	347.4	369.6	396.0	389.4	(6.6)
Operating Uses					
Personnel	5.0	8.1	8.1	6.4	1.7 C
Overhead	5.1	6.1	6.7	6.7	-
Non Personnel Services	10.7	12.0	12.9	10.9	2.0 D
Materials & Supplies	0.0	0.2	0.2	0.2	-
Power Purchases, Transmission Distribution & Related Charge	264.3	305.3	323.6	300.7	22.9 E
Services of Other Departments	3.5	4.2	5.1	5.1	-
Debt Service	-	-	-	-	-
General Reserve	-	32.7	32.7	-	32.7 F
Total Operating Uses	288.7	368.6	389.4	330.0	59.3
Net Operating Results	58.7			59.4	52.8
Other Impacts to Operating Budget					
	FY 2022-23 Actuals	Current Year Transfers from Operating	Total Available Funds	Projection (current & future years spending)	Project Closeouts
Programmatic	0.8	0.2	5.8	5.8	-
Capital Projects	1.5	0.8	5.3	5.3	-
Total Adjustments to Operating Fund Balance	2.3	0.9	11.1	11.1	-
Available Fund Balance as of Fiscal Year-End	90.1				142.9 G
Available Fund Balance, % of Operating Uses (H) %	31.1%				42.5%

Revenue Variances

A. Retail revenues are driven lower by final rates being slightly lower than budgeted rates, offset by higher wholesale revenues.

B. Interest income forecasted to increase from budget due to higher interest rate than assumed, as well as interest earnings from APX collateral.

Expenditure Variances

C. Salary savings due to vacant positions.

D. Savings reflect CPUC's postponement of the Integrated Resource Plan compliance filing to 2025, resulting in a surplus for professional services. The surplus also include savings from CleanPowerSF relocating to 525 Golden Gate.

E. Power Purchases variance driven by lower wholesale energy costs partially offset by increasing renewable and resource adequacy market costs.

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

Other Notes

G. Available fund balance at fiscal year end is calculated within this report by taking beginning fund balance, less any fund balance budgeted to be used as a source, and adding the projected variances as well as project closeouts. As the CleanPowerSF Trust Fund is a continuing fund, amounts budgeted therein will automatically roll forward to the following year and will not be closed out to fund balance. As such, variances related to revenues, purchase of power, and general reserves will not close out to fund balance at the end of the year without manual intervention. However as those funds are not considered restricted and CleanPowerSF may choose to close them out to fund balance, we are presenting them here as part of fund balance.

H. Calculated as Ending Available Fund Balance as a percent of Operating Uses plus Facilities Maintenance/Programmatic Uses. Per SFPUC's Fund Balance Reserve Policy adopted in April 2022, CleanPowerSF is required to build its fund balance reserve to a minimum of 41% (150 days) and a target of 49% (180 days) of operating expenditures within three fiscal years (June 30, 2025) of Fiscal Year Ending 2022.