



Services of the San Francisco Public Utilities Commission

2023 Water & Sewer Rate Study Financial Planning #1

November 7, 2022

Rate Fairness Board



Agenda

1. Rate Study Updates
2. Expenditures Analysis
3. Revenue Sufficiency
4. Next Steps
5. Timeline



Rate Study Update

Completed

- Stormwater charge methodology
- Fund Balance Analysis
- Volumetric Projections
- Expenditure Projections
- CIP Scenario Review

In Progress

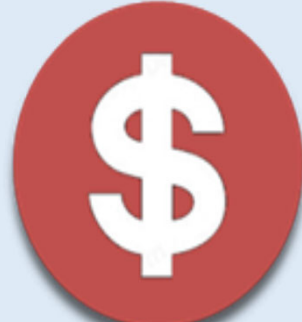
- Peer agency survey
- CIP Finalization
- Revenue Needs Assessment
- Preliminary Rate Revenue Adjustments
- Affordability Analysis
- Cost of service analysis
- Rate design
- Community outreach

Rate Study Process



Policy & Rate Structure Review

- Financial Policies
- Sources of revenues
- Uses of Funds
- Long-term investments



Revenue Requirement Analysis

Compares the revenues of the enterprise to expenses to determine the level of rate adjustments needed.



Cost of Service Analysis

Equitably allocates the revenue requirements between customer classes



Rate-Design Analysis

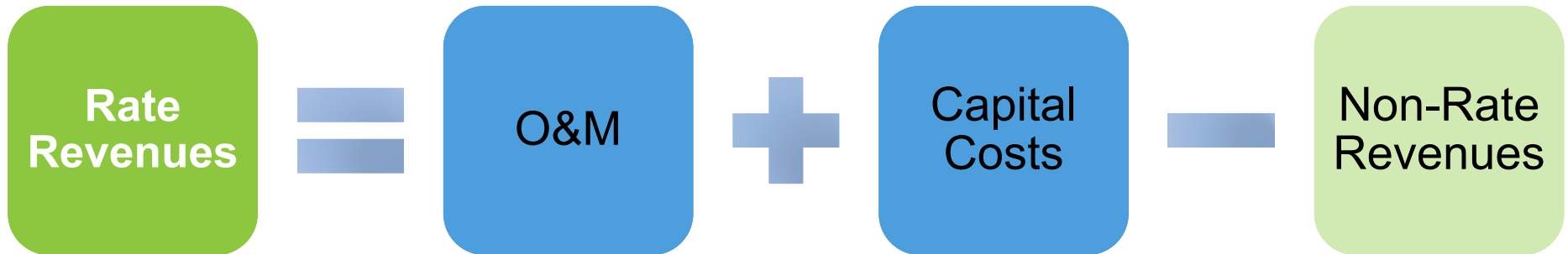
Design rates for each customer class to meet the revenue needs of the utility along with other rate design goals



Integrated Public Outreach & Messaging

Develop a cohesive messaging and outreach program that harmonizes technical cost of service requirements and community values

Revenue Sufficiency Analysis



Financial Planning Criteria

Debt Service Coverage

Operating Reserve

Cash Funded Capital

Predictability of Rates

Affordability of Rates



EXPENDITURES ANALYSIS



Model Assumptions

Operating Assumptions

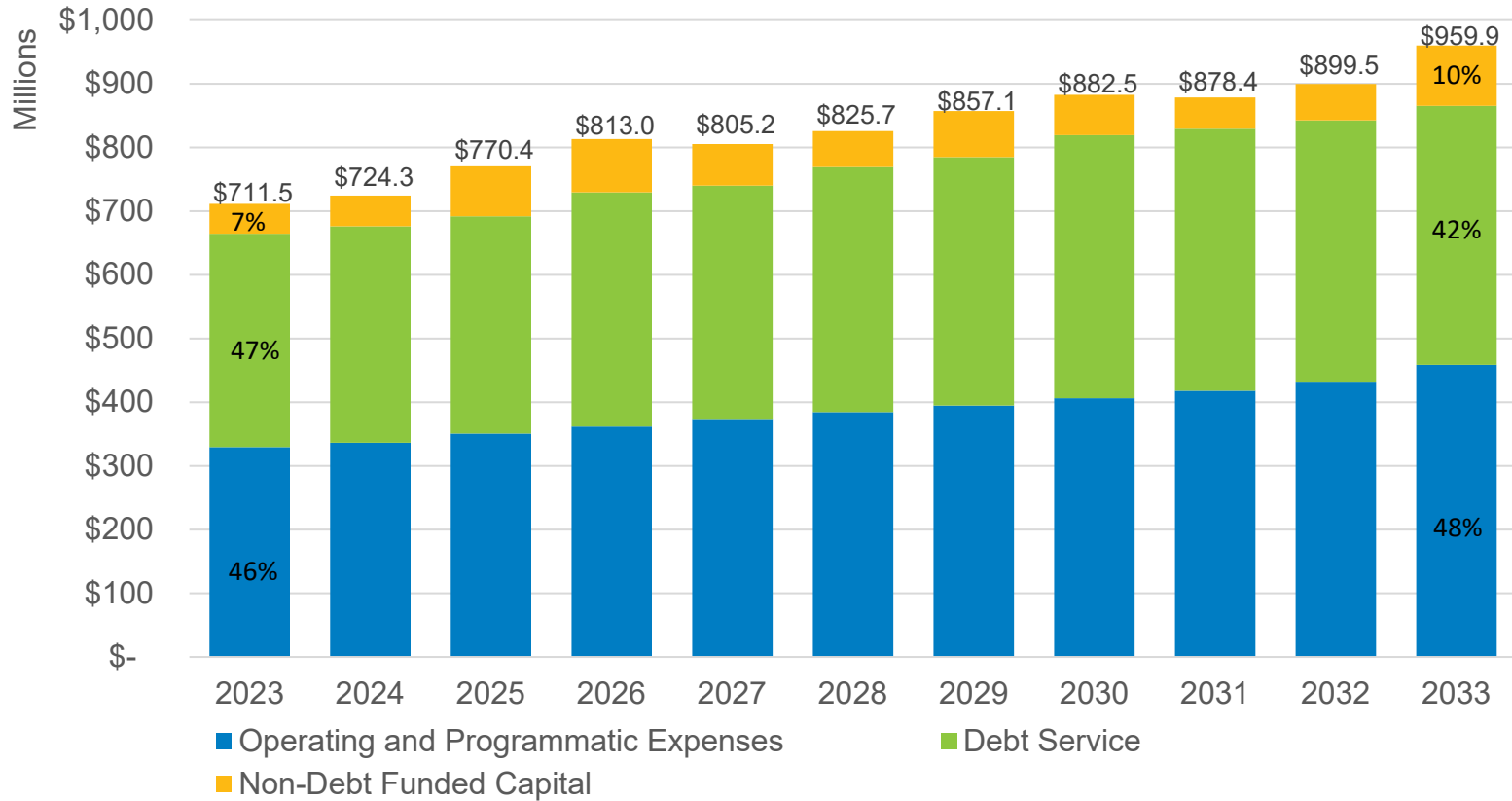
- FYE 2022 actuals incorporated
- FYE 2023 & FYE 2024 operating expenses set to budget
- FYE 2025 escalated using:
 - Projected Cost of Living Adjustment for Salaries
 - 4.4% projection for Fringe Benefits
 - 3% for non-labor based on local Consumer Price Index (CPI)
- Evaluating the use of Budget Execution Factors

Capital Assumptions

- Capital spending is currently based on February 2022 Capital Improvement Plan (CIP)
- Currently evaluating an updated 10-Year Capital Plan with Enterprises
- All future debt is assumed to be revenue bond funded
- Debt issuance schedule will be refined with Capital Finance team



Forecasted Water Enterprise Expenditures



**Expenses shown assume 100% of budget is executed*



What Is Driving Increased Water Expenditures?

Capital expenditures

- Average annual increase in debt service for 10-year financial plan is 3.0%
- Average annual budgeted amount for revenue-funded capital expenditures is \$62.1 million
- Additional capital investments may be added to the final CIP

Operating expenditures

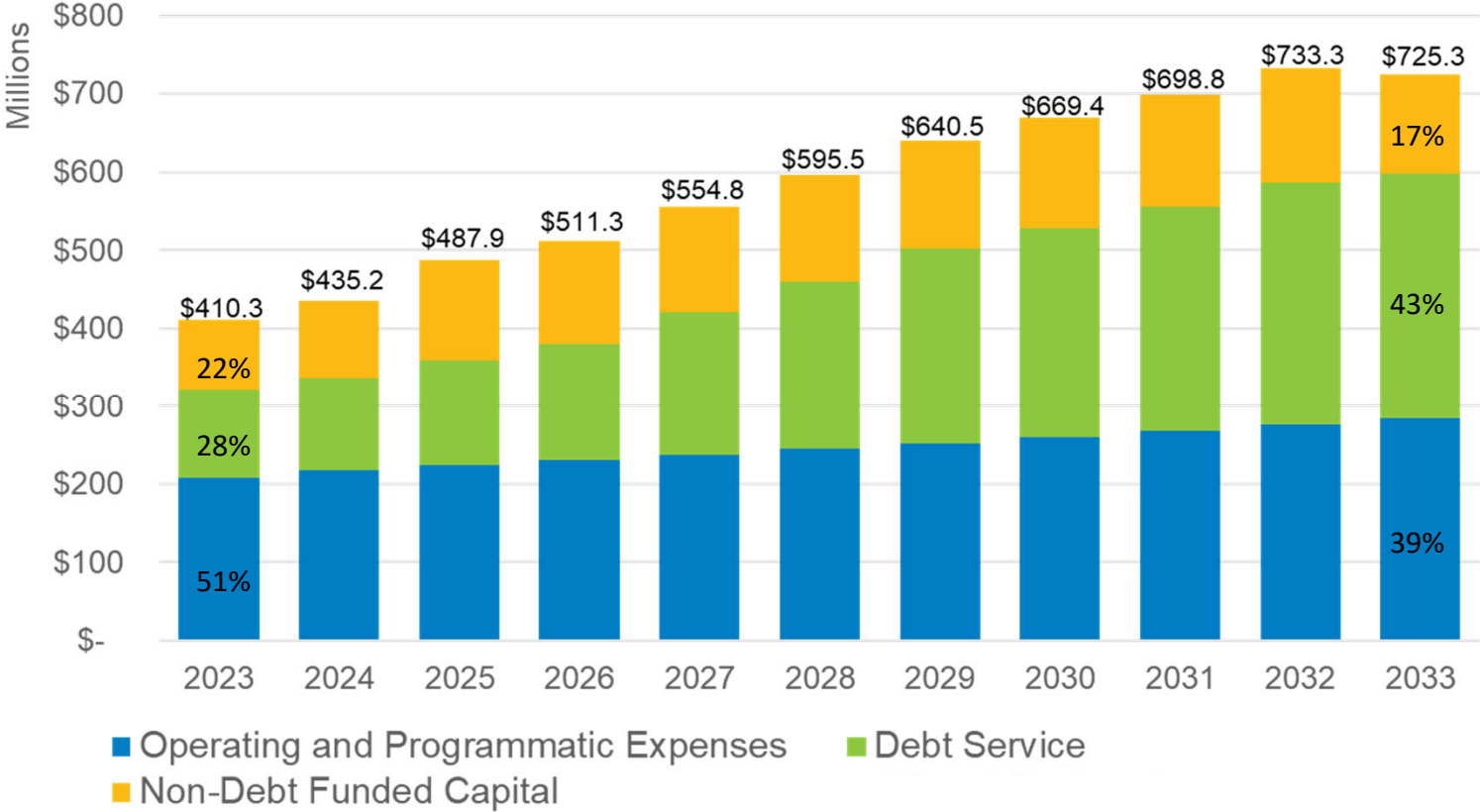
- Average annual increase for 10-year financial plan is 4.3%
- 14.8% increase in expenses are modeled for FY 2022

Wholesale/retail allocations impacted by drought

- Less wholesale conservation in FYE 2021 and FYE 2022 increases wholesale allocation of costs, shifting some costs away from retail customers
- Future allocations are uncertain, but projected for wholesale share of costs to return from current 70% to historic 66%



Forecasted Wastewater Enterprise Expenditures



**Expenses shown assume 100% of budget is executed*



What Is Driving Increased Wastewater Expenditures?

Debt-funded capital expenditures

- Average annual increase in debt service for 10-year financial plan is 13.4%
- Additional capital investments may be added to the final CIP

Operating expenditures

- Average annual increase for 10-year financial plan is 3.8%

Revenue-funded capital expenditures

- Average annual budgeted amount is \$128.6 million



REVENUE SUFFICIENCY

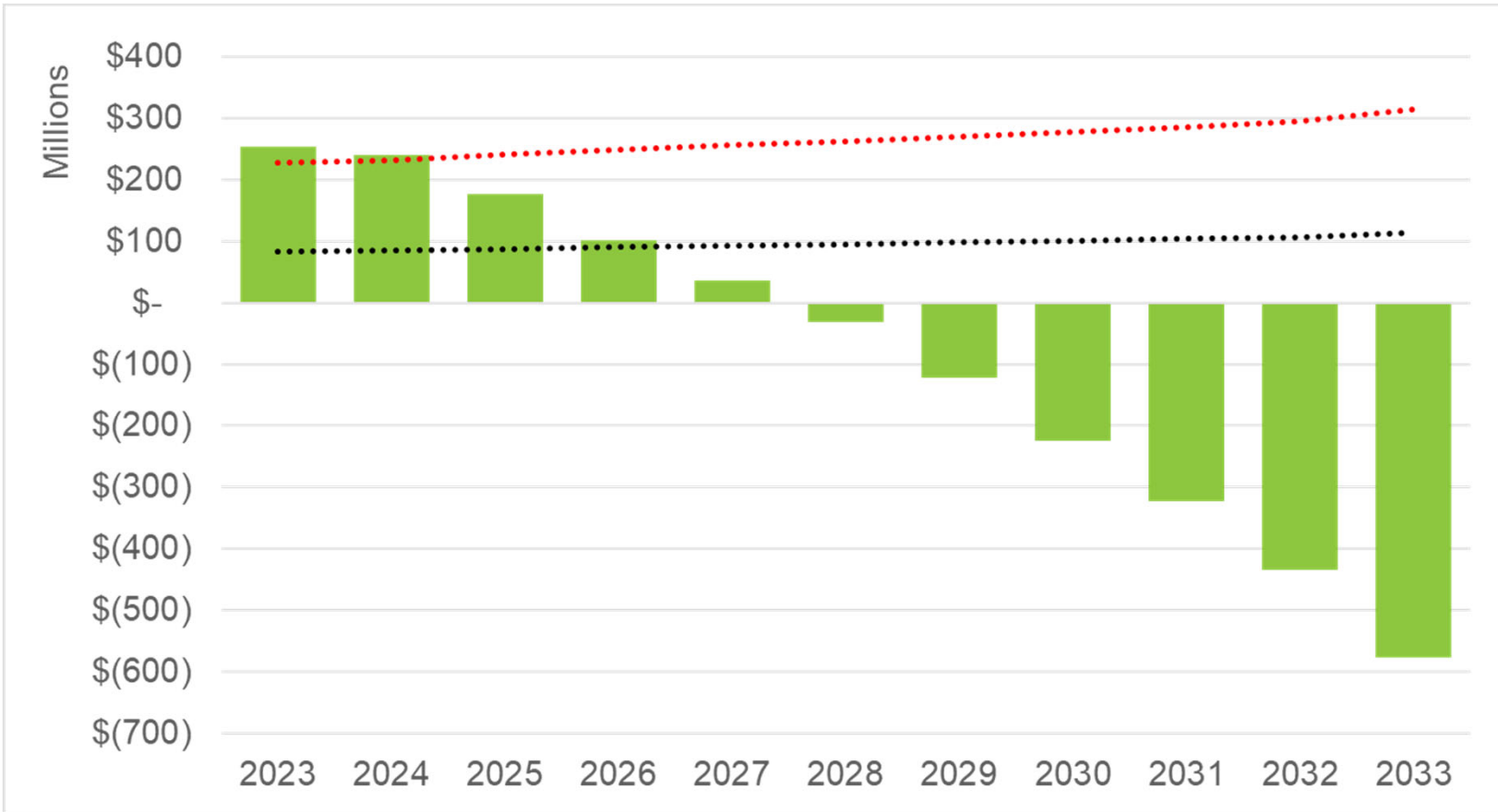


Water Rate Revenue Forecast: Existing Rates

FYE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues											
Retail Rate Revenues Under Existing Rates	308.4	327.3	360.8	335.0	343.5	344.7	346.6	346.9	348.1	349.2	351.2
Wholesale Rate Revenues	261.4	296.1	292.6	314.0	337.1	336.4	352.8	360.2	370.7	371.4	378.0
Other Miscellaneous Income	73.7	59.4	60.0	60.4	60.3	60.2	60.3	60.1	59.8	58.7	57.9
Total Revenues Before Rate Adjustment	\$ 643.5	\$ 682.8	\$ 713.3	\$ 709.4	\$ 740.9	\$ 741.3	\$ 759.6	\$ 767.2	\$ 778.6	\$ 779.3	\$ 787.2
Expenditures											
Operations and Maintenance	244.6	282.0	289.5	300.6	310.0	319.1	327.1	335.5	345.3	355.3	365.9
Hetchy Transfer	45.8	49.6	49.2	52.6	54.2	55.8	57.4	59.1	61.0	62.7	64.7
Debt Service	307.6	335.0	339.9	341.1	367.8	367.8	384.5	390.1	412.9	411.2	411.8
Cash Funded Capital	57.2	47.1	48.1	78.6	83.6	65.1	56.6	72.3	63.3	49.2	57.2
Total Expenditures	\$ 655.2	\$ 713.8	\$ 726.7	\$ 772.8	\$ 815.5	\$ 807.8	\$ 825.7	\$ 857.1	\$ 882.5	\$ 878.4	\$ 899.5
Operating Cash Flow Surplus (Deficiency)	\$ (11.7)	\$ (31.0)	\$ (13.4)	\$ (63.4)	\$ (74.6)	\$ (66.5)	\$ (66.0)	\$ (89.8)	\$ (104.0)	\$ (99.0)	\$ (112.4)



Forecasted Water Enterprise Revenues: Existing Rates



DSC Current	1.26	1.16	1.06	1.04	1.01	0.99	0.97	0.91	0.89	0.88	0.90
DSC Indenture	1.71	1.82	1.76	1.52	1.29	1.08	0.89	0.62	0.34	0.09	-0.17

DSC = Debt Service Coverage

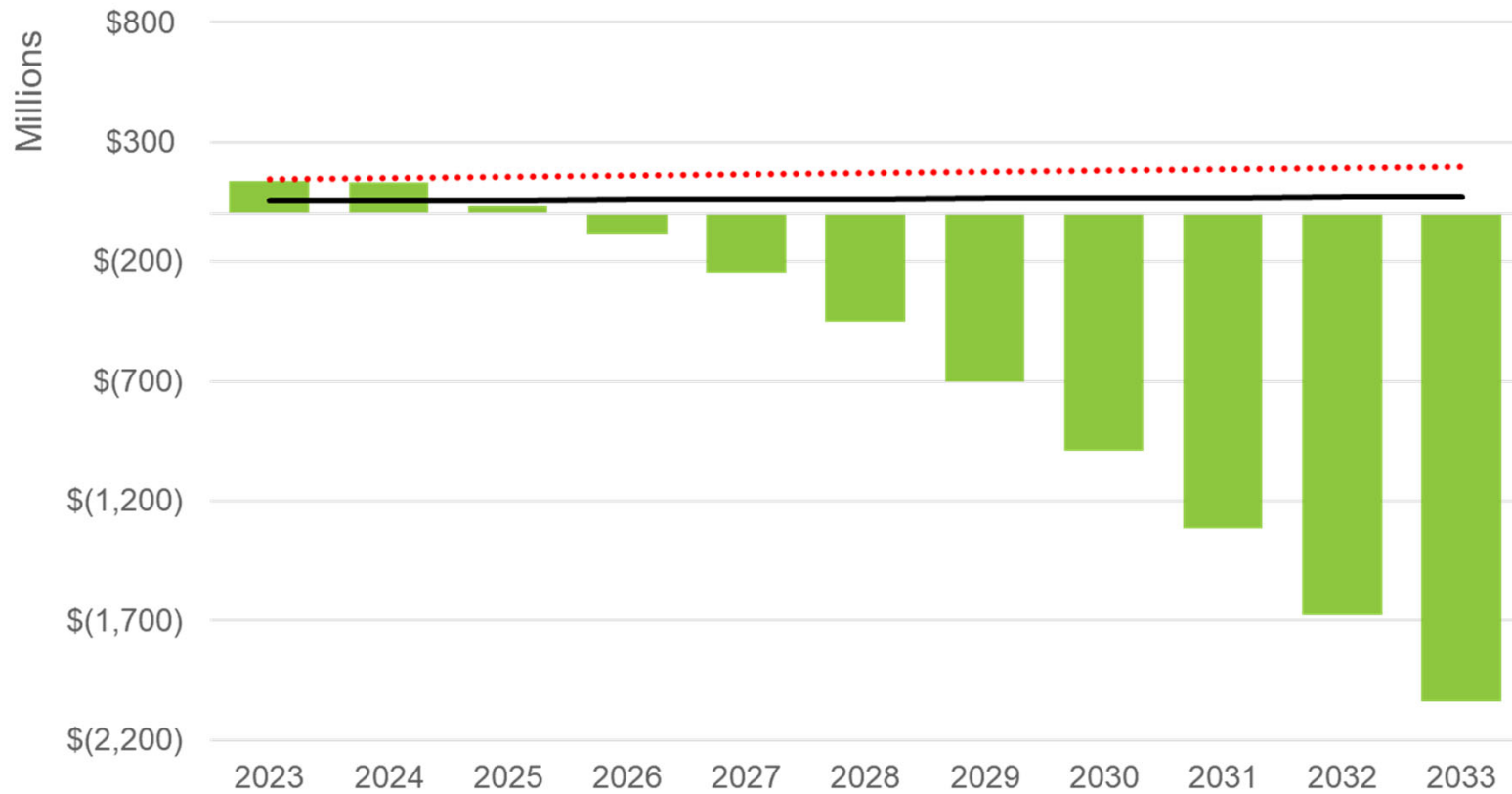


Wastewater Rate Revenue Forecast: Existing Rates

FYE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues											
Retail Rate Revenues Under Existing Rates	355.9	372.1	415.3	373.7	381.9	381.0	382.0	379.1	378.8	378.5	380.2
Interest Income	1.3	1.6	1.7	1.6	0.4	(1.0)	(4.2)	(7.6)	(11.3)	(15.9)	(21.0)
Federal Bond Interest Subsidy	4.0	4.0	3.9	3.7	3.6	3.4	3.3	3.1	2.9	2.7	2.5
Other Misc. Income	18.7	9.8	10.1	10.1	10.2	10.2	10.3	10.4	10.4	10.5	10.6
Total Revenues Before Rate Adjustment	\$ 380.0	\$ 387.6	\$ 430.9	\$ 389.1	\$ 396.1	\$ 393.6	\$ 391.4	\$ 385.0	\$ 380.9	\$ 375.8	\$ 372.3
Expenditures											
Operating Expenses	191.5	208.3	217.5	223.9	230.6	237.5	244.6	252.0	259.5	267.4	275.5
Debt Service	90.3	113.2	119.0	135.6	149.9	184.0	215.0	250.1	268.7	287.6	311.2
Non-Debt Capital Expenses	115.6	88.7	98.7	128.4	130.8	133.3	135.9	138.5	141.1	143.8	146.6
Total Expenditures	\$ 397.4	\$ 410.3	\$ 435.2	\$ 487.9	\$ 511.3	\$ 554.8	\$ 595.5	\$ 640.5	\$ 669.4	\$ 698.8	\$ 733.3
Operating Cash Flow Surplus (Deficiency)	\$ (17.3)	\$ (22.7)	\$ (4.3)	\$ (98.8)	\$ (115.3)	\$ (161.2)	\$ (204.1)	\$ (255.6)	\$ (288.5)	\$ (322.9)	\$ (361.0)



Forecasted Wastewater Fund Balance: No Rate Adjustments



DSC Current	1.75	2.04	1.36	1.22	0.92	0.74	0.57	0.48	0.40	0.33	0.27
DSC Indenture	3.29	3.33	2.44	1.46	0.43	-0.49	-1.35	-2.31	-3.26	-4.10	-5.38



NEXT STEPS



Next Steps

- Review Operating Execution Factors with Enterprises
- Finalize CIP for Water and Wastewater Enterprise
- Establish a Capital Financing Plan
- Develop Set of Alternative Financial Plans
- Review Alternatives with the Steering Committee
- Bring Proposed Alternative the RFB
- Initiate the Cost-of-Service Analysis



RFB Schedule

Approximate Timing (Week of)	Topic
December 19	<ul style="list-style-type: none">• Proposed Alternative Schedule of Rate Adjustments• Cost of Service Assumptions• Rate Design Process
January 23	<ul style="list-style-type: none">• Preliminary Rate Structure Alternatives
February 13	<ul style="list-style-type: none">• Discussion of Preferred Rate Structure• Final Schedule of Rates
February 27	<ul style="list-style-type: none">• Review of Draft Report• Review of Proposal to Commission
March 20	<ul style="list-style-type: none">• Prepare for Prop 218 Hearing

Schedule will likely adjust as we proceed with the rate study.



Discussion & Questions

