San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

Water & Sewer Rates Hearing
Fiscal Years Ending 2024, 2025, 2026

San Francisco Public Utilities Commission
Dennis Herrera, General Manager
Matthew Freiberg, Acting Rates Administrator
Laura Busch, Acting Deputy CFO
June 13, 2023

Agenda

- 2023 Water Wastewater Rate Study Requirements and Process
- Typical Bill Impact
- Efforts to Maintain Affordability
- Rates Education and Outreach
- Consequence of Rejecting Rates

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Rate Study Process

Rate Study conducted by independent consultant

Rate Fairness Board engaged at each key step of the analysis

Rates were designed to meet cost of service and proportionality requirements of Prop 218

All property owners and rate payers were mailed notices of proposed rate changes

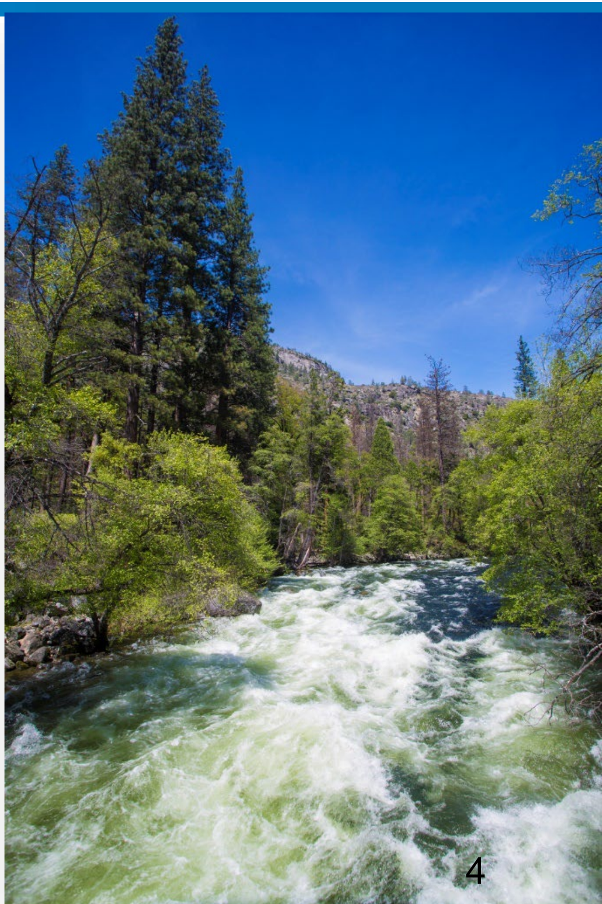
Proposed rates were approved by the Commission at the May 23rd Rate Hearing

SF Charter Requirements

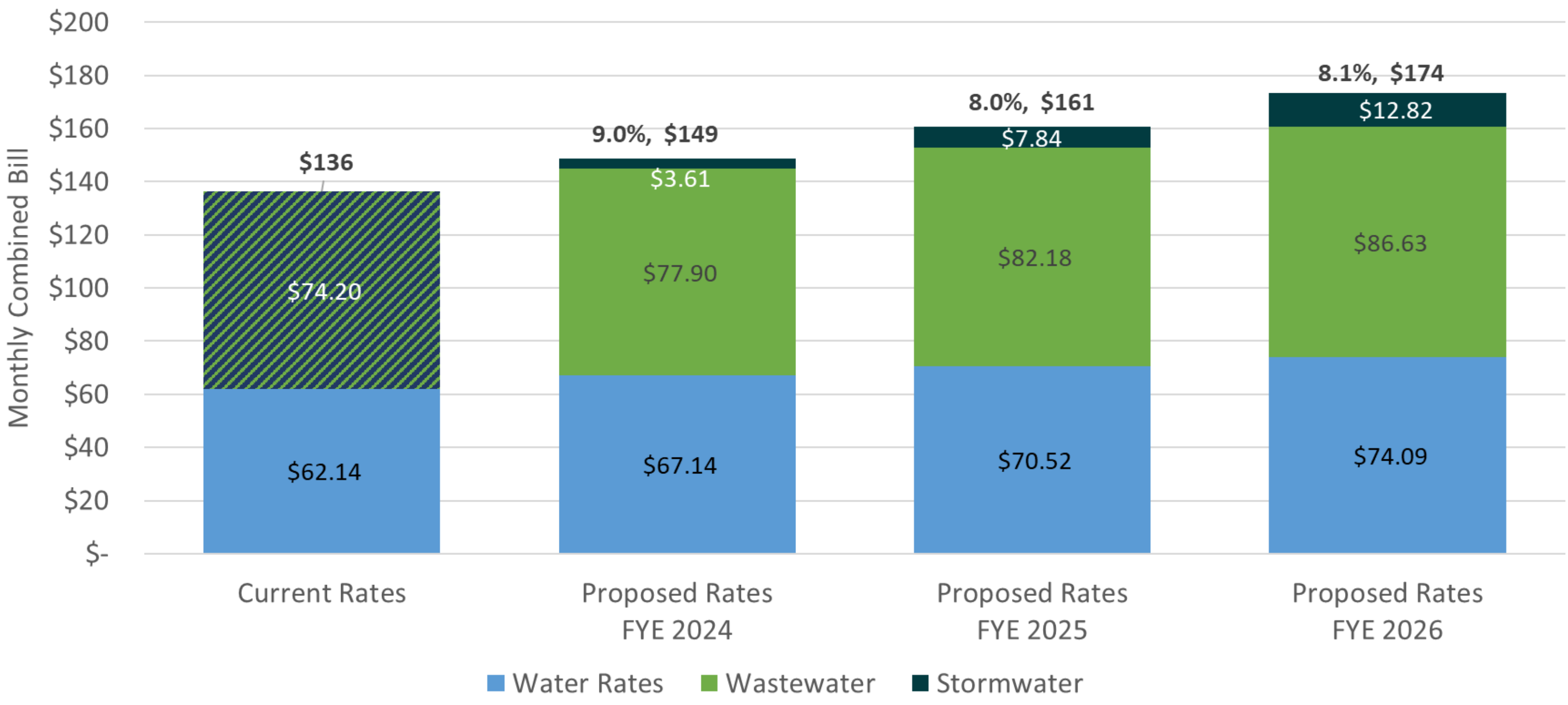
State Constitutional Requirements

Drivers for Rate Adjustments

- Escalating Operating Costs
- Debt Service
- Water Main and Sewer Collection System Replacement
- Seismic Reliability Projects
- Flood Risk Mitigation
- Treatment Plan Modernization

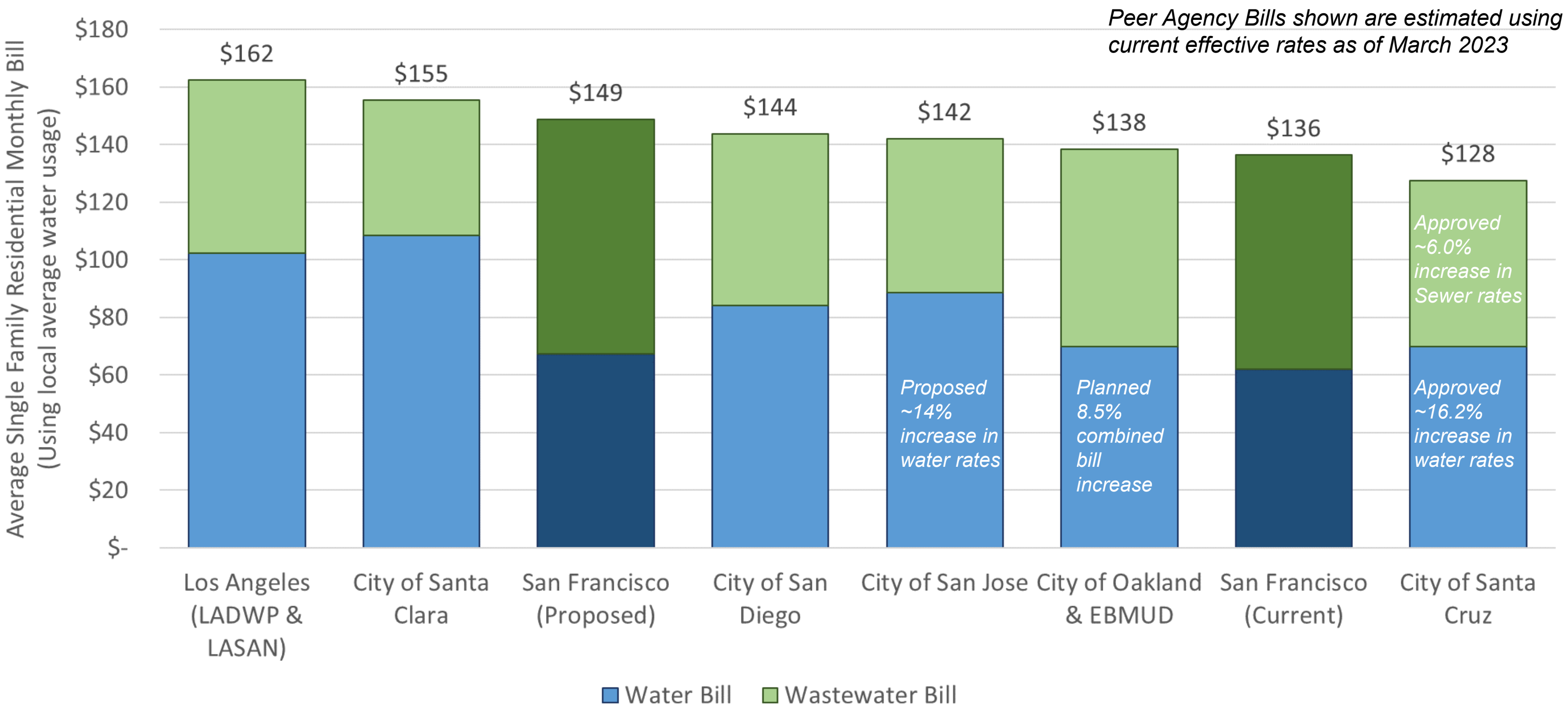


Customer Bill Impact: Average Single Family Residential Customer



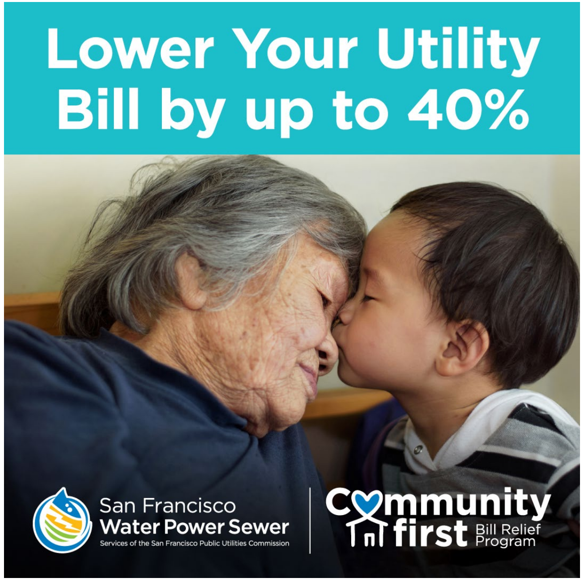
Assumes 4.8 CCF of water use per month

How do we stack up to our peers?



Each utility's average water usage is pulled from their online resources and published cost of service studies. If usage was provided per person per day, we calculated the average household size for each city using data from the US Census Bureau and an average of 30.5 days in a month.

Concerted Efforts to Support Affordability



- No rate increases in FY 2022-23 in response to pandemic
- Massive agency-wide effort over last year to prioritize capital plan
  - Reduced 10-year capital plan by **over a billion dollars** compared to prior plan
- Successfully secured low-interest state and federal loans, resulting in potential **$1.5 billion in interest savings**
- Phasing-in rate structure updates
- Expanded Customer Assistance Program
  - Raised income level for eligibility to expand access
  - Larger 40% discounts offered to lowest income customers
- Established Stormwater Grant and Credit Programs

Public Outreach: Multifaceted and Inclusive

Mailers

- 182,000 formal Prop. 218 notices mailed
- Bill inserts mailed to customers (4 languages)
- Messages on paper bills and MyAccount web portal
- Response to customers who submitted written protest

Direct Engagement

- Three virtual town hall meetings held
- Presentations or materials provided to 40+ local organizations

Online Engagement

- Targeted digital & social media ads (4 languages / 600,000 impressions)
- 9,900+ unique visitors to designated webpage with bill calculator: sfpuc.org/2023Rates
- Email for customer questions: ratesinfo@sfwater.org

Outreach and Support to Public Agencies

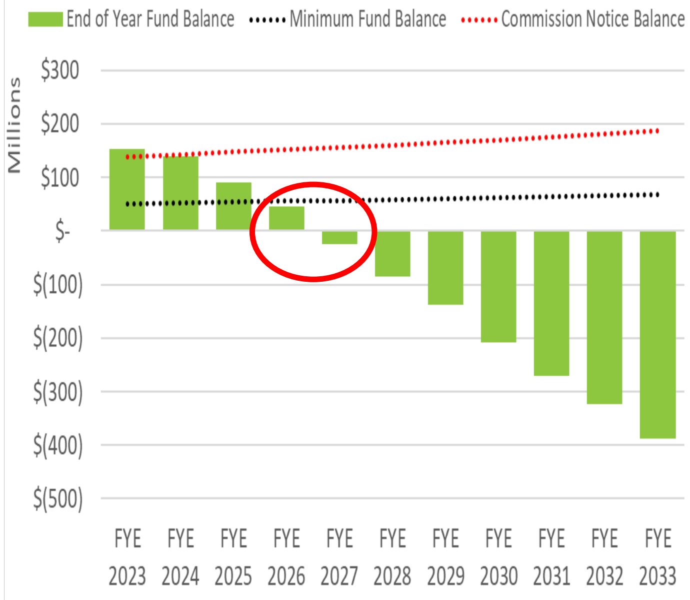
- Utility budget projections included Mayor's proposed balanced budget
- Met with most impacted departments throughout spring
- Worked for several years with departments most impacted by Stormwater change to alert them, and to encourage them to apply to resources that can reduce their bills, such as the SFPUC’s Green Infrastructure Grant Program
- To-date 7 grants totaling over **$6.7 million** have been awarded to public agencies. Budget includes **$61.3M** for GI grants over the next 10 years

Consequences of Rejecting Rates

Direct Impacts:	Risk of insolvency without larger future rate increases	Capital budget cuts, hiring slowdown
Indirect Impacts:	Credit rating downgrade	Higher cost of borrowing, future projects become more expensive

Direct Impact: Risk of Future Insolvency

Reserve impact if zero rate change in *FY24 only* (WWE)



- Current plan allows us to maintain reserves and meet debt coverage, required in bond covenants and necessary for strong credit ratings
- If we hold rates flat again for FY24:
  - Wastewater's reserve drops below min in FY26 and depleted in FY27
  - Water's debt coverage breached in FY26
- In order to maintain our reserves and coverage above minimum, would need **14.75%** (vs 9%) rate increase in (WWE) and **8.25%** (vs 5%) for Water in both FY25 and 26 to recover from one more year of zero rate increase

Direct Impact: Budget Cuts

Capital: Reducing or deferring the following capital projects:

- Sewer main repair and replacement
- Flooding mitigation
- Green Infrastructure program
- Water main repair and replacement
- Emergency Firefighting Water System
- 2000 Marin new CDD HQ

Operating: Slowing down hiring, service impacts

Flooding in Lower Alemany Area

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Indirect Impact: Risk to Future Borrowing Cost

S&P Global Ratings

RatingsDirect®

Summary:

San Francisco Public Utilities Commission, California; Water/Sewer

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Outlook

The stable outlook reflects our expectation that the San Francisco Board of Supervisors will not delay implementation of the commission's approved three-year rate plan, and that near-term financial metrics will be consistent with current forecasts. Given the system's history of managing a large and complex capital program, absent the possible inclusion of new projects in the CIP, we do not expect material construction delays or cost overruns.

Downside scenario

The ratings could come under pressure if liquidity is materially drawn down from historical levels, or updated spending plans result in significantly more leverage than expected required to complete the CIP. Additionally, we could take a negative rating action if San Francisco's economic recovery stalls, resulting in measurable variances in economic indicators that are worse than those that we have already incorporated into our rating. Such factors would include a sustained unemployment rate above 10%, significant increases in poverty rates for the region, or if household incomes decline and erode affordability, and ultimately, our market position assessment.

Upside scenario

Given uncertainty regarding environmental flow requirements and potential water curtailments, as well as the size of the CIP and the system's upcoming debt plans, we do not anticipate taking a positive rating action during the two-year outlook horizon.

Credit Opinion

San Francisco's daytime population decreased by 18.2% to 940,211 people in 2021 and by an additional 0.5% in calendar year 2022 while the nighttime (resident) population decreased by 7.5% to 815,201 people. Despite the population declines, we believe the water system's credit quality has stabilized due to its critical role serving significant portions of the three East Bay and Peninsula counties, with 15 of its 27 suburban customers nearly completely reliant on SFPUC water.

Like many peer agencies across the west coast, SFPUC's annual water sales have declined during the past 15 years due to demand-side management and educational assistance. Assuming continued conservation, management projects sales volumes to decrease 0.5% annually during the next 10 years.

During the past decade, SFPUC has approved and implemented significant annual retail rate increases, and most recently approved a four-year rate plan to raise rates by 9.0%, 8.3%, 7.8%, and 7.9% in fiscals 2019 through 2022, respectively. (In addition, a 5% drought surcharge was instituted effective April 1, 2022, and ended May 1, 2023 when SFPUC rescinded its emergency water shortage declaration). The commission recently approved 5% annual retail rate increases through 2026 while a 15.9% wholesale increase was instituted for fiscal 2023 and a 9.7% increase will be instituted in fiscal 2024.

Even with SFPUC's recent and planned rate increases, retail rates are generally affordable in the context of the service area's very strong income levels. A typical single-family residential customer currently pays a monthly water bill of $62.14 (for 4.8 ccf), which when annualized is about 0.8% of the city's median household effective buying income;

- In anticipation of upcoming 2023 Water Revenue Bonds, S&P Global Ratings confirmed its AA- rating but warned:

> "The stable outlook reflects our **expectation that the San Francisco Board of Supervisors will not delay implementation of the commission's approved three-year rate plan**, and that near-term financial metrics will be consistent with current forecasts."*

> "The rating further reflects our assessment of the commission's historical and future willingness to adjust rates to meet rising debt service requirements. We believe that **any reluctance or inability to raise rates would likely erode financial margins and liquidity and, in turn, diminish credit quality**."*

- A rating downgrade from AA- to A+:
  - **Could increase borrowing costs more than $20 million on the SFPUC's upcoming 2023 water revenue bonds alone**
  - Would trigger higher interim financing facilities fees of $1 million annually
  - Would increase costs of future borrowing
- Downgrades could also increase Wastewater, Power costs

* Emphasis added

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Discussion