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

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Date: February 27, 2024

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

Through: Dennis J. Herrera, General Manager

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

Subject: FY 2023-24 Q2 Audit and Performance Review Report

This memorandum summarizes the San Francisco Public Utilities Commission (SFPUC) Quarterly Audit and Performance Review (QAPR) report for the second quarter of FY 2023-24, ending December 31st, 2023.

I. Completed Audits

There were three completed audits during the second quarter of FY 2023-24:

1. FY 2023-24 Interconnection Security Agreement | November 14, 2023
   Report is confidential.

   Summary: The Interconnection Security Agreement is an annual process whereby the Office of the Controller verifies that appropriate SFPUC information security controls exist to protect the confidentiality, integrity, and availability of Controller-operated enterprise-level systems and associated data.

   Results: Security controls were found to be sufficient, and interconnection was authorized.

2. Public Integrity Assessment: Social Impact Partnership Program Audit Field Follow-up | December 7, 2023
   Report Link: http://tinyurl.com/4dn6pn4h

   Summary: In December of 2021, the CSA issued seven recommendations for improving SIP internal controls, recordkeeping, program monitoring, policies and procedures, systems, and resources, to ensure program success in the long term. This field follow-up was undertaken to assess the status of the implementation of these recommendations.

   Audit Findings Summary: CSA found that SFPUC has fulfilled the intent of all seven recommendations made in CSA's December 2021 report.

3. FY 2021-22 Wholesale Revenue Requirement: Statement of Changes in Balancing Account | December 30, 2023
   Report Link: http://tinyurl.com/58kxtn9a

   Report Summary: Third-party auditors KPMG LLP and Yano Accountancy Corporation performed the annual audit, as required by the Water Supply Agreement with Wholesale Water Customers, to review the allocation of operating and capital costs among retail and wholesale water customers.

   Audit Findings Summary: No Report on Internal Control was issued for FY 2021-22 as no deficiencies in internal control that would require communication to SFPUC were found.

II. Audit Recommendation Status

As of 12/31/23, 23 audit recommendations were open for two audits: the SSIP CS-165 Program Management Contract Audit and the Crystal Springs Golf Partners, LP Revenue Lease Audit.

If you have questions, please contact me at NHom@sfwater.org or Irella Blackwood at iblackwood@sfwater.org.

Attachment: FY 2023-24 Audit Plan, By Status

CC: Ronald P. Flynn, Deputy General Manager
Irella Blackwood, Audit Bureau Director
Sheryl Bregman, SFPUC Counsel, Office of the City Attorney

Quarterly Audit & Performance Review Report
FY 2023-24 Audit Plan, By Status
As of December 31, 2023

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

Status	
Completed:	13
In Progress:	12
Upcoming:	7
Total:	32

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
1	Completed	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2020-21	BAWSCA
2	Completed	Financial	Business Services, Finance	Post Audit, CY 2022	Controller
3-7	Completed	Financial	Water	Annual Physical Inventory Count, FY 2022-23	SFPUC, Finance
	Completed	Financial	Wastewater		
	Completed	Financial	Hetch Hetchy Water & Power		
8	In Progress	Financial	Water	Audited Financial Statements, FY 2022-23	Controller
9	In Progress	Financial	Wastewater		
10	In Progress	Financial	Hetch Hetchy Water & Power & CleanPowerSF		
11	In Progress	Financial	Power	2021 CAPP Audit	CA Community Services Division
12	**[Updated]** Completed	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2021-22	BAWSCA
13	Upcoming	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2022-23	BAWSCA
14	**[Updated]** In Progress	Financial	Business Services, Finance	Annual Comprehensive Financial Report, FY 2022-23	SFPUC
15	**[Updated]** Upcoming	Financial	Business Services, Finance	Single Audit (OMB Circular A-133), FY 2022-23	OMB
16	**[Updated]** In Progress	Financial	Business Services, Finance	Popular Annual Financial Report, FY 2022-23	SFPUC
17	Upcoming	Financial	Water	Interim Financial Statements, FY 2023-24	Controller
18	Upcoming	Financial	Wastewater		
19	Upcoming	Financial	Hetch Hetchy Water & Power & CleanPowerSF		

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
20	Completed	Performance	Contracts Administration Bureau	Chapter 14B LBE Audit	CSA, Controller
21	Completed	Performance	Business Services, ITS	Cybersecurity Maturity Assessment, FY 2022-23	CSA, Controller
22	In Progress	Performance	Hetch Hetchy Water & Power	Critical Infrastructure Protection and Operations and Planning Reliability Standards Audit	WECC / NERC
23	**[Updated]** Completed	Performance	Business Services, ITS	Interconnection Security Agreement, FY 2022-23	CSA, Controller
24	**[Updated]** Completed	Performance	External Affairs	Public Integrity Assessment: Social Impact Partnership Program Audit Field Follow-up	CSA, Controller
25	In Progress	Performance	Infrastructure	Public Integrity Assessment: SOLIS Procurement	CSA, Controller
26	In Progress	Performance	All SFPUC	SFPUC Chapter 6 Delegated Authority Audit	BOS
27	In Progress	Performance	All SFPUC	BLA Conflicts of Interest Audit	BOS
28	**[Updated]** In Progress	Performance	All SFPUC	Inventory Performance Assessment	SFPUC
29	Upcoming	Performance	Customer Services Bureau	Customer Assistance Program Post-Enrollment Verification	BOS
30	Upcoming	Concessions, Lease Revenue	Real Estate Services	Revenue Lease Audit: Mission Valley Rock	CSA, Controller
31	Completed	Revenue Bond Oversight Committee	RBOC	SFPUC Revenue Bond Programs Audit: Phase II	RBOC
32	**[Updated]** In Progress	Revenue Bond Oversight Committee	RBOC	SFPUC Revenue Bond Programs Audit: Phase III	RBOC

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

FIELD FOLLOW-UP MEMORANDUM

TO: Dennis Herrera, General Manager
San Francisco Public Utilities Commission

FROM: Mark de la Rosa, Director of Audits
Audits Division, City Services Auditor

DATE: December 7, 2023

SUBJECT: **Field Follow-up of the 2021 Public Integrity Audit: Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program**

SUMMARY

In December 2021 the Office of the Controller's City Services Auditor (CSA) issued an audit report, *Public Integrity Audit: Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program*. CSA has completed a field follow-up to determine the corrective actions that the San Francisco Public Utilities Commission (SFPUC) has taken in response to the report. The report contains seven recommendations, all of which have been implemented and closed.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

Since 2011, the SFPUC's Social Impact Partnership (SIP) Program has resulted in contractor commitments of approximately $22 million, 82,000 person-hours, and nearly $1 million in in-kind services to support communities in SFPUC's service area. In 2021 CSA audited SFPUC to assess the appropriateness and effectiveness of SFPUC's governance and oversight of the SIP Program. The audit found that the SIP Program lacked the infrastructure and policies necessary for its sustainability that a fully developed program would have. This includes weakness in internal controls, inconsistent and unreliable recordkeeping, inadequate program monitoring, and a lack of a sustainable framework, which includes policies and procedures, systems, and resources, to ensure program success in the long term. It also revealed that roughly two-thirds of all contractor commitments made since 2011 were not fulfilled. The audit report made seven recommendations related to the governance and oversight of the SIP Program including the evaluation of the SIP criteria used in the selection process and review of SFPUC's SIP Program outcomes.

Objective

The objective of this field follow-up was to determine whether SFPUC has taken the corrective actions recommended in CSA's 2021 audit report. Consistent with Government Auditing Standards, Section 9.08, promulgated by the U.S. Government Accountability Office, the purposes of audit reports include facilitating follow-up to determine whether appropriate corrective actions have been taken.

This field follow-up is a nonaudit service. Generally accepted government auditing standards do not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, SFPUC is responsible for the substantive outcomes of the work performed during this field follow-up and is responsible to be in a position, in fact and appearance, to make an informed judgment on the results of the nonaudit service.

Methodology

To conduct the field follow-up, CSA:

- Obtained documentary evidence from SFPUC.
- Interviewed SFPUC staff to understand and verify the status and nature of the corrective actions taken.
- Verified the status of the recommendations that SFPUC had reported as implemented.

RESULTS

SFPUC has fulfilled the intent of all seven recommendations made in CSA's December 2021 report, which, consequently, are now considered closed. The following exhibit summarizes the status of the recommendations.

Implemented and Closed Recommendations

Recommendation	Conclusion
San Francisco Public Utilities Commission should:	
1. Take steps to enforce contract requirements related to the SIP Program, including consideration of the following: a. Institute procedures to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments. b. Post on the program website information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements. c. Incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program. d. Apply liquidated damages or other penalties to contractors that fail to meet their commitments.	SFPUC has taken steps to enforce contract requirements related to the SIP Program to address the audit recommendation. Specifically, SFPUC has: a. Documented procedures to proactively contact contractors who do not meet reporting requirements or do not make adequate progress in fulfilling their commitments, including developing e-mail communication templates and a standardized email schedule related to reporting requirements and performance for compliant and non-compliant contractors. b. Developed a public interactive dashboard demonstrating contractor performance, which includes data on active and completed contracts, delivered and still-to-be-delivered commitments, and nonprofit beneficiaries and firm compliance with program. The dashboard also shows types of commitments made by firms, such as for volunteer hours, good/products, and financial donations. The SIP dashboard is updated at least biannually after each reporting period. c. Updated their SIP Request for Proposals (RFP) template to require submission of reference projects that demonstrate the contractor's past performance in fulfilling commitments. d. Updated their SIP RFP template to include accountability language, legal remedies, and liquidated damage clauses.

Recommendation	Conclusion
2. Move forward with plans to obtain Board of Supervisors approval of a SIP Program policy that includes requirements to standardize processes and practices and provide clear, consistent guidance for the program's contractors.	On December 13, 2022, The Board of Supervisors passed and adopted Ordinance No. 261-22, which authorizes the SFPUC SIP Program and requires SFPUC to adopt rules and regulations to implement it. Through Resolution No. 23-0075, Rules and Regulations for the implementation of the SIP Program was adopted by SFPUC on April 11, 2023.
3. Develop formal, written SIP Program policies and procedures on: a. The oversight and management of the program and guidance provided to external parties. b. Roles and responsibilities of staff and management assigned to the program. c. Standardized contract provisions and protocols for monitoring and reporting on contractor compliance. d. Access and usage of information systems used for program management.	SFPUC has developed formal, written SIP Program policies and procedures. Specifically, SFPUC has: a. Developed rules and regulations to provide guidance to SIP Program participants, such as contractors and beneficiaries, to effectively implement their SIP commitments, provide oversight, and ensure that the proposed SIP commitments are delivered in a transparent and accountable manner. b. Conducted a staff assessment to produce the SIP Staff Roles & Responsibilities, which reflects the current staffing model by outlining the roles and key responsibilities of staff. c. Included in the SIP Program Rules and Regulations are standardized contract provisions covering contract SIP Program requirements to obligate a contractor to perform and fulfill a Social Impact Commitment. Contractors are required to submit regular, bi-annual, SIP Program performance reports and required documentation to the SFPUC via an online portal. According to the Program Rules and Regulations, SFPUC will regularly monitor progress made on each SIP covered contract to ensure compliance and the delivery of commitments. d. Provided contractors access to the public dashboard to confirm their recorded performance and the progress of their Social Impact Commitments.

Recommendation	Conclusion
4. Formalize the Contract Administration Bureau's record retention policy and ensure the bureau retains all documentation supporting the solicitation and contract award process, including documentation relating to the SIP Program. In doing so, SFPUC should consider developing a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate in the event of staff attrition.	The Contract Administration Bureau's Records Retention Policy and Retention Schedule was finalized and effective as of October 3, 2022. Each division is responsible for maintaining and retaining their records, including supporting documentation relating to the SIP Program. The Policy and Schedule ensures that SFPUC staff retain records necessary for effective business administration, create a records retention period, issue guidelines for handling documents for legal purposes, and comply with laws and regulations.
5. Ensure staff review required SIP reports and underlying documentation in a timely manner, ensuring information reported by contractors is accurate, reliable, and supported. As discrepancies are identified, SFPUC should proactively and promptly contact contractors to address the discrepancies and areas where additional support is necessary. Documentation supporting SFPUC's efforts should be retained in Salesforce or a centrally located network drive that is available in the event of staff turnover. a. SFPUC should also conduct periodic supervisory reviews of a sample of approved contractor submissions to ensure that SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC.	SFPUC has SIP documentation and reporting data validation procedure that includes three levels of review of SIP firm submissions to ensure compliance with SIP reporting and documentation requirements. If submissions do not pass the first two reviews, they are rejected, flagged in a reporting tracker, and SIP staff contact the contractor to rectify. The submissions must go back through the review process from the beginning. During the final review, the Community Benefits Deputy Director reviews 20 percent of all submissions and documents any findings, discrepancies or issues identified during the SIP staff's review of approved contractor submissions. The Community Benefits Deputy Director subsequently makes recommendations and monitors the implementation of the recommended actions and ensures that any identified issues are addressed appropriately. If issues persist, follow-up reviews are conducted to track progress and ensure resolution.
6. Assess SIP Program staffing levels to ensure sufficient resources are available to provide oversight and controls necessary to ensure the integrity of the program and accuracy of information reported.	SFPUC's SIP Staff Roles and Responsibilities guide highlights the staffing structure with detailed job duties, classifications, and competencies required for the program. According to SFPUC, the SIP Program is fully staffed as of September 2023, with the recent addition of the SIP Senior Administrative Analyst in April 2023.
7. Increase transparency into the SIP Program by implementing a publicly	The SIP Dashboard is publicly available online to ensure transparency and accountability of the

Recommendation	Conclusion
available SIP Performance Dashboard and implement internal controls to ensure the dashboard presents data that is accurate, reliable, and updated in a timely manner.	contractor's SIP commitments. SIP commitments, delivery of commitments, and contractor performance regarding contract compliance and delivery are reported on the SIP performance dashboard.

CSA extends its appreciation to you and your staff who assisted with this review. If you have any questions or concerns, please call me at (415) 554-7574 or e-mail me at mark.p.delarosa@sfgov.org.

cc: San Francisco Public Utilities Commission
Irella Blackwood
Christina M. Andersson
Christopher Crane
Chelsea Boilard
Ronnie Versher, Jr.

Controller
Ben Rosenfield
Todd Rydstrom
Amanda Sobrepeña
Eryl Karr
Serena Chen

Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

Attachment

Department Response

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

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November 27, 2023

Mark de la Rosa
Director of Audits, Controller's Office
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Field Follow-up of the 2021 Public Integrity Audit: Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program

Dear Mr. de la Rosa,

Thank you for providing us the opportunity to review the report, *Field Follow-up of the 2021 Public Integrity Audit: Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program*, prepared by the Controller's Office City Services Auditor.

We appreciate the time your staff dedicated to this field follow-up. We are pleased by the determination that SFPUC has fulfilled the intent of all seven recommendations made in CSA's December 2021 report, and that these recommendations are now considered closed.

If there are any questions or additional information is needed, please do not hesitate to contact me at 415-554-1600.

Sincerely,

Dennis J. Herrera
General Manager

CC: Ronald P. Flynn, Deputy General Manager
Nancy L. Hom, AGM Business Services and Chief Financial Officer
Irella Blackwood, Audit Director

OUR MISSION: To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

KPMG

Yano Accountancy Corporation

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statements of Changes in the Balancing Account

June 30, 2022

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Yano Accountancy Corporation

Independent Auditors' Report

To the City and County of San Francisco
and the Wholesale Customers:

Opinion

KPMG LLP and Yano Accountancy Corporation have audited the Statement of Changes in the Balancing Account (the statement) of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC), for the year ended June 30, 2022, and related notes to the statement.

In our opinion, the statement presents fairly, in all material respects, changes in the Balancing Account for the year ended June 30, 2022 in accordance with Article VII, Section 7.02 of the Water Supply Agreement (WSA), between the City and County of San Francisco (City) and certain Wholesale Customers in the counties of San Mateo, Santa Clara, and Alameda (Wholesale Customers) effective July 1, 2009.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the SFPUC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting

We draw attention to note (1)(b) of the statement, which describes the basis of accounting. The statement was prepared by the SFPUC on the basis of the financial reporting provisions of Article VII, Section 7.02 of the WSA, which is a basis of accounting other than U.S. generally accepted accounting principles, to comply with the financial reporting provisions of the WSA referred to above. As a result, the statement may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the statement in accordance with the financial reporting provisions of Article VII, Section 7.02 of the WSA. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SFPUC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SFPUC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matter – Audit of the Basic Financial Statements

KPMG LLP has audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the San Francisco Water Enterprise and of Hetch Hetchy Water and Power as of and for the year ended June 30, 2022, and our reports thereon, dated January 27, 2023 expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Public Utilities Commission, City management, and the Wholesale Customers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP　　Yano Accountancy Corporation

San Francisco, California
December 30, 2023

SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account
Year ended June 30, 2022

	Total	Amount allocated to the wholesale customers
Wholesale revenue requirement:		
Operating and maintenance expenses:		
San Francisco Water Enterprise (Water Enterprise):		
Source of supply	$ 34,943,564	20,356,813
Pumping	1,679,859	—
Treatment	49,995,749	33,772,011
Transmission and distribution	68,460,065	18,193,479
Customer accounts	10,259,034	202,814
Total Water Enterprise operating and maintenance expenses	165,338,271	72,525,117
Hetch Hetchy Water and Power (Hetch Hetchy):		
Operating and maintenance expenses	$ 150,118,599	19,560,700
Total Hetch Hetchy operating and maintenance expenses	$ 150,118,599	19,560,700
Administrative and general (A&G) expenses:		
Countywide cost allocation plan:		
Water Enterprise	$ 3,019,002	1,324,134
Hetch Hetchy	1,767,628	544,951
San Francisco Public Utilities Commission (Bureaus):		
Water Enterprise	36,939,672	16,609,326
Hetch Hetchy	18,740,706	3,491,072
Other A&G – Water Enterprise	20,752,799	7,932,583
Other A&G – Hetch Hetchy	28,472,220	3,804,989
Compliance audit	195,720	97,860
Total administrative and general expenses	$ 109,887,747	33,804,915
Property taxes (outside City only):		
Water Enterprise	$ 1,903,691	1,307,835
Hetch Hetchy	591,486	182,352
Total property taxes	$ 2,495,177	1,490,187
Capital cost recovery – existing regional assets (K-5):		
Water Enterprise		—
Hetch Hetchy		—
Capital cost contribution – new regional assets:		
Debt-funded capital projects:		
Water Enterprise (note 4a)		158,261,916
Hetch Hetchy Water (note 4a)		3,434,526
True-Up of Bonds at Completion of WSIP		3,549,471
Credit for federal BABs interest subsidy		(14,369,869)
Credit for Debt Service Reserve Releases		(456,894)
Revenue-funded capital projects:		
Water Enterprise (note 4d)		13,711,614
Hetch Hetchy		—
True-Up of Wholesale Capital Fund		(4,154,868)
Total capital cost recovery and contribution		159,975,896
Total wholesale revenue requirement		$ 287,356,815
Balance due to wholesale customers, July 1, 2021		$ (62,980,489)
Interest on adjusted beginning balance		(377,883)
Net Wholesale revenue billed (note 5)		(257,016,936)
Transfer from Wholesale Coverage Reserve		2,278,271
Transfer from Balancing Account for BAWSCA water projects		346,750
Transfer from Balancing Account for K-5 Prepayment		—
Calculated wholesale revenue requirement		287,356,815
FY 20-21 Net Interest on Wholesale Coverage Reserve / Working Capital		(247,850)
Balance due to wholesale customers, June 30, 2022		$ (30,641,321)
'Wholesale revenue coverage reserve shortfall (surplus), as of June 30, 2022		$ 583,074

See accompanying notes to the statement of changes in the balancing account.

(1) Summary of Significant Accounting Policies

(a) Water Supply Agreement

The City and County of San Francisco (City), acting by and through its Public Utilities Commission (SFPUC), and the Wholesale Customers, represented by the Bay Area Water Supply and Conservation Agency (BAWSCA), entered into the Water Supply Agreement (WSA) on July 1, 2009. The November 2021 Amended and Restated Wholesale Water Supply Agreement (WSA) was ratified by all BAWSCA member agencies and the SFPUC in January 2023. The WSA has a twenty-five year term with two options for five-year extensions, and contains provisions on rate-setting, accounting, and dispute resolution, including emergency and drought-pricing adjustment. The WSA has a 184 millions of gallons per day (mgd) Supply Assurance. During the period from 2009 to 2028 the WSA limits the quantity of water delivered to the Retail Customers and Wholesale Customers from the watersheds to 81 mgd and 184 mgd, respectively, or a total of 265 mgd.

(b) Basis of Accounting

Pursuant to the terms of the WSA, the accounts of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), are maintained in conformity with accounting principles generally accepted in the United States of America. The financial activities of the Water Enterprise and Hetch Hetchy Funds are accounted for on a flow of economic resource measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statements of net assets; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. The SFPUC applies all applicable Governmental Accounting Standards Board pronouncements. For copies of the Water Enterprise and Hetch Hetchy audited financial statements for the year ended June 30, 2022, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

Under the WSA, current operating expenditures, including regional revenue-funded capital projects and debt service on bonds sold to finance regional water system improvements, are allocated between Retail Customers and the Wholesale Customers on the basis of Proportional Annual Use. The Balancing Account is maintained pursuant to the WSA, and by other provisions that may result from a settlement agreement prescribed in Article VII, Section 7.06 of the WSA.

(c) Balancing Account under the WSA

Pursuant to the terms of the WSA, the SFPUC is required to establish water rates applicable to the Wholesale Customers at the beginning of each fiscal year. The wholesale water rates are based on an estimate of revenues necessary to recover the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Articles V and VI of the WSA.

Pursuant to Article VII, Section 7.02 of the WSA, the City is required to prepare the Wholesale Revenue Requirement (WRR) of the Water Enterprise and Hetch Hetchy after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenue billed to the Wholesale Customers during the year and the “actual” WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if wholesale revenue billed exceed the WRR) or owed to the SFPUC (if the WRR exceeds wholesale revenues billed). The Balancing Account is reflected on the Water Enterprise's financial statements as either an asset or a liability depending on the amount due from or owed to the Wholesale Customers.

In accordance with Article VI, Section 6.05B of the WSA, the amount recorded in the Balancing Account will earn interest at a rate equal to the average rate earned on the invested pooled funds of the City Treasurer, and is taken into consideration in the determination of subsequent wholesale water rates.

(d) Proportional Annual Use and Adjusted Proportional Annual Use

The WSA states that the Wholesale Customers will pay their share of expenses incurred by the SFPUC in delivering water on the basis of Proportional Annual Use unless otherwise indicated in the WSA. WSA Attachment J prescribes the calculation methodology to determine Proportional Annual Use. At the end of each fiscal year, as specified in WSA Attachment J, the SFPUC and BAWSCA sign off on Table J-1, which memorializes the annual water deliveries to Retail and Wholesale Customers. The information in the Table J-1 is the basis for the Proportional Annual Use calculation.

The Proportional Annual Use is defined as the share of deliveries from the Regional Water System used by City Retail Customers and by the Wholesale Customers in a fiscal year, expressed as a percentage. The Adjusted Proportional Annual Use is defined as the respective percentages of annual water use, as adjusted to reflect deliveries of water by Hetch Hetchy to Retail Customers outside of the city limits of the City and County of San Francisco.

(e) Minimum Annual Purchases

Alameda County Water District and the cities of Milpitas, Mountain View, and Sunnyvale have agreed to a minimum annual purchases requirement, which requires each to purchase a minimum annual quantity of water from the SFPUC. These minimum quantities are included in the Individual Water Sales Contracts between SFPUC and each of these four Wholesale Customers reference to Article III, Section 3.07.C of the WSA, and WSA Attachment E.

These Wholesale Customers are billed for minimum quantities only if minimum annual purchase quantities have not been met in any fiscal year. Minimum annual purchase payments are considered wholesale water revenues. Additionally, the Proportional Annual Use is based on minimum quantities for each of these four customers if minimum annual purchase quantities are not met. Any differences between minimum quantities and below-minimum actuals are referred to as imputed water sales.

During the year ended June 30, 2022 the minimum purchase requirements were waived due to the Governor's July 8, 2021 drought emergency declaration, as authorized by Article III, Section 3.07 of the WSA.

(f) Basis of Allocating Operating Expenses

Pursuant to the terms of the WSA, direct Water Enterprise and specific Hetch Hetchy expenses are allocated to the applicable user. Regional Water Enterprise operating and maintenance expenses related to source of supply, treatment, transmission and distribution are allocated based on Proportional Annual Use.

Two percent of Water Enterprise customer service expenses are allocated to the Wholesale Customers. Water Enterprise administrative and general expenses, including the assigned costs under the City's Countywide Cost Allocation Plan, services provided by other City departments and water administration, are allocated based on the ratio of total allocated wholesale operating and maintenance expenses to total Water Enterprise operating and maintenance expenses. Certain SFPUC bureau expenses are identified as regional operations and maintenance expenses and allocated to the Wholesale Customers on Proportional Annual Use basis. Remaining SFPUC bureau expenses are allocated to the Water Enterprise on the basis of labor costs incurred by the various SFPUC enterprises, and then allocated to the Wholesale Customers on the basis of Proportional Annual Use.

Water Enterprise property taxes are levied against properties owned by the City in Alameda, San Mateo, and Santa Clara counties, and operated and managed by the SFPUC. Hetch Hetchy property taxes are levied against properties owned by the City in Tuolumne, Stanislaus, San Joaquin, and Alameda counties, and operated and managed by the SFPUC. All property taxes paid, net of (1) reimbursements received from lessees and permit holders and (2) refunds from taxing authorities, are considered Water Enterprise regional expenses or joint Hetch Hetchy expenses. The Wholesale Customers are allocated a share of Water Enterprise and Hetch Hetchy property tax expenses on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively.

Forty-five percent of joint Hetch Hetchy expenses are water-related expenses. The water-related share of joint Hetch Hetchy operating, maintenance, and administrative and general expenses is allocated based upon on Adjusted Proportional Annual Use.

Fifty percent of the cost of the compliance audit described in Article VII, Section 7.04 of the WSA is allocated to the Wholesale Customers.

(g) Wholesale Customers Review

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual Wholesale Revenue Requirement and changes in the Balancing Account. The review shall be completed within 60 days after the date of the compliance auditor's report is issued. At the conclusion of the review, representatives of SFPUC and BAWSCA meet to discuss any differences noted. Adjustments agreed by both parties are adjusted to the Balancing Account. If differences cannot be resolved, the dispute shall be submitted to the arbitration in accordance with Article VIII, Section 8.01 of the WSA.

(h) Capital Cost Contribution – New Regional Assets

The wholesale share of Water Enterprise and Hetch Hetchy capital expenditures incurred during the term of the WSA are allocated on the basis of Proportional Annual Use and Adjusted Proportional

Annual Use, respectively. These costs include net annual debt service and appropriations for revenue-funded regional capital additions.

Capital expenditures financed by debt are allocated to bond proceeds on a first-in, first-out basis to the extent allowable by law and the terms of the applicable indenture. In accordance with Article V, Section 5.04A of the WSA, the SFPUC issues a certificate on the expected use of bond proceeds within 15 days of issuance (WSA Attachment L-2), and a report on actual expenditures of and earnings on bond proceeds after the proceeds are considered substantially expended (WSA Attachment L-3). The Wholesale Customers' proportionate share of net annual debt service is based on the expected use of bond proceeds on regional projects. Any differences between expected and actual expenditures on regional projects are applied in the year the proceeds are substantially expended. For copies of WSA Attachments L-2 or L-3 previously issued for each indenture, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

SFPUC and the Wholesale Customers clarified certain procedures relating to the administration of the accounting, debt administration, and capital cost contribution components of Article V, Section 5.04A as part of the Settlement Agreement (Article VII, Section 7.06 of the WSA) for the year ended June 30, 2010. For copies of the Settlement Agreement (Article VII, Section 7.06 of the WSA) for the year ended June 30, 2010, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

The regional share of appropriations for revenue-funded regional asset expenditures are allocated to the Water Enterprise and Hetch Hetchy on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively. Adjustments to reflect actual vs. appropriated expenditures are made in accordance with Article VI, Section 6.08 of the WSA, as amended.

(i) Allocation of 525 Golden Gate Avenue Expenses

525 Golden Gate Avenue is the headquarters of the SFPUC as of July 2012. This building consolidated divisions of the SFPUC that were renting space at multiple locations in the Civic Center area, and consists of a new 277,500 square-foot Class A office building that spans 13 floors plus a basement level. In allocating 525 Golden Gate Avenue costs, building tenants occupy 10,709 square feet (3.9% of total building square footage), which reduces the costs allocated to the Wholesale Customers.

Certificates of Participation, 2009 Series C and D, were issued by the City in October 2009 to fund the SFPUC headquarters building at 525 Golden Gate Avenue.

Operating, maintenance, capital expenses, and debt service payments pertaining to 525 Golden Gate Avenue are classified as Administrative and General expenses and are allocated to the three enterprises (Water, Hetch Hetchy, and Wastewater) based on square footage occupied by each enterprise based at 525 Golden Gate Avenue.

(j) Interest Earnings and Excess Funds Related to Bond Issuance

Interest earnings and excess funds available from funds associated with regional bonds – including Debt Service Reserves and Capital Projects Funds – are allocated between the Wholesale and Retail Customers based on the debt service allocation of the underlying bond series (see Note (4)(a)).

All interest earnings on Debt Reserve Funds are accounted for as credits against gross debt service in determining the net debt service amounts. Interest earnings from unexpended bond proceeds in the Capital Projects Funds are treated as additional funds available for project expenditures.

(k) Grants

The Wholesale Customers are allocated a proportional benefit from funds received by the SFPUC from (a) governmental grants, rebates, reimbursements, or other subventions or (b) private-sector grants for Regional capital or operating purposes. The Wholesale Customers' allocated benefit is based on any excess of grant revenues over expenses.

Bonds 2010 Series B, 2010 Series E, and 2010 Series G were issued as Build America Bonds, with the Federal government subsidizing a portion of the annual interest payments. The subsidy amount changes based on the Federal government's budget, and per agreement between the parties in the Fiscal Year 2015-16 Settlement Agreement, the cash receipts in a Fiscal Year are credited proportionally to the Wholesale Customers based on the underlying debt service allocation of each series. Beginning in Fiscal Year 2016-17, per the advice of the SFPUC's bond counsel, interest rebates from the taxable federal Build America Bonds are no longer credited against gross debt service due to federal sequestration. Instead, they are reflected as a governmental revenue credit; the impact on the Balancing Account from both treatments is the same.

(l) Wholesale Revenue Coverage Reserve and Working Capital Requirements

Under Article VI, Section 6.06 of the WSA, the SFPUC may require periodic deposits by the Wholesale Customers to fund a debt service coverage reserve account (the Wholesale Revenue Coverage Reserve) established and maintained by the SFPUC to meet debt service and minimum working capital requirements. The WSA sets the formula to calculate the debt service coverage and the working capital requirement. The ceiling of the Wholesale Revenue Coverage Reserve is the greater amount between the required debt service coverage and the working capital. Under Article VI, Section 6.06B of the WSA, any balance in the Wholesale Revenue Coverage Reserve in excess of the actual wholesale coverage requirement may be applied as a credit against wholesale rates in the following fiscal year, unless otherwise instructed by BAWSCA.

The Debt Service Coverage is calculated as the lesser of: (i) 25% of the Wholesale Customers' share of net annual debt service for the applicable fiscal year or (ii) the amount necessary to meet the Wholesale Customers' proportionate share of debt service coverage, less any credits for previous deposits and interest accruing to the Wholesale Revenue Coverage Reserve.

The working capital requirement prescribed in Article VI, Section 6.07 of the WSA is one-sixth (two months) of the annual wholesale allocation of operation and maintenance, administrative and general, and property tax expenses for the Water Enterprise and Hetch Hetchy.

Interest on the Wholesale Coverage Reserve is included as an adjustment to the Balancing Account based on the Wholesale Coverage Reserve balances, calculated working capital requirement and the City's pooled fund rate from the prior fiscal year. The entire Wholesale Coverage Reserve accrues interest at the City's pooled funds rate. If the average monthly Wholesale Coverage reserve balance is less than the calculated working capital requirement, interest on the Wholesale Coverage Reserve is reduced by calculated interest on the difference between the balance and the calculated working capital requirement.

(2) Balancing Account under the WSA

(a) Balancing Account Activity

The following summarizes activity in the Balancing Account under the WSA for the year ended June 30, 2022:

Table 2.1. Activity in the Balancing Account

Balancing account under the WSA, June 30, 2021	$ (62,980,489)
Interest on adjusted beginning balance at 0.60%	(377,883)
Net wholesale revenue billed (note 5)	(257,016,936)
Transfer from Wholesale Coverage Reserve	2,278,271
Transfer for BAWSCA water projects (note 2c)	346,750
Transfer from Balancing Account for K-5 Prepayment	—
Calculated wholesale revenue requirement	287,356,815
Interest on wholesale coverage reserve excess (note 2b)	(247,850)
Balancing account under the WSA, June 30, 2022	$ (30,641,321)

(b) Application of Balancing Account for Water Supply Projects

In March 2022, $346,750 from the Balancing Account was transferred to BAWSCA to support water supply projects, as authorized by Article Vi, Section 6.05.B.2 of the WSA. This amount is deducted during the fiscal year, and reflected in the Balancing Account as of June 30, 2022.

(3) Proportional Annual Use and Adjusted Proportional Annual Use

The Proportional Annual Use and the Adjusted Proportional Annual Use for the Wholesale and Retail Customers since the inception of the WSA in Fiscal Year 2009–10 are summarized below:

Table 3.1. Proportional Annual Use and Adjusted Proportional Annual Use

	Proportional Annual Use		Adjusted Proportional Annual Use	
Fiscal Year	Wholesale	Retail	Wholesale	Retail
2009-10	66.67%	33.33%	66.48%	33.52%
2010-11*	65.86	34.14	65.70	34.30
2011-12*	65.83	34.17	65.72	34.28
2012-13	66.56	33.44	66.43	33.57
2013-14	67.63	35.37	67.52	32.48
2014-15	65.67	34.33	65.56	34.44
2015-16	63.28	36.72	63.15	36.85
2016-17	64.27	35.73	64.12	35.88
2017-18*	66.04	33.96	65.91	34.09
2018-19*	65.68	34.32	65.52	34.48
2019-20*	66.99	33.01	66.90	33.10
2020-21*	69.94	30.06	69.76	30.24
2021-22	68.70	31.30	68.51	31.49

*adjusted for imputed water sales

(4) Capital Cost Contribution – New Regional Assets

(a) Debt-Funded Capital Projects

The Water Enterprise has previously issued revenue bonds to fund the construction of new regional capital assets. As of June 30, 2022, outstanding debt related to the construction of new regional capital assets included 11 different Water Revenue Bond Series, as well as 10 different Water Revenue Bond Series refunding all or a portion of other bonds. When a bond refunds more than one underlying bond series, the debt service is split out and allocated to the Wholesale Customers proportionally based on the allocation of the underlying bond. The following tables summarize the net debt service expenditures on outstanding debt related to the construction of new regional assets that was determined to be allocable to the Retail and Wholesale Customers.

The Water Enterprise and Hetch Hetchy Water paid $276,110,980 in gross debt service on the bonds listed in the table below during the years ended June 30, 2022. The gross debt service is decreased to $276,110,055 as of June 30, 2022, when other interest earnings and other cash on hand of $925 are applied against the gross debt service payments.

Table 4.1. Debt Service Expenditures – New Regional Assets

	June 30, 2022		
	Principal	Net interest	Total
Water Enterprise Bonds			
2010 Series B	$ 12,330,000	$ 21,019,158	$ 33,349,158
2010 Series E	—	20,060,771	20,060,771
2010 Series G	—	24,426,889	24,426,889
2015 Series A/2006 Series A Refunding	15,325,000	16,586,038	31,911,038
2015 Series A/2009 Series A Refunding	—	1,844,248	1,844,248
2016 Series A/2009 Series A Refunding	10,485,000	12,858,606	23,343,606
2016 Series A/2009 Series B Refunding	10,225,000	14,552,355	24,777,355
2016 Series A/2010 Series F Refunding	2,605,000	6,767,367	9,372,367
2016 Series C	5,820,000	8,748,152	14,568,152
2017 Series A	—	1,349,999	1,349,999
2017 Series B	—	1,646,493	1,646,493
2017 Series D/2011 Series A Refunding	925,000	11,138,790	12,063,790
2017 Series D/2012 Series A Refunding	—	6,114,745	6,114,745
2017 Series G/2011 Series A Refunding	820,000	887,703	1,707,703
2019 Series A/2010 Series F Refunding	11,040,000	102,882	11,142,882
2019 Series A/2011 Series A Refunding	12,095,000	10,724,797	22,819,797
2019 Series A/2012 Series A Refunding	1,270,000	8,761,526	10,031,526
2020 Series A	—	14,313	14,313
2020 Series B	—	6,020	6,020
2020 Series E/2010 Series D Refunding	5,330,000	75,282	5,405,282
2020 Series E/2012 Series A Refunding	440,000	6,317,683	6,757,683
2020 Series E/2017 Series A Refunding	130,000	3,218,940	3,348,940
2020 Series F/2017 Series B Refunding	1,425,000	3,599,423	5,024,423
Subtotal Water Enterprise Bonds	90,265,000	180,822,180	271,087,180
Hetch Hetchy Water Bonds			
2011 Series B	755,000	15,100	770,100
2017 Series C	—	787,499	787,499
2017 Series F/2011 Series B Refunding	—	435,250	435,250
2019 Series B/2011 Series B Refunding	65,000	559,953	624,953
2020 Series D	—	2,897	2,897
2020 Series H/2017 Series C Refunding	680,000	1,722,176	2,402,176
Subtotal Hetch Hetchy Water Bonds	1,500,000	3,522,875	5,022,875
Total Debt Service Expenditures	$ 91,765,000	$ 184,345,055	$ 276,110,055

(Continued)

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statements of Changes in the Balancing Account

June 30, 2022

The following tables show the allocation of each bond series to retail and regional projects, as well as the Fiscal Year during which each bond reached substantially expended. Bond 2020 Series B and D reached substantially expended during the year ended June 30, 2022.

Table 4.2. Wholesale Customers Debt Service Allocation (%)

	June 30, 2022					
	Excluded Costs	Retail share	Regional share	Total	Substantially expended fiscal year	Allocation adjusted fiscal year
Water Enterprise Bonds						
2009 Series A	31.65	10.43	57.92	100.00	FY 09-10 7.06	
2009 Series B	0.85	12.51	86.64	100.00	FY 10-11	FY 15-16 7.06
2010 Series B	0.02	7.13	92.85	100.00	FY 11-12	FY 15-16 7.06
2010 Series E	—	3.14	96.86	100.00	FY 15-16	FY 21-22
2010 Series G	—	—	100.00	100.00	FY 14-15	
2015 Series A/ 2006 Series A Refunding	33.71	13.10	53.19	100.00	FY 07-08	FY 09-10 7.06
2015 Series A/ 2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10	FY 09-10 7.06
2016 Series A/ 2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10	FY 09-10 7.06
2016 Series A/ 2009 Series B Refunding	0.85	10.31	88.84	100.00	FY 10-11	FY 21-22
2016 Series A/ 2010 Series F Refunding	—	—	100.00	100.00	FY 14-15	
2016 Series C	—	0.98	99.02	100.00	FY 20-21	
2017 Series A	—	0.54	99.46	100.00	FY 18-19	
2017 Series B*	—	70.40	29.60	100.00		
2017 Series D/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2017 Series D/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2017 Series G/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2019 Series A/ 2010 Series F Refunding	—	—	100.00	100.00	FY 14-15	
2019 Series A/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2019 Series A/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2020 Series A*	—	2.04	97.96	100.00		
2020 Series B*	—	—	100.00	100.00		
2020 Series E/ 2010 Series D Refunding	—	2.77	97.23	100.00	FY 11-12	FY 15-16 7.06
2020 Series E/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2020 Series E/ 2017 Series A Refunding	—	0.54	99.46	100.00	FY 18-19	
2020 Series F/ 2017 Series B Refunding*	—	70.40	29.60	100.00		
Hetch Hetchy Water Bonds						
2011 Series B	—	0.53	99.47	100.00	FY 18-19	
2017 Series C	—	—	100.00	100.00	FY 18-19	
2017 Series F/ 2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19	
2019 Series B/ 2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19	
2020 Series D	—	—	100.00	100.00	FY 21-22	
2020 Series H/ 2017 Series C Refunding	—	—	100.00	100.00	FY 18-19	

* Expected allocation to be trued up w hen bond reaches Substantially Expended status (note 4a)

The table below shows the allocation of the net debt service in Table 4.1 using the percentages from Table 4.2. The regional share of all bonds except for 2011 Series B, 2017 Series C, and 2020 Series D is allocated based on Proportional Annual Use, which was 68.70%. Because 2011 Series B, 2017 Series C, and 2020 Series D fund Hetch Hetchy water -related capital project expenditures, the Wholesale share of the debt on these series for the year ended June 30, 2022 was allocated using the Adjusted Proportional Annual Use percentage of 68.51%

In total, $161,696,442 in net debt service is allocated to the Wholesale Customers.

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statements of Changes in the Balancing Account

June 30, 2022

Table 4.3. Wholesale Customers Debt Service Allocation ($)

	June 30, 2022					
	Excluded costs	Retail share	Regional share	Total	Proportional annual use	Total wholesale debt service
Water Enterprise Bonds						
2010 Series B	$ 6,670	2,377,795	30,964,693	33,349,158	68.70%	21,272,744
2010 Series E	—	629,908	19,430,863	20,060,771	68.70%	13,349,003
2010 Series G	—	—	24,426,889	24,426,889	68.70%	16,781,273
2015 Series A/ 2006 Series A Refunding	10,757,211	4,180,346	16,973,481	31,911,038	68.70%	11,660,781
2015 Series A/ 2009 Series A Refunding	583,704	192,355	1,068,188	1,844,248	68.70%	733,845
2016 Series A/ 2009 Series A Refunding	7,388,251	2,434,738	13,520,617	23,343,606	68.70%	9,288,664
2016 Series A/ 2009 Series B Refunding	210,608	2,554,545	22,012,202	24,777,355	68.70%	15,122,383
2016 Series A/ 2010 Series F Refunding	—	—	9,372,367	9,372,367	68.70%	6,438,816
2016 Series C	—	142,768	14,425,384	14,568,152	68.70%	9,910,239
2017 Series A	—	7,290	1,342,709	1,349,999	68.70%	922,441
2017 Series B	—	1,159,131	487,362	1,646,493	68.70%	334,818
2017 Series D/ 2011 Series A Refunding	—	780,527	11,283,263	12,063,790	68.70%	7,751,602
2017 Series D/ 2012 Series A Refunding	—	539,932	5,574,813	6,114,745	68.70%	3,829,897
2017 Series G/ 2011 Series A Refunding	—	110,488	1,597,215	1,707,703	68.70%	1,097,287
2019 Series A/ 2010 Series F Refunding	—	—	11,142,882	11,142,882	68.70%	7,655,160
2019 Series A/ 2011 Series A Refunding	—	1,476,441	21,343,356	22,819,797	68.70%	14,662,886
2019 Series A/ 2012 Series A Refunding	—	885,784	9,145,742	10,031,526	68.70%	6,283,125
2020 Series A	—	292	14,021	14,313	68.70%	9,632
2020 Series B	—	—	6,020	6,020	68.70%	4,136
2020 Series E/ 2010 Series D Refunding	—	149,726	5,255,556	5,405,282	68.70%	3,610,567
2020 Series E/ 2012 Series A Refunding	—	596,703	6,160,980	6,757,683	68.70%	4,232,593
2020 Series E/ 2017 Series A Refunding	—	18,084	3,330,856	3,348,940	68.70%	2,288,298
2020 Series F/ 2017 Series B Refunding	—	3,537,194	1,487,229	5,024,423	68.70%	1,021,726
Subtotal Water Enterprise Bonds	18,946,444	21,774,049	230,366,688	271,087,181		158,261,916
Hetch Hetchy Water Bonds						
2011 Series B	—	4,082	766,018	770,100	68.51%	524,799
2017 Series C	—	—	787,499	787,499	68.51%	539,516
2017 Series F/ 2011 Series B Refunding	—	2,307	432,943	435,250	68.51%	296,609
2019 Series B/ 2011 Series B Refunding	—	3,312	621,641	624,953	68.51%	425,886
2020 Series D	—	—	2,897	2,897	68.51%	1,985
2020 Series H/ 2017 Series C Refunding	—	—	2,402,176	2,402,176	68.51%	1,645,731
Subtotal Hetch Hetchy Water Bonds	—	9,701	5,013,174	5,022,875		3,434,526
Total Debt Service Allocation	$ 18,946,444	$ 21,783,749	$ 235,379,862	$ 276,110,056		$ 161,696,442

(b) Build America Bonds Federal Interest Subsidy

2010 Series B, 2010 Series E and 2010 Series G are Federally taxable bonds with Build America Bonds Subsidy (BABS) revenues. The following tables show total BABS revenues received of $21,620,771, and wholesale shares credited to the Wholesale Customers of $14,369,869.

Table 4.4. Build America Bonds Federal Interest Subsidy

	June 30, 2022			
Bond Series	Total BABs Subsidy	Regional Share	Proportional Annual Use	Wholesale Share
2010 Series B	$ (6,937,453)	92.85%	68.70%	$ (4,425,259)
2010 Series E	(6,621,132)	96.86%	68.70%	(4,405,888)
2010 Series G	(8,062,186)	100.00%	68.70%	(5,538,722)
	$ (21,620,771)			$ (14,369,869)

(c) True-Up of Substantially Expended Bonds

Article V, Section 5.04 of the WSA requires the revised allocation factor be used in the year when a bond series becomes substantially expended and thereafter. The difference between the amount of net debt service paid by the Wholesale Customers prior to the year that the bond series became substantially expended and the amount of the net debt service that they should have paid will be included in the calculation of the Balancing Account in the year the bond series becomes substantially expended. Table 4.2 shows the Fiscal Year during which each bond reached substantially expended.

As of June 30, 2022, 2020 Series D reached substantially expended status. There were no debt service payments in prior fiscal years due to capitalized interest; as a result, the required true-up is zero.

(d) True-up of Debt Service Allocation of WSIP Bonds

In the Fiscal Year 2009-10 7.06 Settlement Agreement, the parties agreed that the debt service allocation on bonds related to the Water System Improvement Project (WSIP) may need to be adjusted to properly reflect the final use of proceeds. This adjustment, which would impact the allocation of debt service beginning in Fiscal Year 2009-10, is to occur at or near the completion of WSIP. As WSIP is over 99% complete by dollar value as of Fiscal Year 2021-22, the SFPUC incorporated this adjustment in the Fiscal Year 2021-22 Wholesale Revenue Requirement.

This adjustment changed the allocation of Bonds 2009 Series B and 2010 Series E from percentages last established in the Second Fiscal Year 2015-16 WSA Section 7.06 settlement agreement. For 2009 Series B and 2016 Series A refunding 2009 Series B, a true-up of $3,527,805 is incorporated to account for the change from the prior allocation of 86.64% regional projects to the final allocation of 88.84% regional projects. For 2010 Series E, a true-up of $21,666 is incorporated to account for the change from the prior allocation of 96.83% regional projects to the final allocation of 96.86% regional projects.

Table 4.5. True-up of Debt Service Allocation of WSIP Bonds

Bond series	Regional share: Per FY 2015-16 settlement agreement	Regional share: Revised for WSIP completion	Change in regional share	Change in wholesale share of net debt service
2009 Series B	86.64%	88.84%	2.20%	$ 2,363,282
2010 Series E	96.83	96.86	0.03	21,666
2016 Series A/ Refunding 2009 Series B	86.64	88.84	2.20	1,164,523
Total				$ 3,549,471

(e) *Credits for Debt Service Reserve Releases*

In Fiscal Year 2021-22, funds held by the trustee for a debt service reserve were determined to be no longer needed and released to the SFPUC. These funds are not earmarked for any specific purpose and were added to the SFPUC's fund balance. As required by WSA Article V, Section 5.10.D, a proportionate share of the revenue is credited the Wholesale Customers for bonds which fund Regional Water or Hetch Hetchy Water projects. For Bonds 2011 Series A and B, a total credit of $456,894 is applied to the Fiscal Year 2021-22 WRR.

Table 4.6. Credit for Debt Service Reserve Releases

	June 30, 2022			
Bond series	Reserve release	Regional share	Proportional annual use	Credit to wholesale customers
2011 Series A	$ (827)	93.53%	68.70%	$ (531)
2011 Series B	(669,676)	99.47	68.51	(456,363)
Total	$ (670,503)			$ (456,894)

(Continued)

(f) *Revenue-Funded Capital Projects – Water Enterprise*

The following is a summary of the wholesale share of appropriations for regional revenue-funded capital projects under the Water Enterprise for the year ended June 30, 2022.

Table 4.7. Revenue-Funded Capital Projects – Water Enterprise

	June 30, 2022		
Project Description	**Appropriations**	**Allocation %**	**Wholesale share**
Buildings & Grounds	$ 615,819	68.70%	$ 423,068
Communications & Monitoring	481,862	68.70	331,039
Watershed & Land Management	18,861,000	68.70	12,957,507
Fiscal Year 2021-22 Total	$ 19,958,681		$ 13,711,614

(g) *Revenue-Funded Capital Projects – Hetch Hetchy Share*

There were no appropriations for Hetch Hetchy Water revenue-funded capital projects for the year ended June 30, 2022.

(h) *Excess Accumulation of Unexpended and Unencumbered Appropriation*

Collections for revenue-funded regional capital assets are based on appropriation rather than actual expenditures. To prevent excess accumulation of unexpended and unencumbered appropriation, WSA Section 6.08 requires a review and adjustment of the Wholesale Revenue-Funded Capital Fund balance.

As of June 30, 2022, the Wholesale Revenue-Funded Capital Fund balance is $36,865,674, more than the target amount based on cumulative annual appropriations and expenditures. This excess balance is transferred to the Balancing Account. Activity in the Wholesale Revenue Funded Capital Fund is shown in the tables below.

Table 4.8. Annual Activity in Wholesale Capital Fund

	FY 2021-22
Beginning Wholesale Capital Fund Balance	$ 56,639,396
Annual Appropriation	13,711,614
Annual Expenditures	(18,131,205)
Interest Earnings	326,578
Subtotal Balance Before Transfers	52,546,382
Amount Encumbered as of June 30, 2022	(15,680,709)
Unencumbered Balance Before Transfers	36,865,674

Table 4.9. True-Up of Balance in Wholesale Capital Fund

Lesser of		
Target Balance, or	$ 32,710,806	
Cumulative Unspent Wholesale Capital Fund	56,499,171	
Target Balance		32,710,806
(Less) Unencumbered Balance Before Transfer		(36,865,674)
Deficiency/(Excess) in Reserve		(4,154,868)
Lesser of		
$4,000,000 or	4,000,000	
Calculated Reserve Deficiency	(4,154,868)	
Wholesale Capital Fund, Before Adjustments		52,546,382
Transfer From/(To) Balancing Account		(4,154,868)
Ending Total Balance		$ 48,391,515

(5) Wholesale Revenue Billings

During the year ended June 30, 2022, the SFPUC billed a total of $257,016,936 (net of amounts remitted to BAWSCA) in wholesale revenue for costs of service associated with deliveries from the regional water system. As applicable, a portion of these billings relate to deposits by the Wholesale Customers to meet their Wholesale Revenue Coverage Reserve and Working Capital Reserve requirements per Article VI, Section 6.06 and Section 6.07 of the WSA, respectively. For the year ended June 30, 2022, the balance in the Wholesale Revenue Coverage Reserve was lower than required, and so $2,278,271 was transferred to the Wholesale Revenue Coverage Reserve and Working Capital Reserve from the Balancing Account, decreasing total revenues for the Fiscal Year. The net amount billed after transfer from the Coverage Reserve, and which is applied to the revenue requirement, is $254,738,665.

Gross and net wholesale revenue billings are summarized below:

Table 5.1. Wholesale Revenue Billings

	FY 2021-22
Gross wholesale amounts billed – net of adjustments	$ 257,016,936
Transfer to wholesale revenue coverage reserve	(2,278,271)
Net wholesale revenues billed	$ 254,738,665

(6) Wholesale Revenue Coverage Reserve

(a) Activity in the Wholesale Revenue Coverage Reserve During the Years ended June 30, 2022

During the years ended June 30, 2022, $2,278,271, was transferred to the Wholesale Revenue Coverage Reserve in accordance with Article VI, Section 6.06 of the WSA. As of June 30, 2022, the

Wholesale Revenue Coverage Reserve balance was $39,841,037, representing total deposits since July 1, 2009.

Table 6.1. Wholesale Revenue Coverage Reserve

	Wholesale revenue coverage reserve
Balance, June 30, 2021	$ 37,562,766
Deposits to wholesale revenue coverage reserve (note 2a)	2,278,271
Balance, June 30, 2022	$ 39,841,037

(b) Net Interest on Wholesale Coverage Reserve

As of July 1, 2021, the Wholesale Revenue Coverage Reserve amount exceeded the Working Capital Requirement of 60 days of the wholesale share of Operations and Maintenance, Administrative and General, and Property Taxes, as shown in the below table. Net interest of $247,850, calculated as the annual interest on the Wholesale Revenue Coverage Reserve less any Working Capital Requirement not met, is credited to the Balancing Account in favor of the Wholesale Customers during the year ended June 30, 2022, in accordance with Article VI, Section 6.06 of the WSA.

Table 6.2. Net Interest on Wholesale Coverage Reserve

	Debt service coverage requirement	Working capital coverage requirement	Net interest
Calculation of adequacy of reserve requirement:			
Wholesale revenue coverage reserve balance, July 1, 2021	$ 37,562,766	37,562,766	
Coverage reserve requirement, July 1, 2021	(37,562,766)	(19,405,764)	
Coverage reserve excess/(deficiency)	$ -	18,157,002	
Net interest due (to) from Wholesale Customers			(247,850)

(7) 2013 Rim Fire

In August 2013, the SFPUC's Hetch Hetchy Water and Power was challenged by the third largest fire in California history, the Rim Fire, in Stanislaus National Forest and Yosemite National Park, which burned over 250,000 acres. Through the U.S. Department of Homeland Security Federal Emergency Management Agency and the State of California Office of Emergency Services, federal and state awards are available on a cost-sharing basis to the City to help offset the costs of emergency work and the repair or replacement of facilities damaged by the Rim Fire. Additionally, many of the SFPUC assets affected by the Rim Fire were insured.

Cumulative total expenses through June 30, 2022 related to facilities and infrastructure damage, and costs related to emergency response to approximately net of reimbursements to-date from insurance and federal and state awards totals approximately $7.8 million. The WRRs for the years ended June 30, 2014 through June 30, 2021 did not include complete allocation of the Rim Fire related costs because insurance reimbursements, government grants, and expenditures have not been finalized. SFPUC will finalize the allocation of Rim Fire related costs to Wholesale Customers once final expense amounts and related cost reimbursements are known. That allocation will include a proportional allocation of all reimbursements, and account for debt service already paid by the Wholesale Customers on any projects funded by bond series. An estimate of $1.9 million may be due from the Wholesale Customers.

(8) Implementation of WSA Asset Classification Amendment

Timing for implementation of the SFPUC adopted December 11, 2018 WSA amendments directly affecting the calculation of the Wholesale Revenue Requirement is still to be discussed and agreed upon. The SFPUC will share a plan for implementation of these amendments with Wholesale Customers before proceeding with implementation. While the other amendments which impact the WRR have been implemented, a true-up of expenditures relating to Hetch Hetchy Water asset classification remains outstanding as of Fiscal Year 2021-22.

Article V, Sections 5.11 and 5.12 and Attachment R of the WSA were amended to clarify the classification of Hetch Hetchy Water assets. For the assets shown in the table below, the classification of operating expenses will remain as shown in the "Asset Classification" column, but specific capital project expenses, going forward and retroactively to the date shown in the table, will be reclassified. The methodology for implementing these changes, especially the required retroactive adjustment, will be discussed between the SFPUC and Wholesale Customers. Adjustments to the Balancing Account to reflect the revised capital classification will be incorporated as expediently as possible; the amount of adjustments is not known at this time.

Table 8.1. Capital Project Expenses Classification

Asset	Asset Classification	Project Classification
Lower Cherry Aqueduct	Joint	Water
Mountain Tunnel Interim Work	Joint	Water
Mountain Tunnel Long Term Repairs	Joint	Water
Mountain Tunnel Flow Control Facility	Joint	Joint
Kirkwood Penstock	Power	Joint

Asset	Asset Classification	Project Classification
Moccasin Penstock	Power	Joint
Moccasin Lower Dam	Water	Joint

(9) Wholesale Customer Review of Fiscal Year 2020-21 Wholesale Revenue Requirement

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual changes in the Balancing Account.

The Wholesale Customer review of the Fiscal Year 2020-21 calculation is ongoing. All prior fiscal years have been resolved via settlement agreements described in prior Statements to the Changes in the Balancing Account, with the exception of the asset classification amendment reallocation described in Note 8 above.