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

Protecting public health and the environment.

Wastewater Enterprise

Financial Statements June 30, 2021 and 2020 (With Independent Auditors' Report Thereon)

SAN FRANCISCO WASTEWATER ENTERPRISE

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

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco, California:

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements as listed in the tables of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Enterprise are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 – 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022 on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 27, 2022

This section presents management's analysis of the San Francisco Wastewater Enterprise's (the Enterprise) financial condition and activities as of and for the fiscal years ended June 30, 2021 and 2020. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- COVID-19
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

The San Francisco Public Utilities Commission (SFPUC or the Commission) is a department of the City and County of San Francisco (the City) that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater (the Enterprise). The primary responsibility of the Enterprise is to protect the public health and the surrounding bay and ocean receiving waters by collecting, transmitting, treating, and discharging storm and sanitary flows generated in the service area. This includes 1,125 miles of combined, sanitary, and storm collection system pipes including: gravity mains, force mains, culverts, transport storage boxes, and tunnels. San Francisco is the only coastal city in California with a combined sewer system that collects both wastewater and stormwater in the same network of pipes and provides treatment to remove harmful pollutants before discharging into the San Francisco Bay and Pacific Ocean. In addition, the Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Enterprise recovers costs of service through user fees based on the volume and strength of sanitary flow. As of June 30, 2021, the Enterprise serves 147,926 residential accounts, which discharge about 16.6 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and 26,430 non-residential accounts, which discharge about 4.6 million ccf per year. These reflected decreases of 2.2 million units in non-residential accounts and 0.3 million units in residential accounts compared to prior year due to the COVID-19 public health precaution.

Overview of the Financial Statements

The Enterprise's financial statements include the following:

Statements of Net Position present information on the Enterprise's assets, deferred outflows, liabilities, and deferred inflows as of year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Enterprise is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations at year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of the Enterprise's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which the Enterprise has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital financing, non-capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

COVID-19

On February 25, 2020, the City's Mayor issued a proclamation declaring a local emergency to exist in connection with the imminent spread within the City of the novel coronavirus ("COVID-19"). On March 16, 2020, the City's Health Officer issued a stay safe at home order, Health Officer Order No. C19-07 (the "Stay Safe At Home Order"), requiring most people and City employees to remain in their homes subject to certain exceptions including obtaining essential goods such as "food and necessary supplies", and requiring the closure of nonessential businesses. In addition, Section 2 of the second supplement to the emergency proclamation authorizes the SFPUC to suspend the (a) discontinuation or shut off of water service for residents and businesses in the City for non-payment of water and sewer bills and (b) the imposition of late payment penalties or fees for delinquent water and/or sewer bills through July 11, 2020. The proclamation was extended on December 8, 2020 through June 30, 2021 and then again on April 27, 2021, through to March 31, 2022. This proclamation did not have a material effect on the operations of the Wastewater enterprise.

Financial Analysis

Financial Highlights for Fiscal Year 2021

- Total assets of the Enterprise exceeded total liabilities by $1,266,577.
- Net position increased by $9,647 or 0.7% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $544,562 or 17.8% to $3,606,850.
- Operating revenues decreased by $16,463 or 4.8% to $327,665.
- Operating expenses increased by $29,961 or 11.4% to $292,220.

(Dollars in thousands, unless otherwise stated)

Financial Highlights for Fiscal Year 2020

- Total assets of the Enterprise exceeded total liabilities by $1,273,337.
- Net position increased by $63,793 or 5.2% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $340,484 or 12.5% to $3,062,288.
- Operating revenues increased by $13,047 or 3.9% to $344,128.
- Operating expenses increased by $2,446 or 0.9% to $262,259.

Financial Position

The following table summarizes the Enterprise's changes in net position.

Table 1
Comparative Condensed Net Position
June 30, 2021, 2020, and 2019

	2021	2020	2019	2021-2020 Change	2020-2019 Change
Total assets:					
Current and other assets	$ 354,789	473,620	821,796	(118,831)	(348,176)
Capital assets, net of accumulated depreciation and amortization	3,606,850	3,062,288	2,721,804	544,562	340,484
Total assets	3,961,639	3,535,908	3,543,600	425,731	(7,692)
Deferred outflows of resources:					
Unamortized loss on refunding of debt	91	189	326	(98)	(137)
Pensions	30,219	30,422	26,886	(203)	3,536
Other post-employment benefits	15,109	10,065	4,669	5,044	5,396
Total deferred outflows of resources	45,419	40,676	31,881	4,743	8,795
Liabilities:					
Current liabilities:					
Revenue bonds	22,880	23,240	22,085	(360)	1,155
Certificates of participation	785	747	711	38	36
Commercial paper	638,518	207,939	291,498	430,579	(83,559)
State revolving fund loans	2,483	2,458	1,239	25	1,219
Other liabilities	147,038	148,585	101,156	(1,547)	47,429
Subtotal current liabilities	811,704	382,969	416,689	428,735	(33,720)
Long-term liabilities:					
Revenue bonds	1,567,042	1,598,493	1,630,524	(31,451)	(32,031)
Certificates of participation	25,302	26,112	26,892	(810)	(780)
State revolving fund loans	106,076	86,091	86,793	19,985	(702)
Other liabilities	184,938	168,906	164,316	16,032	4,590
Subtotal long-term liabilities	1,883,358	1,879,602	1,908,525	3,756	(28,923)
Total liabilities:					
Revenue bonds	1,589,922	1,621,733	1,652,609	(31,811)	(30,876)
Certificates of participation	26,087	26,859	27,603	(772)	(744)
Commercial paper	638,518	207,939	291,498	430,579	(83,559)
State revolving fund loans	108,559	88,549	88,032	20,010	517
Other liabilities	331,976	317,491	265,472	14,485	52,019
Total liabilities	2,695,062	2,262,571	2,325,214	432,491	(62,643)
Deferred inflows of resources:					
Related to pensions	2,148	16,892	16,157	(14,744)	735
Other post-employment benefits	7,265	4,185	4,967	3,080	(782)
Total deferred inflows of resources	9,413	21,077	21,124	(11,664)	(47)
Net position:					
Net investment in capital assets	1,253,789	1,183,288	1,133,662	70,501	49,626
Restricted for debt service	2,992	1,227	1,279	1,765	(52)
Restricted for capital projects	—	—	18,505	—	(18,505)
Unrestricted	45,802	108,421	75,697	(62,619)	32,724
Total net position	$ 1,302,583	1,292,936	1,229,143	9,647	63,793

Net Position, Fiscal Year 2021

For the year ended June 30, 2021, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,302,583. The Enterprise's total net position increased by $9,647 or 0.7% as a result of increases of $70,501 in net investment in capital assets and $1,765 in restricted for debt service offset by a decrease of $62,619 in unrestricted net position (see Table 1).

During the fiscal year 2021, current and other assets decreased by $118,831 or 25.1%. The decrease was mainly due to a decrease of $136,773 in restricted and unrestricted cash and investments largely attributed to increased spending for the Sewer System Improvement Program (SSIP) and debt principal and interest repayment. Other decreases included $666 in receivables for charges for services mainly due to $2,172 increase in allowance for doubtful accounts as there were more sewer charge receivables aging over 120 days attributable to the suspension of collection efforts in response to the COVID-19 emergency proclamation issued by the City Mayor. These decreases in current and other assets were offset by an increase of $17,490 in receivables from the State Water Resources Control Board (SWRCB) due to $20,755 in reimbursement receivable for disbursements claim relating to the Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project offset by cash receipts of $3,265 in State Revolving Fund (SRF) reimbursement requests consisting of $2,041 for the Southeast Plant (SEP) 521/522 and Disinfection Upgrade and $1,224 for the Lake Merced Green Infrastructure projects. The other increases included $680 in prepaid charges, advances, and other receivable consisting of $546 prepayments to the San Francisco Estuary Institute, Bay Area Air Quality Management District, and Water Research Foundation, $290 in rent receivable mainly due a receivable from the San Francisco Community College, and $17 in custom work receivable offset by $173 prepaid expenses recognized to expense for the current year, $181 in inventory as there were more purchases than issuances during the year, $166 in restricted and unrestricted interest and other receivable mainly due to an increase in Federal interest subsidy receivable, and $91 increase in interfund receivables consisting of $47 from the Department of Public Works (DPW) for the Mission Bay South and Hunters View Development Projects, $24 from the San Francisco Port Commission (Port), and $20 from the Treasure Island Development Authority (TIDA).

Capital assets, net of accumulated depreciation and amortization, increased by $544,562 or 17.8% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of $1,253,789 or 96.3%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources increased by $4,743 mainly due to $5,044 increase in other post-employment benefits based on actuarial report offset by $203 decrease in pensions based on actuarial report and $98 amortization of the 2013 Series A bonds loss on refunding.

Total liabilities increased by $432,491 or 19.1%. As of June 30, 2021, total outstanding balance of $2,363,086 for revenue bonds payable, commercial paper, certificates of participation, and SRF loans represented 87.7% of total liabilities, an increase of $418,006 or 21.5%. The increase was mainly due to $435,450 additional commercial paper issuance and $22,468 SRF loan to fund the OSP Digester Gas Utilization Upgrade, the SEP 521/522 and Disinfection Upgrade, and the Lake Merced Green Infrastructure projects offset by $31,316 in debt repayments and $8,596 in amortization of premium during the year. Other liabilities of $331,976 such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements and employees, increased by $14,485 or 4.6%, due to increases of $17,511 in net pension liability based on actuarial report, $3,912 in employee related benefits including vacation, workers' compensation, and accrued payroll mainly due to actuarial estimates, 3% increase of cost of living adjustment (COLA), and more days in current year-end payroll accrual compared to prior year-end accrual, $822 in general liability based on actuarial estimates, $130 in customer credit balances mainly due to overpayments, and $26 in liens payable. These increases were offset by decreases of $7,472 in other post-employment benefits obligations based on actuarial report, $145 in bond and loan interest payable due to lower outstanding debt principal and lower interest rates, $135 in restricted and unrestricted payable due to higher voucher payments than vouchers generated, and $109 in payable to Hetch Hetchy Power due to payment for the 525 Golden Gate Living Machine System, $54 decrease in deposit from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project, and $1 interfund payable to City Attorney's Office. Deferred inflows of resources decreased by $11,664 due to $14,744 decrease in pensions based on actuarial report offset by $3,080 increase in other post-employment benefits based on actuarial report.

Net Position, Fiscal Year 2020

For the year ended June 30, 2020, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,292,936. The Enterprise's total net position increased by $63,793 or 5.2% as a result of increases of $49,626 in net investment in capital assets and $32,724 in unrestricted net position, offset by decreases of $18,505 in restricted for capital projects and $52 in restricted for debt service (see Table 1).

During the fiscal year 2020, current and other assets decreased by $348,176 or 42.4%. The decrease was mainly due to a decrease of $309,289 in restricted and unrestricted cash and investments mainly due to increased spending for the Sewer System Improvement Program (SSIP) and debt principal and interest repayment. Other decreases included $39,043 in receivables from the State Water Resources Control Board (SWRCB) consisting of $36,152 in cash receipts for disbursements claim relating to the Southeast Plant (SEP) 521/522 and Disinfection Upgrade Project, $1,508 unreimbursed State Revolving Fund (SRF) claim, and $1,383 in cash receipts for the retention balance relating to the Stormwater Flood Management projects. The other decreases included $3,313 in restricted and unrestricted interest and other receivable due to lower cash balance in pooled cash fund, $30 in custom work interfund receivables mainly due to collection from the Department of Public Works (DPW) for the Mission Bay South and Hunters Point Projects, and $21 in charges for services. These decreases in current and other assets were offset by increases of $3,265 in reimbursement receivables from SWRCB for the SEP 521/522 and Disinfection Upgrade and Lake Merced projects, $192 in inventory as there were more purchases than issuances during the year and $63 in prepaid charges.

Capital assets, net of accumulated depreciation and amortization, increased by $340,484 or 12.5% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of $1,183,288 or 91.5%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources increased by $8,795 mainly due to increases of $5,396 in other post-employment benefits and $3,536 in pensions based on actuarial report offset by $137 in amortization of the 2013 Series A bonds loss on refunding.

Total liabilities decreased by $62,643 or 2.7%. As of June 30, 2020, total outstanding balance of $1,945,080 for revenue bonds payable, commercial paper, certificates of participation, and SRF loans represented 86.0% of total liabilities, a decrease of $114,662 or 5.6%. The decrease was mainly due to $111,984 in debt repayments, $8,824 in amortization of premium during the year, and $1,508 loan reduction for the SRF SEP 521/522 and Disinfection Upgrade unreimbursed disbursements claim, offset by $4,390 additional commercial paper issuance and $3,264 SRF loan to fund for the SEP 521/522 and Disinfection Upgrade and Lake Merced projects. Other liabilities of $317,491 such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $52,019 or 19.6%, due to increases of $44,336 in restricted and unrestricted payable to vendors and contractors due to higher capital project spending, $4,616 in other post-employment benefits obligations based on actuarial report, $2,632 in employee related benefits including vacation, workers' compensation, and accrued payroll mainly due to actuarial estimates, 3% increase of cost of living adjustment (COLA), and more days in current year-end accrual compared to prior year-end accrual, $1,198 in net pension liability based on actuarial report, $621 in customer credit balances mainly due to overpayments, $300 in pollution remediation liability due to increased estimated cleanup liabilities for the toxic sediments at Yosemite Creek, and $1 interfund payable to City Attorney's Office. These increases were offset by decreases of $1,070 in bond and loan interest payable due to lower outstanding debt principal, $477 in general liability based on actuarial estimates, $107 in payable to Hetch Hetchy Power due to payment for the 525 Golden Gate Living Machine System, and $31 decrease in deposit from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project. Deferred inflows of resources decreased by $47 due to $782 decrease in other post-employment benefits based on actuarial report offset by $735 increase in pensions based on actuarial report.

(Dollars in thousands, unless otherwise stated)

Results of Operations

The following table summarizes the Enterprise's revenues, expenses, and changes in net position.

Table 2
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2021, 2020, and 2019

	2021	2020	2019	2021-2020 Change	2020-2019 Change
Revenues:					
Charges for services	$ 318,236	331,721	317,761	(13,485)	13,960
Rents and concessions	642	664	702	(22)	(38)
Other operating revenues	8,787	11,743	12,618	(2,956)	(875)
Interest and investment (loss) income	(1,187)	12,137	20,701	(13,324)	(8,564)
Net gain from transfer of assets	—	—	619	—	(619)
Other non-operating revenues	4,911	5,596	5,545	(685)	51
Total revenues	331,389	361,861	357,946	(30,472)	3,915
Expenses:					
Operating expenses	292,220	262,259	259,813	29,961	2,446
Interest expenses	34,862	43,216	43,803	(8,354)	(587)
Amortization of premium, refunding loss, and issuance cost	(8,497)	(8,647)	(5,697)	150	(2,950)
Non-operating expenses	409	52	1,013	357	(961)
Total expenses	318,994	296,880	298,932	22,114	(2,052)
Change in net position before transfers	12,395	64,981	59,014	(52,586)	5,967
Transfers from the C ty and County of San Francisco	1,440	280	—	1,160	280
Transfers to the C ty and County of San Francisco	(4,188)	(1,468)	(3,996)	(2,720)	2,528
Net transfers	(2,748)	(1,188)	(3,996)	(1,560)	2,808
Change in net position	9,647	63,793	55,018	(54,146)	8,775
Net pos tion at beginning of year	1,292,936	1,229,143	1,174,125	63,793	55,018
Net pos tion at end of year	$ 1,302,583	1,292,936	1,229,143	9,647	63,793

Results of Operations, Fiscal Year 2021

The Enterprise's total revenues were $331,389 a decrease of $30,472 or 8.4% from prior year (see Table 2). Charges for services decreased by $13,485 or 4.1% mainly due to a sanitary flow decrease of

2,474,116 ccf or 10.2% from residential and non-residential customers and $2,172 increase in allowance for doubtful accounts as there were more sewer charge receivables aging over 120 days attributable to the suspension of collection efforts in response to the COVID-19 emergency proclamation issued by the City Mayor offset by an average 8% adopted rate increase. Interest and investment income decreased by $13,324 or 109.8% due to lower pooled and fiscal agent cash balances, and a lower annualized interest rate. Other operating revenues decreased by $2,956 or 25.2% mainly due to decreases of $2,186 in capacity fees resulting from a 25.2% decrease in average permit price and a 7.9% decrease in permits issued as only essential construction projects were allowed due to SF Health Order related to COVID-19 and $770 in other operating revenues to other City departments such as the Real Estate, Human Services Agency, and Academy of Science due to the COVID-19 shelter in place order. Other non-operating revenues decreased by $685 mainly due to decreases of $667 in miscellaneous revenue largely attributed to $642 receipts from California State Parks Foundation for a project at Yosemite Slough Site in prior year, $20 in gain from sale of assets, and $22 in Federal Emergency Management Agency (FEMA) grant relating to COVID-19 offset by $27 increase in federal interest subsidy. Rents and concessions decreased by $22 or 3.3% mainly due to the COVID-19 past due rent collection suspension as approved by the Commission.

Total expenses were $318,994, an increase of $22,114 or 7.4% due to increases of $29,961 in operating expenses, $357 in City grants program expenses as there were more expenses incurred for community-based organization services, and $150 decrease in amortization, refunding loss, and issuance cost due to $230 decrease in bond premium offset by decreases of $40 in issuance cost, and $40 in refunding loss amortization offset by a decrease of $8,354 in interest expenses due to lower interest rate compared to prior year and a decrease in outstanding bond principal balance. The increase of $29,961 in operating expenses was mainly due to increases of $20,866 in general and administrative and other operating expenses mainly due to higher capital project expenses related to the SSIP Biosolids Digester Project, $9,051 in depreciation expense due to more capitalized assets put in service, $1,004 in services provided by other departments mainly for Department of Public Works general administration and building repair services, General Services Agency (GSA) facilities management services, and City risk management services, and $100 in materials and supplies mainly due to water sewage treatment supplies for Bayside Operations. These increases were offset by a decrease of $564 in personnel services mainly due $7,873 decrease in other post-employment benefits based on actuarial report offset by increases of $4,574 in expenses related to pension due to increase in retirement contribution rates, $2,051 in salaries and fringe benefits due to a 3% increase in cost of living adjustment (COLA), and $684 in workers' compensation claims. Other decrease included $496 in contractual services mainly due to lower professional and specialized services.

Net transfers of $2,748 included transfer out of $4,000 in art enrichment fund to the San Francisco Art Commission for the Southeast Plant Biosolids Digester Facilities, 1550 Southeast Community Center, and Treasure Island Capital Improvement Projects, $156 to Recreation & Park for Crocker Amazon Park, and $32 to the Office of the City Administrator for the Surety Bond Program, offset by $1,440 transfer in from General Fund for the Sidewalk Garden Grants Project.

Results of Operations, Fiscal Year 2020

The Enterprise's total revenues were $361,861, an increase of $3,915 or 1.1% from prior year (see Table 2). Charges for services increased by $13,960 or 4.4% mainly due to an average 7% adopted rate increase, offset by a sanitary flow decrease of 215,896 ccf or 0.9% from residential and non-residential customers. Other non-operating revenues increased slightly by $51 mainly due to $642 in miscellaneous revenue largely due to receipts from California State Parks Foundation for a project at Yosemite Slough Site, $38 gain from sale of assets in current year, $14 in federal interest subsidy, and $11 in Federal Emergency

Management Agency (FEMA) grant relating to COVID-19, offset by a decrease of $391 in biofuel revenue as the SFGreasecycle Program ended in prior year, grants received in prior year of $234 from the State for the stormwater flood management projects and $29 from the Green Infrastructure Leadership Exchange. These increases were offset by a decrease of $8,564 or 41.4% in interest and investment income due to lower pooled and fiscal agent cash balances and lower annualized interest rate. Other operating revenues decreased by $875 mainly due to $981 decrease in capacity fees resulting from a 16% decrease in permits issued and increase in uncollectible allowance, offset by $106 increase in charges for services to other City departments such as the Recreation & Park and San Francisco General Hospital, $619 gain from transfer of assets in prior year, and $38 decrease or 5.4% in rents and concessions mainly due to $56 catch-up billing adjustment in prior year for a lease at Southeast Water Pollution Control Plant offset by $18 increase in rental revenue from tenants with 3% consumer price index average rate increase.

Total expenses were $296,880, a decrease of $2,052 or 0.7% due to decreases of $2,950 in amortization of premium, refunding loss, and issuance cost due to decrease of $2,760 in issuance cost attributable to bond series 2018 ABC issuance in prior year, decrease of $36 in refunding loss and increase of $154 in bond premium, $961 in other non-operating expenses mainly due to $987 loss from sale of assets in prior year offset by $26 increase in City grants program expenses as there were more expenses incurred for community-based organization services, and $587 decrease in interest expenses mainly due to more capitalization of interest expense for fixed assets in the current year. These decreases were offset by an increase of $2,446 in operating expenses. The increase of $2,446 in operating expenses was mainly due to $10,320 increase in personnel services due to 3% increase in COLA, increase in retirement contribution rates and expenses related to pension and other post-employment benefits, $2,934 in depreciation expense due to more capitalized assets put in service, $680 in services provided by other departments mainly for legal services, street cleaning, neighborhood beautification, and risk management services, and $317 in contractual services mainly due to higher professional and specialized services. These increases were offset by decreases of $10,943 in general and administrative and other operating expenses mainly due to higher capitalization of capital project spending and prior year higher capital project expense related to the Southeast Plant Improvement Project and $862 in materials and supplies mainly due to water sewage treatment supplies for Bayside Operations.

Net transfers of $1,188 included transfer out of $1,436 to the San Francisco Art Commission for integrated artworks at the Headworks Facility and $32 to the Office of the City Administrator for the Surety Bond Program, offset by $240 transfer in from General Fund for the Central Shop Relocation Project contingency release and $40 for the Sidewalk Garden Grants Project.

(Dollars in thousands, unless otherwise stated)

Capital Assets

The following table summarizes changes in the Enterprise's capital assets.

Table 3
Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2021, 2020, and 2019

		2021	2020	2019	2021-2020 Change	2020-2019 Change
Facilities, improvements, machinery, and equipment	$	2,214,227	2,104,332	1,916,979	109,895	187,353
Intangible assets		7,407	3,046	3,183	4,361	(137)
Land and rights-of-way		44,572	44,572	36,018	–	8,554
Construction work in progress		1,340,644	910,338	765,624	430,306	144,714
Total	$	3,606,850	3,062,288	2,721,804	544,562	340,484

Capital Assets, Fiscal Year 2021

The Enterprise has capital assets of $3,606,850, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2021 (see Table 3). This amount represents an increase of $544,562 or 17.8% from prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Construction work in progress increased by $430,306 or 47.3%. Facilities, improvements, machinery, and equipment increased by $109,895 or 5.2%, and intangible assets increased by $4,361 or 143.2% due to asset additions of $2,457 for the Operational Decision System Project and $1,904 for the Customer Billing System Project.

Major additions to construction work in progress during the year ended June 30, 2021 include the following:

Southeast Plant Biosolids and Digester Facilities Project	$	259,938
Southeast Plant New Headworks Grit Removal and Influent Pump Station		110,472
Southeast Community Center		47,373
Southeast Plant Power Feed and Primary Switchgear Upgrades		18,881
Mariposa Pump Station & Force Main		11,031
Oceanside Plant Digester Gas Handling Utilization		8,856
Seismic Reliability - Phase 1		7,647
Public Works Various Locations Number 35 Infrastructure Improvements		7,134
As-Needed Spot Sewer Replacement Number 40		7,101
Ocean Beach Project		6,727
Force Main Rehabilitation At Embarcadero And Jackson Streets		6,615
Facility-Wide Distributed Control System Upgrade		5,998
Van Ness Bus Rapid Transit Sewer Improvements		5,482
As-Needed Spot Sewer Replacement Number 38		4,972
Public Works Various Locations Number 40 Infrastructure Improvements		4,918
Southeast Plant 062 Archimedes Screw Pump		4,697
Taraval Sewer Improvements		4,070
As-Needed Main Sewer Replacement Number 7		4,043
Other project additions individually below $4,000		93,864
	$	619,819

(Dollars in thousands, unless otherwise stated)

Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2021 include the following:

Van Ness Bus Rapid Transit Sewer Improvements	$	20,665
Richmond Early Implementation Project		13,620
Geary Bus Rapid Transit Sewer Improvements		12,287
Public Works Lombard Street Infrastructure Improvements		11,794
Southeast Plant 062 Archimedes Screw Pump		10,421
Taraval Sewer Improvements		10,397
Sunset Green Infrastructure		9,932
Public Works Various Locations Number 35 Infrastructure Improvements		8,722
As-Needed Spot Sewer Replacements Number 40		7,112
Public Works Various Locations Number 39 Infrastructure Improvements		6,493
Public Works Various Locations Number 36 Infrastructure Improvements		6,056
Public Works Various Locations Number 43 Infrastructure Improvements		6,023
As-Needed Spot Sewer Replacement Number 38		4,972
Public Works Alemany Blvd Infrastructure Improvements		4,956
Beach And Sansome Street Combined Sewer Distribution Rehabilitation		4,708
Public Works Second Street Infrastructure Improvements		4,560
As-Needed Main Sewer Replacement Number 7		4,043
North Point Facility Dewatering Pump Replacement		3,725
Public Works Palou Avenue Infrastructure Improvements		3,514
Various Locations Sewer Replacements Number 7		3,429
Oceanside Plant Door Replacement		3,082
Other project additions individually below $3,000		25,763
	$	186,274

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

The Sewer System Improvement Program (SSIP) includes three phases over 20 years to improve the existing wastewater system. In March 2016, the refined program scope and budget increased from $6.9 billion to $7.0 billion was endorsed by the Commission, which is now referred to as the 2016 SSIP Baseline program.

As of June 30, 2021, 37 projects or 52.9% totaling $367 million were completed, 8 projects in pre-construction phase, 18 projects in construction phase, and 7 projects in close-out phase. The OSP Condition Assessment Repairs was completed on January 29, 2021 with reported project expenditures of $11.6 million. The project includes planning, design, and environmental review of major improvements to the plant including rehabilitation of building structures, rehabilitation or replacement of mechanical and electrical equipment, and seismic retrofit of process tanks and buildings. Improvements focus on maintaining operational reliability and extending the service life of buildings that are required to remain in operation for 30 years or more. The SEP Seismic Reliability and Condition Assessment Improvements Project is on-going construction. The project is reported at 86.0% completion and forecasted final completion is on March 8, 2022. Program expenditures as of June 30, 2021 totaled $1,546.1 million. Additional details regarding the SSIP are available at https://sfpuc.org/construction-contracts/sewer-system-improvement-program.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2020

The Enterprise has capital assets of $3,062,288, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2020 (see Table 3). This amount represents an increase of $340,484 or 12.5% from prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Facilities, improvements, machinery, and equipment increased by $187,353 or 9.8%, construction work in progress increased by $144,714 or 18.9%, and land and rights-of-way increased by $8,554 or 23.7% due to the Rankin Street land purchase, offset by a decrease of $137 or 4.3% in intangible assets due to amortization.

Major additions to construction work in progress during the year ended June 30, 2020 include the following:

Southeast Plant Biosolids and Digester Facilities Project	$ 116,761
Southeast Plant New Headworks Grit Removal and Influent Pump Station	69,287
Southeast Community Center	14,708
Seismic Reliability - Phase 1	13,066
Oceanside Plant Digester Gas Handling Utilization	11,087
As-Needed Spot Sewer Replacement No. 38	10,501
Southeast Plant Water System Improvements	9,206
Program Management	9,088
Public Works Lombard Street Infrastructure Improvements	7,729
Mariposa Pump Station & Force Main	7,411
Islais Creek Outfall	7,401
Geary Bus Rapid Transit Sewer Improvements	6,013
Southeast Plant 062 Archimedes Screw Pump	5,236
Richmond Early Implementation Project	5,211
Channel Tunnel/Bayside Drainage	5,180
Public Works Various Locations Pavement Number 37	4,966
Van Ness Bus Rapid Transit Sewer Improvements	4,674
Public Works Various Locations Number 39 Infrastructure Improvements	4,639
As-Needed Main Sewer Replacement #7	4,385
Ocean Beach Project	4,255
Westside Pump Station Reliability Improvements	4,245
Taraval Sewer Improvements	4,174
Other project additions individually below $4,000	76,575
Total	$ 405,798

(Dollars in thousands, unless otherwise stated)

Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2020 include the following:

Southeast Plant Water System Improvements	$ 64,526
Griffith Pump Station Improvements	20,305
Oceanside Plant Condition Assessment Repairs	15,440
Seismic Reliability - Phase 1	14,317
As Needed Spot Sewer Replacement Number 38	12,136
Islais Creek Outfall	9,206
South East Plant 740 Digester Gas Upgrade	8,688
Various Locations Sewer Replacement Number 3	8,245
Public Works Various Locations Pavement Number 37	7,123
Public Works Filbert Other Street Infrastructure Improvements	5,784
Public Works Various Locations Number 28 Infrastructure Improvements	5,772
Various Locations Sewer Replacement Number 5	5,013
Oceanside Plant Building 620 Digester Recirculation Pump	4,965
Westside Pump Station Reliability Improvements	4,756
5th/North/6th Division Street Combined Sewer Discharge	4,691
Public Works Evans Avenue Infrastructure Improvements	4,538
As Needed Main Sewer Replacement Number 7	4,385
Public Works As Needed Number 11 Infrastructure Improvements	4,284
Public Works Irving Street Phase 2 Infrastructure Improvements	4,115
Public Works Clayton Other Street Infrastructure Improvements	3,950
46th/47th/48th Avenues Sewer Replacement	3,149
Wastewater 16th Street Sewer Replacement	3,080
Oceanside Plant Facility Ventilation System	3,042
Other project additions individually below $3,000	28,880
Total	$ 250,390

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

The Sewer System Improvement Program (SSIP) includes three phases over 20 years to improve the existing wastewater system. In March 2016, the refined program scope and budget increased from $6.9 billion to $7.0 billion endorsed by the Commission along with the baseline for scope, schedule and budget for phase I, II, and III projects.

As of June 30, 2020, 32 projects or 45.7% totaling $324 million were completed, with 15 projects in pre-construction phase, 17 projects in construction phase, and 6 projects in close-out phase. The SEP Existing Digester Gas Handling Improvements was completed on February 28, 2020 with reported project expenditures of $15.5 million. The goal of this project is to cost effectively integrate the digester gas handling system at the SEP, improve the reliability of the cogeneration facility, and provide backup fuel source for the boilers. The SEP New Headworks Facility–Scope II.A is on-going construction. The project is reported at 82.7% completion and forecasted final completion is on November 14, 2020. Program expenditures as of June 30, 2020 totaled $1,079.0 million. Additional details regarding the SSIP are available at https://sfpuc.org/construction-contracts/sewer-system-improvement-program.

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2021, 2020, and 2019, the Enterprise's debt from revenue bonds, commercial paper, certificates of participation, and State revolving fund loans were $2,363,086, $1,945,080, and $2,059,742, respectively, as shown in Table 4. More detailed information about the Enterprise's debt activity is presented in Notes 6, 7, and 8 to the financial statements.

Table 4
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2021, 2020, and 2019

		2021	2020	2019	2021-2020 Change	2020-2019 Change
Revenue bonds	$	1,589,922	1,621,733	1,652,609	(31,811)	(30,876)
Commercial paper		638,518	207,939	291,498	430,579	(83,559)
Certificates of participation		26,087	26,859	27,603	(772)	(744)
State revolving fund loans		108,559	88,549	88,032	20,010	517
Total	$	2,363,086	1,945,080	2,059,742	418,006	(114,662)

The increase of $418,006 was mainly due to $435,450 issuance of commercial paper and $22,468 of State Revolving Fund loans for the OSP Digester Gas Utilization Upgrade, SEP 521/522 and Disinfection Upgrade and Lake Merced Green Infrastructure projects, offset by $31,316 repayment of outstanding debt and $8,596 of premium amortizations.

Credit Ratings and Bond Insurance – As of June 30, 2021 and 2020, the Enterprise carried underlying ratings of "Aa2" and "AA" from Moody's and Standard & Poor's (S&P), respectively.

Debt Service Coverage – Pursuant to the Indenture for the Wastewater bonds, the Enterprise covenants to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds) that are available for payment of debt service and are not budgeted to be expended, at least equal to 1.25 times annual debt service for said fiscal year. During fiscal years 2021 and 2020, the Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Indenture (see Note 8).

Debt Authorization – Pursuant to the Charter Section 8B.124, the Enterprise can incur indebtedness upon two-thirds vote of the Board of Supervisors. As of June 30, 2021, the Enterprise had $3,791,781 in combined debt issuance authorization from the Board of Supervisors under Proposition E, with $2,735,709 issued against this authorization. The Enterprise has a $750,000 authorized commercial paper program, with $638,518 in tax-exempt commercial paper outstanding as of June 30, 2021 and $207,939 in tax-exempt commercial paper outstanding as of June 30, 2020.

Cost of Debt Capital – The coupon interest rates on the Enterprise's outstanding revenue bonds ranged from 1.0% to 5.8%, with a blended true interest cost of 3.4%, after factoring in federal interest subsidy receipts on Build America Bonds at June 30, 2021. The 2009 Series C certificates of participation carried coupon interest rates from 2.0% to 5.0% and 2009 Series D certificates of participation carried coupon interest rates from 6.4% to 6.5% in fiscal years 2021 and 2020, respectively. The interest rates on short-term debt ranged from 0.1% to 0.2% during fiscal year 2021 and from 0.2% to 1.9% during fiscal year 2020. The State revolving fund loans (CWSRF loans) carried interest rates ranging from 0.8% to 1.8% for a weighted average of 1.4% during fiscal year 2021.

(Dollars in thousands, unless otherwise stated)

Rates and Charges

Rate Setting Process

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIIIB, entitled "Public Utilities," which established the Commission's authority to issue new revenue bonds and set wastewater rates. The Commission is required to:

- Establish rates, fees, and charges based on cost of service;
- Retain an independent rate consultant to conduct cost of service studies at least every five years;
- Consider establishing new connection fees;
- Consider conservation incentives and lifeline rates;
- Adopt a rolling five-year forecast annually; and
- Establish a Rate Fairness Board.

Pursuant to the City and County of San Francisco Charter section 8B.125, an independent rate study is performed at least once every five years. In compliance with City Charter section 8B.125, a water and wastewater rate study was completed in April 2018 and resulted in four-year wastewater rate increases from July 1, 2018 through June 30, 2022. The SFPUC Rates Schedules and Fees is available at https://sfpuc.org/accounts-services/water-power-and-sewer-rates.

The following table is the Enterprise's ten-year approved average rate adjustments:

Ten-year Average Rate Adjustments

Effective Date	Rate
July 1, 2012	5.0 [1] %
July 1, 2013	5.0 [1]
July 1, 2014	5.0 [2]
July 1, 2015	5.0 [2]
July 1, 2016	7.0 [2]
July 1, 2017	11.0 [2]
July 1, 2018	7.0 [3]
July 1, 2019	7.0 [3]
July 1, 2020	8.0 [3]
July 1, 2021	8.0 [3]

[1] Four-year rate increases adopted and effective July 1, 2009.
[2] Four-year rate increases adopted and effective July 1, 2014.
[3] Four-year rate increases adopted and effective July 1, 2018.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with an overview of the Enterprise's finances and to demonstrate the Enterprise's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, Financial Services, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102.

This report is available at https://sfpuc.org/about-us/reports/audited-financial-statements-reports.

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Net Position
June 30, 2021 and 2020
(In thousands)

		2021	2020
Assets			
Current assets:			
Cash and investments with City Treasury	$	281,572	351,915
Cash and investments outside City Treasury		366	356
Receivables:			
Charges for services (net of allowance for doubtful accounts of $5,369 as of June 30, 2021 and $3,189 as of June 30, 2020)		33,081	33,749
Due from other City departments		281	190
Interest		189	983
Restricted due from other governments		20,755	3,265
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $68 as of June 30, 2021 and $38 as of June 30, 2020)		2,841	1,864
Total current receivables		57,147	40,051
Prepaid charges, advances, and other receivables, current portion		877	195
Inventory		2,657	2,476
Restricted cash and investments outside City Treasury		298	11,043
Total current assets		342,917	406,036
Non-current assets:			
Restricted cash and investments with City Treasury		—	55,132
Restricted cash and investments outside City Treasury		9,898	10,461
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $29 as of June 30, 2021 and June 30, 2020)		450	467
Charges for services, less current portion (net of allowance for doubtful accounts of $569 as of June 30, 2021 and $577 as of June 30, 2020)		341	339
Prepaid charges, advances, and other receivables, less current portion		1,183	1,185
Capital assets, not being depreciated and amortized		1,388,262	957,956
Capital assets, net of accumulated depreciation and amortization		2,218,588	2,104,332
Total non-current assets		3,618,722	3,129,872
Total assets		3,961,639	3,535,908
Deferred outflows of resources			
Unamortized loss on refunding of debt		91	189
Pensions		30,219	30,422
Other post-employment benefits		15,109	10,065
Total deferred outflows of resources		45,419	40,676
Liabilities			
Current liabilities:			
Accounts payable		15,282	20,044
Accrued payroll		6,147	5,510
Accrued vacation and sick leave, current portion		5,811	4,801
Accrued workers' compensation, current portion		1,198	1,112
Due to other City departments, current portion		110	110
Damage claims liability, current portion		5,892	8,994
Unearned revenues, refunds, and other		5,345	5,243
Bond and loan interest payable		17,271	17,416
Revenue bonds, current portion		22,880	23,240
Certificates of participation, current portion		785	747
Commercial paper		638,518	207,939
State revolving fund loans payable, current portion		2,483	2,458
Current liabilities payable from restricted assets		89,982	85,355
Total current liabilities		811,704	382,969
Long-term liabilities:			
Other post-employment benefits obligations		50,711	58,183
Net pension liability		103,746	86,235
Accrued vacation and sick leave, less current portion		5,847	4,113
Accrued workers' compensation, less current portion		5,384	4,939
Due to other City departments, less current portion		629	739
Damage claims liability, less current portion		10,821	6,897
Revenue bonds, less current portion		1,567,042	1,598,493
Certificates of participation, less current portion		25,302	26,112
State revolving fund loans payable, less current portion		106,076	86,091
Pollution remediation obligation		7,800	7,800
Total long-term liabilities		1,883,358	1,879,602
Total liabilities		2,695,062	2,262,571
Deferred inflows of resources			
Related to pensions		2,148	16,892
Other post-employment benefits		7,265	4,185
Total deferred inflows of resources		9,413	21,077
Net position			
Net investment in capital assets		1,253,789	1,183,288
Restricted for debt service		2,992	1,227
Unrestricted		45,802	108,421
Total net position	$	1,302,583	1,292,936

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2021 and 2020
(In thousands)

		2021	2020
Operating revenues:			
Charges for services	$	318,236	331,721
Rents and concessions		642	664
Capacity fees		3,710	5,896
Other revenues		5,077	5,847
Total operating revenues		327,665	344,128
Operating expenses:			
Personnel services		90,449	91,013
Contractual services		18,861	19,357
Materials and supplies		9,091	8,991
Depreciation and amortization		72,018	62,967
Services provided by other departments		38,313	37,309
General and administrative and other		63,488	42,622
Total operating expenses		292,220	262,259
Operating income		35,445	81,869
Non-operating revenues (expenses):			
Interest and investment (loss) income		(1,187)	12,137
Interest expenses		(34,862)	(43,216)
Amortization of premium, refunding loss, and issuance costs		8,497	8,647
Net gain from sale of assets		18	38
Other non-operating revenues		4,893	5,558
Other non-operating expenses		(409)	(52)
Net non-operating expenses		(23,050)	(16,888)
Change in net position before transfers		12,395	64,981
Transfers from the City and County of San Francisco		1,440	280
Transfers to the City and County of San Francisco		(4,188)	(1,468)
Net transfers		(2,748)	(1,188)
Change in net position		9,647	63,793
Net position at beginning of year		1,292,936	1,229,143
Net position at end of year	$	1,302,583	1,292,936

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Cash received from customers, including cash deposits	$	327,879	343,966
Cash received from tenants for rent		362	640
Cash paid to employees for services		(90,918)	(89,751)
Cash paid to suppliers for goods and services		(128,808)	(99,755)
Cash paid for judgments and claims		(3,295)	(4,105)
Net cash provided by operating activities		105,220	150,995
Cash flows from non-capital financing activities:			
Cash received from grants		—	1,383
Cash received from miscellaneous revenues		831	1,522
Cash paid for rebates and program incentives		(409)	(52)
Transfers from the City and County of San Francisco		1,440	280
Transfers to the City and County of San Francisco		(4,188)	(1,468)
Net cash (used in) provided by non-capital financing activities		(2,326)	1,665
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		12	38
Proceeds from commercial paper borrowings		435,450	4,390
Proceeds from State revolving fund loans		4,811	36,152
Principal paid on long-term debt		(23,987)	(22,796)
Principal paid on commercial paper		(4,871)	(87,949)
Principal paid on State revolving fund loans		(2,458)	(1,239)
Interest paid on long-term debt		(66,654)	(67,775)
Interest paid on commercial paper		(484)	(4,288)
Interest paid on State revolving fund loans		(1,123)	(787)
Issuance cost paid on long-term debt		—	(40)
Acquisition and construction of capital assets		(582,840)	(337,299)
Federal interest income subsidy for Build America Bonds		2,297	4,032
Net cash used in capital and related financing activities		(239,847)	(477,561)
Cash flows from investing activities:			
Interest income received		3,169	15,087
Proceeds from sale of investments outside City Treasury		134,955	101,291
Purchase of investments outside City Treasury		(134,955)	(92,971)
Net cash provided by investing activities		3,169	23,407
Decrease in cash and cash equivalents		(133,784)	(301,494)
Cash and cash equivalents:			
Beginning of year		425,690	727,184
End of year	$	291,906	425,690
Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and investments with City Treasury:			
Unrestricted	$	281,572	351,915
Restricted		—	55,132
Less: Unrealized (gain) loss on investments with City Treasury		(228)	(3,217)
Cash and investments outside City Treasury:			
Unrestricted		366	356
Restricted		10,196	21,504
Cash and cash equivalents at the end of year on statements of cash flows	$	291,906	425,690

(Continued)

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	35,445	81,869
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		72,018	62,967
Provision for uncollectible accounts		2,201	908
Write-off of capital assets		4,203	4,728
Receivables:			
Charges for services		(1,506)	(870)
Prepaid charges, advances, and other		(716)	(79)
Due from other City departments		148	(129)
Inventory		(181)	(192)
Accounts payable		(4,762)	1,912
Accrued payroll		637	858
Other post-employment benefits obligations		(9,436)	(1,562)
Pension obligations		2,970	(1,603)
Accrued vacation and sick leave		2,744	1,637
Accrued workers' compensation		531	137
Due to other City departments		—	1
Pollution remediation obligation		—	300
Damage claims liability		822	(477)
Unearned revenues, refunds, and other liabilities		102	590
Total adjustments		69,775	69,126
Net cash provided by operating activities	$	105,220	150,995
Noncash transactions:			
Accrued capital asset costs	$	89,982	85,355
Interfund payable		739	849
Unrealized (gain) loss on investments		(228)	(3,217)

See accompanying notes to financial statements.

(1) Description of Reporting Entity

The San Francisco Wastewater Enterprise (the Enterprise), formerly known as the San Francisco Clean Water Program (the Program), was established in 1977 following the transfer of all sewage system-related assets and liabilities of the City and County of San Francisco (the City) to the Program.

In 1976, the electorate of the City approved a proposition authorizing the City to issue $240,000 in revenue bonds pursuant to the Revenue Bond Law of 1941 of the State of California for the purpose of acquiring, constructing, improving, and financing improvements to the City's municipal sewage treatment and disposal system. Since then, the City's Board of Supervisors has adopted resolutions (Wastewater Resolutions) providing for the issuance of various sewer revenue and refunding bond series. The Wastewater Resolutions require the City to keep separate books of records and accounts of the Enterprise.

The Enterprise was placed under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC or the Commission) in 1996. The Commission, established in 1932, is responsible for providing operational oversight of the public utility enterprises of the City, which includes the Enterprise along with the City's power and water utilities (i.e., Hetch Hetchy Water and Power and CleanPowerSF, of which the Power Enterprise is a component, and the San Francisco Water Enterprise). The Commission is responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

Until August 1, 2008, the Commission consisted of five members, all appointed by the Mayor. Proposition E, a City Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the Commission, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for the Commission members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

The SFPUC is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprises are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021 and 2020, the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The accounts of the Enterprise are organized on the basis of a proprietary fund type, specifically an enterprise fund of the City. The activities of this Enterprise are accounted for with a separate set of self-balancing accounts that comprise the Enterprise's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of the Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with the U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the statements of net position; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers, rental income, and capacity fees.

The Enterprise applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) Cash and Cash Equivalents

The Enterprise considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are also considered to be cash equivalents.

(c) Investments

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) Inventory

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

(e) Capital Assets

Capital assets are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets are valued at estimated fair value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years for equipment and 1 to 200 years for building, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) Intangible Assets

Under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the reporting entity.

According to the standard, the Enterprise is required to capitalize intangible assets with a useful life extending beyond one reporting period. The Enterprise has established a capitalization threshold of $100. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor, and therefore, are not amortized (see Note 4).

(g) Construction Work in Progress

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as an expense in the year in which the decision is made to discontinue such projects.

(h) Capitalization of Interest

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets (see Note 4).

(i) Bond Discount, Premium, and Issuance Costs

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

(j) Accrued Vacation and Sick Leave

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(k) Workers' Compensation

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 11(b)).

(l) General Liability

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 11(a)).

(m) Arbitrage Rebate Payable

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. No arbitrage liability is due as of June 30, 2021 or 2020.

(n) Refunding of Debt

Gains or losses occurring from refunding of debt prior to maturity are reported as deferred outflows and deferred inflows of resources from refunding of debt. Deferred outflows and deferred inflows of resources are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(o) Income Taxes

As a department of a government agency, the Enterprise is exempt from both federal income taxes and California State franchise taxes.

(p) Revenue Recognition

Sewer service charges are based on water usage as determined by the San Francisco Water Enterprise. Effective July 1, 2013, the majority of residential and non-residential customers are billed on a monthly basis except for building and contractor customers which are billed on a bi-monthly basis. Revenues earned but unbilled are accrued as charges for services and reflected as a receivable on the statements of net position. The unbilled amount for the fiscal years ending June 30, 2021 and 2020 were $14,175 and $13,429, respectively.

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Accounting and Financial Reporting for Pollution Remediation Obligations

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the design phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include, but are not limited to: asbestos or lead paint removal, leaking of sewage in underground pipes or neighboring areas, chemical spills, removal and disposal of known toxic waste, harmful biological and chemical pollution of water, or contamination of surrounding soils by underground storage tanks (see Note 12(d)).

(s) Other Post-Employment Benefits Other Than Pensions (OPEB)

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value.

(t) New Accounting Standard Adopted in Fiscal Year 2021

1) In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

2) In August 2018, the GASB issued Statement No. 90, *Accounting and Financial Reporting for Majority Equity Interests*. GASB Statement No. 90 provides clarification when a government should report a majority equity interest in a legally separate organization as either a component unit or an investment. The new standard is effective for periods beginning after December 15, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

3) In June 2020, The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a*

supersession of GASB Statement No. 32. GASB Statement No. 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted early the provisions of Statement No. 97 in fiscal year 2021, which did not have a significant effect on its financial statements.

4) In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. GASB Statement No. 98 updates existing accounting standards by changing the name of the Comprehensive Annual Financial Report to the Annual Comprehensive Financial Report. The new standard is effective for periods ending after December 15, 2021. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

(u) GASB Statement implemented in Fiscal Year 2020

1) In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain *Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for the periods beginning after June 15, 2018. The Enterprise adopted the provisions of this Statement in fiscal year 2020.

(v) Future Implementation of New Accounting Standards

1) In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after June 15, 2021. The Enterprise will implement the provisions of Statement No. 87 in fiscal year 2022.

2) In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of construction period. The new standard is effective for periods beginning after December 15, 2020. The Enterprise will implement the provisions of Statement No. 89 in fiscal year 2022.

3) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the compatibility and consistency of conduit debt obligation reporting and reporting of related transactions by State and local government issuers. The new standard is effective for periods beginning after December 15, 2021. The Enterprise will implement the provisions of Statement No. 91 in fiscal year 2023.

4) In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Enterprise will implement provisions of Statement No. 92 in fiscal year 2022.

5) In March 2020, the GASB issued Statement No. 93*, Replacement of Interbank Offered Rates (IBOR).* The objective of this Statement is to address those and other accounting and financial

reporting implications that result from the replacement of an IBOR. The new standard is effective for periods beginning after June 15, 2021. The Enterprise will implement the provisions of Statement No. 93 in fiscal year 2022.

6) In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 94 in fiscal year 2023.

7) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 96 in fiscal year 2023.

(w) Reclassifications

The Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. These reclassifications had no effect on previously reported changes in net position.

(3) Cash, Cash Equivalents, and Investments

The Enterprise's cash, cash equivalents, and investments with the City Treasury are invested in an unrated City pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month-end in proportion to the Enterprise's average daily cash balances. The primary objectives of the Enterprise's investment policy are consistent with the City's policy.

The restricted cash for bond reserves is held by an independent trustee outside the City investment pool. The balances as of June 30, 2021 and 2020 were $10,196 and $21,504, respectively. Funds held by the trustee established under the 2003 Indenture are invested in "Permitted Investments" as defined in the Indenture. "Permitted Investments" include money market funds registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by S&P of "AAAm-G," "AAAm," or "AAm" and a rating by Moody's of "Aaa," "Aa1," or "Aa2."

The Enterprise categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

(Dollars in thousands, unless otherwise stated)

The following is a summary of the restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2021 and 2020.

Cash and Investments outside City Treasury

		June 30, 2021			Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	Maturities	Fair Value	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 10,159	10,159	—	—	—
Money Market Funds	A-1+/P-1	< 90 days	26	26	—	—	—
Cash and Cash Equivalents	N/A		11	11	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 10,196	10,196	—	—	—
Cash and Cash Equivalents	N/A		366	366	—	—	—
Total Cash and Investments outside City Treasury			$ 366	366	—	—	—

Cash and Investments outside City Treasury

		June 30, 2020			Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	Maturities	Fair Value	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 21,372	21,372	—	—	—
Money Market Funds	A-1+/P-1	< 90 days	124	124	—	—	—
Cash and Cash Equivalents	N/A		8	8	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 21,504	21,504	—	—	—
Cash and Cash Equivalents	N/A		356	356	—	—	—
Total Cash and Investments outside City Treasury			$ 356	356	—	—	—

(Continued)

(Dollars in thousands, unless otherwise stated)

Commercial paper is valued using a variety of techniques such as matrix pricing; market corroborated pricing inputs such as yield curve, indices, and other market related data. Commercial paper, money market investments, and cash and cash equivalents are exempt from fair value treatment under GASB Statement No. 72.

The restricted cash and investments outside City Treasury as of June 30, 2021 and 2020 included a $0 unrealized gain due to changes in fair values on Commercial Paper.

The Enterprise's cash, cash equivalents, and investments are shown on the accompanying statements of net position as follows:

	2021	2020
Current assets:		
Cash and investments with City Treasury	$ 281,572	351,915
Cash and investments outside City Treasury	366	356
Restricted cash and investments outside City Treasury	298	11,043
Non-current assets:		
Restricted cash and investments with City Treasury	—	55,132
Restricted cash and investments outside City Treasury	9,898	10,461
Total cash, cash equivalents, and investments	$ 292,134	428,907

The following table shows the percentage distribution of the City's pooled investments by maturity:

	Investment maturities (in months)			
Fiscal years ended June 30	Under 1	1 to less than 6	6 to less than 12	12 to 60
2021	14.5%	27.6%	29.7%	28.2%
2020	30.1%	32.4%	15.6%	21.9%

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, sewers, wastewater treatment plants, pump stations, and other pipelines.

Capital assets as of June 30, 2021 and 2020 consisted of the following:

		2020	Increases	Decreases	2021
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	44,572	–	–	44,572
Intangible assets		3,046	–	–	3,046
Construction work in progress		910,338	619,819	(189,513) *	1,340,644
Total capital assets not being depreciated and amortized		957,956	619,819	(189,513)	1,388,262
Capital assets being depreciated and amortized:					
Facilities and improvements		3,419,029	180,949	–	3,599,978
Intangible assets		4,615	4,361	–	8,976
Machinery and equipment		101,595	964	(162)	102,397
Total capital assets being depreciated and amortized:		3,525,239	186,274 *	(162)	3,711,351
Less accumulated depreciation and amortization for:					
Facilities and improvements		(1,344,830)	(67,279)	–	(1,412,109)
Intangible assets		(4,615)	–	–	(4,615)
Machinery and equipment		(71,462)	(4,739)	162	(76,039)
Total accumulated depreciation and amortization		(1,420,907)	(72,018)	162	(1,492,763)
Total capital assets being depreciated and amortized, net		2,104,332	114,256	–	2,218,588
Total capital assets, net	$	3,062,288	734,075	(189,513)	3,606,850

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $4,203 in capital project write-offs, mainly related to the Watershed Storm Management Project, Operational Decision System Ph2 Project, and the Seacliff Ave Sewer Replacement-627 Project offset by $964 direct additions to machinery and equipment.

		2019	Increases	Decreases	2020
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	36,018	8,554	–	44,572
Intangible assets		3,046	–	–	3,046
Construction work in progress		765,624	405,798	(261,084) *	910,338
Total capital assets not being depreciated and amortized		804,688	414,352	(261,084)	957,956
Capital assets being depreciated and amortized:					
Facilities and improvements		3,171,227	247,802	–	3,419,029
Intangible assets		4,615	–	–	4,615
Machinery and equipment		99,961	2,588	(954)	101,595
Total capital assets being depreciated and amortized:		3,275,803	250,390 *	(954)	3,525,239
Less accumulated depreciation and amortization for:					
Facilities and improvements		(1,286,210)	(58,620)	–	(1,344,830)
Intangible assets		(4,478)	(137)	–	(4,615)
Machinery and equipment		(67,999)	(4,417)	954	(71,462)
Total accumulated depreciation and amortization		(1,358,687)	(63,174)	954	(1,420,907)
Total capital assets being depreciated and amortized, net		1,917,116	187,216	–	2,104,332
Total capital assets, net	$	2,721,804	601,568	(261,084)	3,062,288

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $4,728 in capital project write-offs, mainly related to the Collection System Condition Assessment Project, Westside Pump Station Force Main Project, and the Oceanside Plant Improvements Project. The remaining difference of $5,966 is related to $8,554 of construction work in progress transferred to land offset by $2,588 direct additions to intangible assets and machinery and equipment.

(Dollars in thousands, unless otherwise stated)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements,* requires that interest expense incurred during construction of assets be capitalized. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2021 and 2020 are as follows:

		2021	2020
Interest expensed	$	34,862	43,216
Interest included in construction work in progress		33,420	28,563
Total interest incurred	$	68,282	71,779

(5) Restricted Assets

The Master Bond Resolution was discharged upon the issuance of the 2003 Series A Refunding Bonds. Pursuant to the Indenture, which became effective with the issuance of the 2003 Series A Refunding Bonds, all net revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Wastewater revenue bonds. Accordingly, the net revenues of the Enterprise shall not be used for any other purpose while any of its revenue bonds are outstanding except as expressly permitted by the Indenture. Further, all net revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Revenue Fund, which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statements of net position of the Enterprise as cash and investments. Deposits in the Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes and only in accordance with the following priority:

1. The payment of operation and maintenance costs of the Enterprise;
2. The payment of State revolving fund loans;
3. The payment of bonds, parity State revolving fund loans, policy costs, and amounts due as reimbursement under any letter of credit agreement; and
4. Any other lawful purpose of the Enterprise.

(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the Enterprise maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Cash and investments with City Treasury:		
Wastewater revenue bond construction fund	$ —	55,132
Cash and investments outside City Treasury:		
2009 Series C Certificates of Participation - 525 Golden Gate	433	480
2009 Series D Certificates of Participation - 525 Golden Gate	1,732	1,890
2010 Series A Wastewater revenue bond fund	3,592	3,621
2010 Series B Wastewater revenue bond fund	4,401	6,493
2018 Series A Wastewater revenue bond fund	—	4,002
2018 Series B Wastewater revenue bond fund	—	3,462
2018 Series C Wastewater revenue bond fund	—	1,424
Commercial Paper - Tax Exempt	38	132
Total cash and investments outside City Treasury	10,196	21,504
Interest and other receivables:		
Wastewater revenue bond construction fund including capacity fee receivables	3,291	2,331
Due from other government for State Revolving Fund	20,755	3,265
	24,046	5,596
Total restricted assets	$ 34,242	82,232

Restricted assets listed above as cash and investments with City Treasury are held in fund accounts within the Sewer Revenue Fund of the City Treasury.

(Dollars in thousands, unless otherwise stated)

(6) Short-Term Debt

Under the voter approved 2002 Proposition E, the Commission and Board of Supervisors authorized the issuance of up to $750,000 in commercial paper for the purpose of reconstructing, expanding, repairing, or improving the Enterprise's facilities. The Enterprise had $638,518 and $207,939 in commercial paper outstanding as of June 30, 2021 and 2020, respectively.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, the Enterprise had $111,482 and $542,061 in unused authorization as of June 30, 2021 and 2020, respectively. Significant Events of default as specified in the Reimbursement Agreements, Revolving Credit and Term Loan Agreements, or Revolving Credit Agreements include 1) payment defaults 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2021, there were no such events described herein.

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2021 and 2020 are as follows:

	Interest rate	Maturity (Calendar Year)	2020	Additions	Reductions	2021	Due within one year
Revenue Bonds:							
2010 Series A	4.00% - 5.00%	2021	$ 17,210	–	(8,390)	8,820	8,820
2010 Series B (Build America)	4.65 - 5.82	2040	192,515	–	–	192,515	–
2013 Series A	1.00 - 5.00	2025	44,445	–	(14,850)	29,595	14,060
2013 Series B	4.00 - 5.00	2042	331,585	–	–	331,585	–
2016 Series A	4.00 - 5.00	2046	240,580	–	–	240,580	–
2016 Series B	4.00 - 5.00	2046	67,820	–	–	67,820	–
2018 Series A	4.00 - 5.00	2043	229,050	–	–	229,050	–
2018 Series B	5.00	2043	185,950	–	–	185,950	–
2018 Series C	2.13	2048	179,145	–	–	179,145	–
For issuance premiums			133,433	–	(8,571)	124,862	–
Total revenue bonds payable			1,621,733	–	(31,811)	1,589,922	22,880
2009 Series C Certificates of Participation (COPs)	2.00 - 5.00	2022	2,358	–	(747)	1,611	785
2009 Series C COPs issuance premiums			43	–	(25)	18	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	24,458	–	–	24,458	–
State Revolving Fund Loans (CWSRF loans)	0.8 - 1.80	2051	88,549	22,468	(2,458)	108,559	2,483
Other post-employment benefits obligations			58,183	6,609	(14,081)	50,711	–
Net pension liability			86,235	42,533	(25,022)	103,746	–
Accrued vacation and sick leave			8,914	5,406	(2,662)	11,658	5,811
Accrued workers' compensation			6,051	2,616	(2,085)	6,582	1,198
Due to other City departments			849	–	(110)	739	110
Damage claims liability			15,891	6,428	(5,606)	16,713	5,892
Pollution remediation obligation			7,800	–	–	7,800	–
Total			$ 1,921,064	86,060	(84,607)	1,922,517	39,159

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2019	Additions	Reductions	2020	Due within one year
Revenue Bonds:							
2010 Series A	4.00% - 5.00%	2021	$ 25,190	–	(7,980)	17,210	8,390
2010 Series B (Build America)	4.65 - 5.82	2040	192,515	–	–	192,515	–
2013 Series A	1.00 - 5.00	2025	58,550	–	(14,105)	44,445	14,850
2013 Series B	4.00 - 5.00	2042	331,585	–	–	331,585	–
2016 Series A	4.00 - 5.00	2046	240,580	–	–	240,580	–
2016 Series B	4.00 - 5.00	2046	67,820	–	–	67,820	–
2018 Series A	4.00 - 5.00	2043	229,050	–	–	229,050	–
2018 Series B	5.00	2043	185,950	–	–	185,950	–
2018 Series C	2.13	2048	179,145	–	–	179,145	–
For issuance premiums			142,224	–	(8,791)	133,433	–
Total revenue bonds payable			1,652,609	–	(30,876)	1,621,733	23,240
2009 Series C Certificates of Participation (COPs)	2.00 - 5.00	2022	3,069	–	(711)	2,358	747
2009 Series C COPs issuance premiums			76	–	(33)	43	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	24,458	–	–	24,458	–
State Revolving Fund Loans (CWSRF loans)	1.60 - 1.80	2050	88,032	1,756	(1,239)	88,549	2,458
Other post-employment benefits obligations			53,567	9,002	(4,386)	58,183	–
Net pension liability			85,037	18,863	(17,665)	86,235	–
Accrued vacation and sick leave			7,277	4,324	(2,687)	8,914	4,801
Accrued workers' compensation			5,914	1,932	(1,795)	6,051	1,112
Due to other City departments			955	1	(107)	849	110
Damage claims liabil ty			16,368	1,952	(2,429)	15,891	8,994
Pollution remediation obligation			7,500	300	–	7,800	–
Total			$ 1,944,862	38,130	(61,928)	1,921,064	41,462

The payments of principal and interest amounts on various bonds are secured by net revenues of the Enterprise.

(a) Wastewater Revenue Bonds 2010 Series A

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series A in the amount of $47,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used to redeem $50,000 in outstanding commercial paper notes, fund a cash debt service reserve fund, and pay the costs of issuing the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2021. The true interest cost is 2.9%. As of June 30, 2021 and 2020, the 2010 Series A bonds’ principal amount outstanding was $8,820 and $17,210, respectively.

(b) Wastewater Revenue Bonds 2010 Series B

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment) in the amount of $192,515 with interest rates ranging from 4.7% to 5.8%. Proceeds from the bonds were used to redeem $53,500 in outstanding commercial paper notes, provide funding for capital projects in the amount of $112,429, fund a cash debt service reserve fund, and pay financing costs for the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2040. The true interest cost is 3.7%. As of June 30, 2021 and 2020, the 2010 Series B bonds’ principal amount outstanding was $192,515.

(c) Wastewater Revenue Bonds 2013 Series A

In January 2013, the Enterprise issued tax-exempt revenue bonds 2013 Series A in the amount of $193,400 for the purpose of refunding the remaining portion of the outstanding 2003 Series A bonds maturing on and after October 1, 2013. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively, at the time of issuance. The 2013 Series A refunding bonds include serial bonds with interest rates varying from 1.0% to 5.0% and have a final maturity in October 2025. The Series A bonds have a true interest cost of 1.2%. The 2013 Series A bonds also refunded the remaining portion of the outstanding state revolving fund loans. The refunding resulted in the recognition of a deferred accounting loss of $2,986, gross debt service savings of $35,107 over the next 13 years, and an economic gain of $32,783 or 15.4% of the refunded principal. As of June 30, 2021 and 2020, the principal amount outstanding of the 2013 Series A bonds was $29,595 and $44,445, respectively.

(d) Wastewater Revenue Bonds 2013 Series B

In February 2013, the Enterprise issued revenue bonds 2013 Series B in the amount of $331,585 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, pay off all outstanding Wastewater commercial paper notes, and pay the costs of issuing the bonds. The bonds were rated "Aa3" and "AA-" by Moody's and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2042. The true interest cost is 3.6%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2013 Series B bonds was $331,585.

(e) Wastewater Revenue Bonds 2016 Series A

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of $240,580 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $53,439 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2016 Series A bonds was $240,580.

(f) Wastewater Revenue Bonds 2016 Series B

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of $67,820 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $20,560 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2016 Series B bonds was $67,820.

(g) Wastewater Revenue Bonds 2018 Series A

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series A (SSIP) (Green Bonds) in the amount of $229,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects in furtherance of the SFPUC's Sewer System Improvement Program ("SSIP"), to pay off $25,000 of outstanding commercial paper notes, to fund capitalized interest, and to pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October

(Dollars in thousands, unless otherwise stated)

1, 2043. The bonds have a true interest cost of 3.4%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2018 Series A bonds was $229,050.

(h) *Wastewater Revenue Bonds 2018 Series B*

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series B (Non-SSIP) in the amount of $185,950 with 5.0% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of “AA” and “Aa3” from S&P and Moody’s, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.5%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2018 Series B bonds was $185,950.

(i) *Wastewater Revenue Bonds 2018 Series C*

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series C (SSIP) (Green Bonds) in the amount of $179,145 with 2.1% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of “AA” and “Aa3” from S&P and Moody’s, respectively, at the time of issuance. Bonds mature through October 1, 2048. The Initial Mandatory Tender date of the 2018 Series C bonds is October 1, 2023. The bonds have a true interest cost of 3.5%. As of June 30, 2021 and 2020, the principal amount outstanding of the 2018 Series C bonds was $179,145.

(j) *Future Annual Debt Services of Revenue and Refunding Bonds*

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2021. The interest before subsidy amounts include the interest for 2010 Series A and B, 2013 Series A and B, 2016 Series A and B, and 2018 Series A, B, and C bonds. The federal interest subsidy amounts represent 35% of the interest, excluding sequestration, for the 2010 Series B revenue bonds.

		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2022	$	22,880	63,863	(3,527)	60,336
2023		34,345	62,496	(3,471)	59,025
2024		36,905	62,441	(3,356)	59,085
2025		36,935	62,291	(3,235)	59,056
2026		38,675	60,451	(3,105)	57,346
2027-2031		223,005	270,455	(13,298)	257,157
2032-2036		281,885	206,774	(8,781)	197,993
2037-2041		351,845	130,881	(3,182)	127,699
2042-2046		312,460	53,422	—	53,422
2047-2049		126,125	6,874	—	6,874
		1,465,060	979,948	(41,955)	937,993
Less: Current portion		(22,880)			
Add: Unamortized bond premiums		124,862			
Long-term portion as of June 30, 2021	$	1,567,042			

*The SFPUC received IRS notice, dated June 29, 2021, that the federal interest subsidy on the 2010 Series B bonds is reduced by 5.7%, or a total reduction of $2,536, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(Dollars in thousands, unless otherwise stated)

As defined in the Indenture, the principal and interest of the Enterprise's refunding bonds are payable from its corresponding revenue as well as monies deposited in certain funds and accounts pledged thereto (see Note 5).

(k) *Certificates of Participation Issued for the 525 Golden Gate Avenue Headquarters Building*

In October 2009, the City issued $167,670 in certificates of participation to fund the headquarters building of the SFPUC at 525 Golden Gate Avenue. The 2009 Series C were issued for $38,120 and 2009 Series D for $129,550 as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.4% to 6.5% and mature on November 1, 2041. After adjusting for the federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C and Series D, respectively.

Under the terms of a memorandum of understanding (MOU) between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City's use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. There are no events of default stated in this MOU.

Each of the three Enterprises has an ownership interest in the building equal to their projected usage of space as follows: Water (73%), Wastewater (15%), and Power (12%). Similarly, each Enterprise is responsible for a portion of the annual base rental payment based on their ownership percentages less contributed equity. The percentage share of base rental payments for the Enterprises is as follows: Water (71.4%), Wastewater (18.9%), and Power (9.7%).

The future annual debt services relating to the certificates of participation 2009 Series C outstanding as of June 30, 2021 are as follows:

Certificates of Participation 2009 Series C (Tax Exempt)		Principal	Interest	Total
Fiscal years ending June 30:				
2022	$	785	61	846
2023		826	21	847
		1,611	82	1,693
Less: Current portion		(785)		
Add: Unamortized bond premiums		18		
Long-term portion as of June 30, 2021	$	844		

(Dollars in thousands, unless otherwise stated)

The future annual debt services relating to the certificates of participation 2009 Series D outstanding as of June 30, 2021 are as follows:

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2022	$	—	1,578	(521)	1,057
2023		—	1,578	(521)	1,057
2024		864	1,551	(512)	1,039
2025		900	1,494	(493)	1,001
2026		937	1,436	(474)	962
2027-2031		5,314	6,213	(2,050)	4,163
2032-2036		6,544	4,308	(1,422)	2,886
2037-2041		8,071	1,945	(642)	1,303
2042		1,828	59	(20)	39
Total			20,162	(6,655)	13,507
Long-term portion as of June 30, 2021	$	24,458			

*The SFPUC received IRS notice dated June 29, 2021 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of $402, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(l) Lake Merced Green Infrastructure Project CWSRF Loan

In January 2016, then amended in May 2016, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund ("CWSRF") Loan to fund the Lake Merced Green Infrastructure Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $7,435. The loan bears an interest rate of 1.6% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected by July 2020. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling $6,116 and a construction period interest of $166 transferred to principal. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $6,282 and $6,117, respectively.

(m) Southeast Plant (SEP) 521/522 and Disinfection Upgrade Project CWSRF Loan

In September 2017, then amended in December 2017 and May 2018, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP 521/522 and Disinfection Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $40,007. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in July 2019. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $39,741. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $38,512 and $38,193, respectively.

(n) North Point Facility Outfall Rehabilitation Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the North Point Facility Outfall Rehabilitation Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $20,199. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in February 2018. The CWSRF loans is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $17,706. As of June 30, 2021 and 2020 the principal amount outstanding of the loan was $16,181 and $16,644, respectively.

(o) Southeast Plant (SEP) Primary/Secondary Clarifier Upgrade Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Primary/Secondary Clarifier Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $34,446. The loan bears an interest rate of 0.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in June 2018. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $29,197. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $26,829 and $27,595, respectively.

(p) Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the OSP Digester Gas Utilization Upgrade Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $54,388, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $0 and a receivable for reimbursement of $20,755. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $20,755 and $0, respectively.

(q) Southeast Plant (SEP) Biosolids Digester Facilities Project

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Biosolids Digester Facilities Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $132,000, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in May 2026. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $0.

(Dollars in thousands, unless otherwise stated)

(r) Southeast Plant (SEP) New Headworks (Grit) Replacement Project

In May 2021, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP New Headworks (Grit) Replacement Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $112,036. The loan bears an interest rate of 1.1% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in March 2024. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. As of June 30, 2021 and 2020, the principal amount outstanding of the loan was $0.

(s) Future Annual Debt Services of State Revolving Fund Loans (CWSRF Loans)

The future annual debt services relating to the State Revolving Fund Loan to fund the Lake Merced Green Infrastructure Project, the North Point Facility Outfall Rehabilitation Project, the SEP Primary/Secondary Clarifier Upgrade Project, the SEP 521/522 and Disinfection Upgrade Project and the OSP Digester Gas Utilization Upgrade Project outstanding as of June 30, 2021 are as follows:

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2022	$	2,483	1,254	3,737
2023		3,043	1,553	4,596
2024		3,095	1,509	4,604
2025		3,148	1,464	4,612
2026		3,202	1,419	4,621
2027-2031		16,854	6,378	23,232
2032-2036		18,352	5,110	23,462
2037-2041		19,983	3,729	23,712
2042-2046		21,761	2,225	23,986
2047-2051		15,798	659	16,457
2052		840	12	852
		108,559	25,312	133,871
Less: Current portion		(2,483)		
Long-term portion as of June 30, 2021	$	106,076		

(t) WIFIA Loan Agreement-Biosolids Digester Facility Project

In July 2018, the SFPUC entered into a "Water Infrastructure Finance and Innovation Act (WIFIA)" Loan Agreement ("WIFIA Loan") with the United States Environmental Protection Agency in the amount of $699,242. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's

Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water State Revolving Fund ("SRF") Loans entered into with the California State Water Resources Control Board.

The original 2018 loan bore a fixed interest rate of 3.09% for a 35-year term, with loan repayment expected to begin in fiscal year 2026, after substantial completion of project construction. In June 2020 the SFPUC re-executed the WIFIA Loan Agreement to have a fixed interest rate of 1.45% for a 35-year term. All other terms of WIFIA Loan Agreement are unchanged.

The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2021.

(u) WIFIA Loan Agreement-Southeast Treatment Plant Improvements

In June 2020, the San Francisco Public Utilities Commission ("SFPUC") entered into a "Water Infrastructure Finance and Innovation Act (WIFIA)" Loan Agreement ("WIFIA Loan") with the United States Environmental Protection Agency in the amount of $513,862. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's SEP New Headworks Replacement Project and additional costs of the revised Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water State Revolving Fund ("SRF") Loans entered into with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 1.45% for a 35-year term, with loan repayment expected to begin in fiscal year 2025, after substantial completion of project construction. The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2021.

(v) Events of Default and Remedies

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default as specified in the Wastewater Enterprise Indenture (applicable to Wastewater Revenue Bonds, SRF Loans, and WIFIA Loan include 1) Non-payment 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations or of a credit provider), declaring the principal and the interest accrued thereon, to be due and payable immediately. As of June 30, 2021, there were no such events described herein.

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds and State Revolving Fund loans. Proceeds from the revenue bonds and State Revolving Fund provided financing for various capital construction projects, and to refund previously issued bonds. The bonds and State Revolving Fund loans are payable through fiscal years 2049 and 2052, respectively, and are solely from revenues of the Enterprise.

(Dollars in thousands, unless otherwise stated)

The original amount of revenue bonds issued and State Revolving Fund loans, total principal and interest remaining, principal and interest paid during fiscal years 2021 and 2020, applicable net revenues, and funds available for debt service are as follows:

	2021	2020
Bonds issued with revenue pledge	$ 1,667,095	1,667,095
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	113,681	91,213
Principal and interest remaining due at the end of the year	2,578,879	2,647,000
Principal and interest paid during the year	82,066	62,797
Net revenues for the year ended June 30	108,399	166,082
Funds available for debt service	306,177	381,804

(9) Employee Benefits

(a) Pension Plan

The Enterprise participates in a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). The SFERS Plan is administered by the San Francisco City and County Employees' Retirement System (SFERS). Contributions are recognized in the period in which they are due pursuant to legal requirements. For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS Plan, and additions to/deductions from the SFERS Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the SFERS Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the SFERS Plan reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Fiscal year 2021	
Valuation Date (VD)	June 30, 2019 updated to June 30, 2020
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

Fiscal year 2020	
Valuation Date (VD)	June 30, 2018 updated to June 30, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

SFERS Plan – The City is an employer of the SFERS Plan with a proportionate share of 94.39% as of June 30, 2020 (measurement date), and 94.13% as of June 30, 2019 (measurement date). The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2020 and 2019. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. The Enterprise's allocation of the City's proportionate share was 2.03% as of June 30, 2020 and 2.05% as of June 30, 2019 (measurement dates).

Plan Description – The SFERS Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost of living adjustments (COLA) after retirement. The SFERS Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the SFERS Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the SFERS Plan. That report may be obtained on the Retirement System's website http://mysfers.org or by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the SFERS Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of SFERS Plan members are:

a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
b) Sheriff's Department and Miscellaneous Safety Members – Sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's Department, and miscellaneous safety employees hired on and after January 7, 2012.
c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the SFERS Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the SFERS Plan is also fully funded on a market value of assets basis. Certain provision of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the SFERS Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the SFERS Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding & Contribution Policy

SFERS Plans – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2021 and 2020. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The Enterprise is required to contribute at an actuarially determined rate. Based on the July 1, 2019 actuarial report, the required employer contribution rate for fiscal year 2021 was 22.40% to 26.90%. Based on the July 1, 2018 actuarial report, the required employer contribution rate for fiscal year 2020 was 20.69% to 25.19%.

Employer contributions and employee contributions made by the employer to the SFERS Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2020 and 2019 (measurement periods) were $701,307 and $607,408, respectively. The Enterprise's allocation of employer contributions for fiscal year 2020 and 2019 were $14,352 and $12,816, respectively.

Pension Liabilities, Pension Expenses, Deferred Outflows, and Inflows of Resources Related to Pensions

Fiscal Year 2021

The City reported net pension liabilities for its proportionate share of the pension liability of the SFERS Plan of $5,107,270 as of June 30, 2021. The City's net pension liability for the SFERS Plan is measured as the proportionate share of the net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2020 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2021 was $103,746.

For the year ended June 30, 2021, the City's recognized pension expense was $962,576 (which includes Retirement Benefit Plan pension expense of $25,243) including amortization off deferred outflow/inflow related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $19,053. Pension expense increased from the prior year, largely due to the amortization of deferrals.

(Dollars in thousands, unless otherwise stated)

As of June 30, 2021, the Enterprise's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2021 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	16,083	—
Differences between expected and actual experience		3,524	325
Changes in assumptions		5,696	1,797
Net difference between projected and actual earnings on pension plan investments		2,172	—
Change in employer's proportion		2,744	26
Total	$	30,219	2,148

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years		Deferred Outflows/(Inflows) of Resources
2022	$	(787)
2023		3,009
2024		5,528
2025		4,238
Total	$	11,988

Fiscal Year 2020

The City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4,213,808 as of June 30, 2020. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2020 was $86,235.

For the year ended June 30, 2020, the City's recognized pension expense was $883,395 including amortization of deferred outflow/inflow related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $12,748. Pension expense increased from the prior year, largely due to the amortization of deferrals.

As of June 30, 2020, the Enterprise's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2020 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	14,352	—
Differences between expected and actual experience		639	949
Changes in assumptions		12,264	—
Net difference between projected and actual earnings on pension plan investments		—	15,891
Change in employer's proportion		3,167	52
Total	$	30,422	16,892

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years		Deferred Outflows/(Inflows) of Resources
2021	$	4,181
2022		(5,055)
2023		(1,240)
2024		1,292
Total	$	(822)

Actuarial Assumptions

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2020 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2019 actuarial valuation. Refer to the July 1, 2019 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	June 30, 2019 updated to June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.40% net of pension plan investment, including inflation
Municipal Bond Yield	3.50% as of June 30, 2019
	2.21% as of June 30, 2020
	Bond Buyer 20-Bond GO Index, June 27, 2019 and June 25, 2020
Inflation	2.75%
Projected Salary Increases	3.50% plus merit component based on employee classification and years of service
Discount Rate	7.40% as of June 30, 2019
	7.40% as of June 30, 2020
Administrative Expenses	0.60% of payroll as of June 30, 2019
	0.60% of payroll as of June 30, 2020

Basic COLA	Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
June 30, 2019	2.00%	2.50%	3.10%	4.20%
June 30, 2020	2.00%	2.50%	3.10%	4.20%

For healthy annuitants, the sex distinct 2009 CalPERS healthy annuitant mortality table, adjusted 1.014 for females and 0.909 for males. For active members, the sex distinct 2009 CalPERS employee mortality tables, adjusted 0.918 for females and 0.948 for males. Rates are projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

The actuarial assumptions used at the June 30, 2020 measurement date was based upon the result of a demograpic experience study for the period July 1, 2009 through June 30, 2014 and an economic experience as of July 1, 2019.

Fiscal Year 2020

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2019 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2018 actuarial valuation. Refer to the July 1, 2018 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions

Valuation Date	June 30, 2018 updated to June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.40% net of pension plan investment, including inflation
Municipal Bond Yield	3.87% as of June 30, 2018
	3.50% as of June 30, 2019
	Bond Buyer 20-Bond GO Index, June 28, 2018 and June 27, 2019
Inflation	2.75%
Salary Increases	3.50% plus merit component based on employee classification and years of service
Discount Rate	7.50% as of June 30, 2018
	7.40% as of June 30, 2019
Administrative Expenses	0.60% of payroll as of June 30, 2018
	0.60% of payroll as of June 30, 2019

Basic COLA	Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
June 30, 2018	2.00%	2.50%	3.10%	4.20%
June 30, 2019	2.00%	2.50%	3.10%	4.20%

Mortality rates for active members and healthy annuitants were based upon the adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Discount Rate

Fiscal Year 2021

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of the June 30, 2020 (measurement date) and June 30, 2019 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2020 was 7.40%. The projection of cash flows used to determine the discount rate assumed that SFERS plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2019 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.50% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

(Dollars in thousands, unless otherwise stated)

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 97 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2020 for the probability and amount of Supplemental COLA for each future year. There were no excess earnings during the fiscal year ending June 30, 2020; consequently, no Supplemental COLA will be paid effective July 1, 2020. The table below shows the net assumed Supplemental COLA for members with a 2.00% basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2022	0.75 %	0.19 %
2024	0.75	0.27
2026	0.75	0.30
2028	0.75	0.33
2030	0.75	0.35
2032	0.75	0.37
2034+	0.75	0.38

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.21% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2020 was 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

(Dollars in thousands, unless otherwise stated)

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	4.9 %
Private Equity	18.0	7.9
Real Assets	17.0	5.7
Hedge Funds/Absolute Returns	15.0	3.0
Private Credit	10.0	4.8
Treasuries	6.0	-0.5
Liquid Credit	3.0	2.7
Total	100.0	

Fiscal Year 2020

The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of the June 30, 2019 (measurement date) and 7.50% as of the June 30, 2018 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2019 was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2018 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.50% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

(Dollars in thousands, unless otherwise stated)

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 97 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, the following assumptions were developed for the probability and amount of Supplemental COLA for each future year. The City has assumed that a full Supplemental COLA will be paid to all Post 97 Retirees effective July 1, 2019. The table below shows the net assumed Supplemental COLA for members with a 2.00% basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2021	0.75 %	0.27 %
2023	0.75	0.34
2025	0.75	0.36
2027	0.75	0.37
2030+	0.75	0.38

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.50% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2019 was 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

(Dollars in thousands, unless otherwise stated)

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	5.3 %
Private Equity	18.0	8.3
Real Assets	17.0	5.4
Hedge Funds/Absolute Returns	15.0	3.9
Private Credit	10.0	5.2
Treasuries	6.0	0.9
Liquid Credit	3.0	3.6
Total	100.0	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Enterprise's allocation of the employer's proportionate share of the net pension liability for the SFERS Plan, calculated using the discount rate, as well as what the Enterprise's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2021

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPL @ 7.40%	1% Increase Share of NPL @ 8.40%
Wastewater	$ 183,436	103,746	37,907

Fiscal Year 2020

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPL @ 7.40%	1% Increase Share of NPL @ 8.40%
Wastewater	$ 162,775	86,235	22,995

(b) Other Post-Employment Benefits

The Enterprise participates in the City's single employer defined benefit other postemployment benefits plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. The plan provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

(Dollars in thousands, unless otherwise stated)

San Francisco Health Service System Retiree Plan - Single Employer

Fiscal year 2021	
Valuation Date (VD)	June 30, 2020
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

Fiscal year 2020	
Valuation Date (VD)	June 30, 2018 updated to June 30, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

The Enterprise's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the year ended June 30, 2020. The Enterprise's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Enterprise's allocated percentage. The Enterprise's proportionate share of the City's OPEB elements as of June 30, 2020 and 2019 measurement dates were 1.33% and 1.49%.

Benefits

Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service[1]
		Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement[2]	Any age with 10 years of credited service	
Terminated Vested	5 years of credited service at separation	

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012.

[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully insured)
	HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental, DeltaCare USA and UnitedHealthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

Contributions

Benefits provided under the Plan are currently paid through "pay-as-you-go" funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded. At that time, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the fiscal years ending June 30, 2021 and 2020, the City's funding was based on "pay-as-you-go" plus a contribution of $39,555 and $39,518 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $206,439 for a total contribution of $245,994 for the fiscal year ending June 30, 2021, and $196,445 for a total contribution of $235,963 for the fiscal year ending June 30, 2020. The Enterprise's proportionate share of the City's contributions for fiscal year 2021 was $3,263, and for fiscal year 2020 was $3,506.

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

Fiscal Year 2021

As of June 30, 2021, the City reported net OPEB liabilities related to the Plan of $3,823,334. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2021 was $50,711.

For the year ended June 30, 2021, the City's recognized OPEB expense was $320,684. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was a credit of $6,174 to expense.

As of June 30, 2021, the Enterprise reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

(Dollars in thousands, unless otherwise stated)

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,263	$ -
Differences between expected and actual experience	1,839	7,265
Changes in assumptions	2,567	-
Net difference between projected and actual earnings on plan investments	33	-
Change in proportion	7,407	-
Total	$ 15,109	$ 7,265

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Year ended June 30:	
2022	$ 829
2023	849
2024	846
2025	859
2026	788
Thereafter	410
Total	$ 4,581

Fiscal Year 2020

As of June 30, 2020, the City reported net OPEB liabilities related to the Plan of $3,915,814. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2020 was $58,183.

For the year ended June 30, 2020, the City's recognized OPEB expense was $330,673. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $1,943.

As of June 30, 2020, the Enterprise reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

(Dollars in thousands, unless otherwise stated)

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,506	$ -
Differences between expected and actual experience	2,472	4,094
Changes in assumptions	1,179	-
Net difference between projected and actual earnings on plan investments	-	91
Change in proportion	2,908	-
Total	$ 10,065	$ 4,185

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Year ended June 30:	
2021	$ 376
2022	376
2023	399
2024	394
2025	409
Thereafter	420
Total	$ 2,374

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2020 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 4.00% in 2022, 7.00% in 2023, trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 1.00% in 2022, 7.50% in 2023, trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 4.5% in 2022, 5.50% in 2023, trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc.: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees

		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees

		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries

		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2020

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2019 (measurement date) is provided below:

Key Actuarial Assumptions	
Valuation Date	June 30, 2018 updated to June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.35% in 2021 and trends down to ultimate rate of 3.93% in 2076
	Medicare trend starts at 7.00% in 2021 and trends down to ultimate rate of 3.93% in 2076
	10-County average trend starts at 5.82% in 2021 and trends down to ultimate rate of 3.93% in 2076
	Vision and expenses trend remains a flat 3.50% for all years
Expected Rate of Return on Plan Assets	7.40%
Discount Rate	7.40%
Salary Increase Rate	Wage Inflation Component: 3.50%
	Additional Merit Component (dependent on years of service):
	Police: 1.50% - 8.00%
	Fire: 1.50% - 15.00%
	Muni Drivers: 0.00% - 15.00%
	Craft: 0.00% - 3.50%
	Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually
	Consumer Price Inflation: 2.75% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disabled Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disabled Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

The mortality rates in the base tables are projected generationally from the base year using the modified version of the MP-2015 projection scale. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2017 (instead of 2029) and an ultimate rate of improvement of 0.85% (instead of 1.00%) up to age 85 decreasing to 0.70% (instead of 0.85%) at age 95.

(Dollars in thousands, unless otherwise stated)

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the Enterprise's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the Enterprise's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

Fiscal Year 2021 Employer	-1.00%	Healthcare Trend	1.00%
Wastewater	$ 43,846	$ 50,711	$ 59,657

Fiscal Year 2020 Employer	-1.00%	Healthcare Trend	1.00%
Wastewater	$ 50,356	$ 58,183	$ 67,900

Discount Rate

Fiscal Year 2021

The discount rate used to measure the Total OPEB Liability as of June 30, 2020 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.0% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	8.4%
U.S. Small Cap	3.0%	9.8%
Developed Market Equity (non-U.S.)	15.0%	9.6%
Emerging Market Equity	13.0%	11.7%
Credit		
Bank Loans	3.0%	4.9%
High Yield Bonds	3.0%	4.9%
Emerging Market Bonds	3.0%	4.8%
Rate Securities		
Investment Grade Bonds	9.0%	2.2%
Long-term Government Bonds	4.0%	3.1%
Short-term Treasury Inflation Protected Securities	4.0%	1.9%
Private Markets		
Private Equity	5.0%	12.5%
Core Private Real Estate	5.0%	6.4%
Risk Mitigating Strategies		
Global Macro	5.0%	4.1%
Total	100.0%	

(Dollars in thousands, unless otherwise stated)

The asset allocation targets summarized above have a 20-year return estimate of 6.90%, which was weighted against a 10-year model estimating a 6.93% return, resulting in the ultimate long-term expected rate of return of 7.00%.

The following presents the Enterprise's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the Enterprise's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Employer	1% Decrease Share of NOL @ 6.00%	Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	$ 58,848	$ 50,711	$ 44,067

Fiscal Year 2020

The discount rate used to measure the Total OPEB Liability as of June 30, 2019 was 7.4%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.4% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Equities	41.0%	8.1%
Developed Market Equity (non-U.S.)	20.0%	8.5%
Emerging Market Equity	16.0%	10.4%
Credit		
High Yield Bonds	3.0%	6.5%
Bank Loans	3.0%	6.1%
Emerging Market Bonds	3.0%	5.2%
Rate Securities		
Investment Grade Bonds	9.0%	3.9%
Treasury Inflation Protected Securities	5.0%	3.6%
Total	100.0%	

The asset allocation targets summarized above have a 20-year return estimate of 8.3%, which was weighted against a 10-year model estimating a 7.5% return, resulting in the ultimate long-term expected rate of return of 7.4%.

(Dollars in thousands, unless otherwise stated)

The following presents the Enterprise's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the Enterprise's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Employer	1% Decrease Share of NOL @ 6.40%	Discount Rate @ 7.40%	1% Increase Share of NOL @ 8.40%
Wastewater	$ 67,184	$ 58,183	$ 50,829

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's postemployment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(10) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprise. The allocations are based on the Commission management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. The administrative costs of $29,457 or 30.0%, which included COVID-19 Project expenses, and $27,897 or 30.2% were allocated to the Enterprise for the years ended June 30, 2021 and 2020, respectively.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. This amount, totaling $10,122 and $10,760 for the years ended June 30, 2021 and 2020, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise purchases water from Water Enterprise at retail rates. This amount, totaling $1,308 and $1,474 for the years ended June 30, 2021 and 2020, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise provides sewer services to other City departments at non-residential rates established by the Commission, and through the Customer Services Bureau, bills and collects sewer service charges on behalf of the Enterprise.

The City's Department of Public Works provides certain engineering and other services to the Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. These amounts totaling approximately $15,088 and $12,750 for the years ended June 30, 2021 and 2020, respectively, have been included in services provided by other departments in the accompanying financial statements.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges totaling approximately $11,795 and $12,324 for the years ended June 30, 2021 and 2020, respectively, have been included in services provided by other departments in the accompanying financial statements.

As of June 30, 2021 and 2020, the Enterprise has payables in the amount of $739 and $848, respectively, which is associated with the SFPUC Headquarters Living Machine system. As of June 30, 2021 and 2020, the Enterprise has payable of $0 and $1, respectively to the City Attorney's Office for legal services provided.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is $6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2021, the Enterprise's allocable shares of expenses and prepayment were $21 and $1,167, respectively, and as of June 30, 2020 were $22 and $1,188, respectively.

SFPUC's 30-year lease agreement with the San Francisco Port Commission, for the use of approximately 4,833 square feet of land located within Seawall Lot 345 and within the public right-of-way on Terry A. Francois Boulevard and on Illinois Street, commenced on September 1, 2018. SFPUC intends to use the premises for the reconstruction of the Mariposa Pump Station and Force Main Improvements. Total payment under this agreement is $502, which was fully made as of fiscal year 2019. As of June 30, 2021, the Enterprise's expenses and prepayment were $17 and $455, respectively, and as of June 30, 2020 were $17 and $472, respectively.

(11) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Risk Management and the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general approach is to first evaluate the exposure at risk for self-insurance. Based on this analysis, internal mitigation strategies and financing through a self-retention mechanism is generally more economical as the SFPUC in coordination with the City Attorney's Office, administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the SFPUC Property Insurance program. In the past three years, there was no settlements that exceeded insurance coverage.

(Dollars in thousands, unless otherwise stated)

	Risk Types	Coverage Approach
(a)	General Liability	Self-Insured
(b)	Workers' Compensation	Self-Insured Through City-wide Pool
(c)	Property	Purchased Insurance and Self-Insured
(d)	Public Officials Liability	Purchased Insurance
(e)	Employment Practices Liability	Purchased Insurance
(f)	Cyber Liability	Purchased Insurance
(g)	Crime	Purchased Insurance
(h)	Electronic Data Processing	Purchased Insurance and Self-Insured
(i)	Surety Bonds	Purchased and Contractual Risk Transfer
(j)	Errors and Omissions	Purchased and Contractual Risk Transfer
(k)	Builders' Risk	Contractual Risk Transfer

(a) General Liability

Through coordination with the Controller's Office and the City Attorney's Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs and estimates are recorded as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Annual Comprehensive Financial Report. The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The changes for the general liability (damage claims) for the years ended June 30, 2021 and 2020 were as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
2021	$ 15,891	6,428	(5,606)	16,713
2020	16,368	1,952	(2,429)	15,891

(b) Workers' Compensation

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

(Dollars in thousands, unless otherwise stated)

The changes in the liabilities for workers' compensation for the years ended June 30, 2021 and 2020 were as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
2021	$ 6,051	2,616	(2,085)	6,582
2020	5,914	1,932	(1,795)	6,051

(c) *Property*

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, the property is part of revenue-generating operations, the property is of high value, or is mission-critical in nature. During the course of construction, the Enterprise requires each contractor to provide its own insurance, while ensuring the full scope of work be covered with satisfactory levels to limit the Enterprise's risk exposure. Once construction is complete, the Enterprise performs an assessment to determine whether liability/loss coverage will be obtained through the commercial property policy or self-insurance. The majority of property scheduled in the insurance program is for either: (1) revenue generating facilities, (2) debt-financed facilities, (3) mandated coverage to meet statutory requirements for bonding of various public officials, or (4) high-value, mission-critical property or equipment.

(d) *Public Officials Liability*

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy.

(e) *Employment Practices Liability*

A Policy is retained to protect against employment-related claims and liabilities.

(f) *Cyber Liability*

A Policy is retained to protect against cyber-related claims and liabilities.

(g) *Crime*

The Enterprise also retains a Commercial Crime Policy, in lieu of bonding its employees, to provide coverage against liabilities or losses due to third-party crime or employee fraud.

(h) *Electronic Data Processing*

The Electronic Data Processing policy protects selected high-value electronic property in case of damage or loss.

(i) *Surety Bonds*

Bonds are required in most phases of the public utilities construction contracting process for such phases as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

(j) Errors and Omissions

Errors and omissions, also known as Professional Liability, are commonly transferred through contract to the contracted professional, or retained through self-insurance on a case-by-case basis depending on the size, complexity, or scope of construction or professional service contracts. Examples of such contracts are inclusive of services provided by engineers, architects, design professionals, and other licensed or certified professional service providers.

(k) Builders' Risk

Builders' risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(12) Commitments and Litigation

(a) Commitments

As of June 30, 2021 and 2020, the Enterprise has outstanding commitments with third parties of $633,255 and $453,061, respectively, for various capital projects and other purchase agreements for materials and services.

(b) Grants

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(c) Litigation

The Enterprise is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the Enterprise.

(d) Environmental Issue

As of June 30, 2021 and 2020, the Enterprise recorded $7,800 in pollution remediation liability. There is no change in the pollution remediation liability in fiscal year 2021 based on cleanup cost estimates for the toxic sediments at Yosemite Creek.

(13) Subsequent Events

(a) Wastewater Revenue Bonds, Series 2021 AB Issuance

In November 2021, the SFPUC issued its San Francisco Wastewater Revenue Bonds, 2021 Sub-Series A (SSIP) (Green Bonds), and Sub-Series B (non-SSIP) together with an aggregate principal of $297,880 to refund approximately $340,000 aggregate principal amount of commercial paper notes issued pursuant to the Wastewater Enterprise's commercial paper program to finance or refinance a portion of the design, acquisition and construction of various capital projects in furtherance of the SFPUC's SSIP and Wastewater Capital Improvement Program.

(b) Wastewater Revenue Notes, Series 2021 AB Issuance

In November 2021, the SFPUC issued its San Francisco Wastewater Revenue Notes, 2021 Sub-Series A (SSIP-Biosolids) (Green Notes), and Sub-Series B (SSIP-SEP Improvements) (Green Notes) together with an aggregate principal of $347,465 to finance a portion of the design, acquisition and construction of the Biosolids Digester Facility Project and Southeast Water Pollution Control Plant improvements.

(c) SFPUC Claim to CA State for Arrearages Relief

The California State Water Board is administering funds to community water and wastewater systems for the California Water and Wastewater Arrearage Payment Program (Program) during fiscal year 2022, sourced by the American Rescue Plan Act. The Program was created to provide relief for unpaid bills related to the COVID-19 pandemic. Program guidelines for Wastewater arrearage relief are expected no later than February 2022, after all water arrearage relief has been distributed.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of San Francisco Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Enterprise's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 27, 2022

San Francisco Public Utilities Commission
An Enterprise Department of the City and
County of San Francisco, California

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.

Front cover photo: Auger Screw Pumps Install in the Southeast Plant
Photo by: Robin Scheswohl

Back cover photo: Community Garden of the Visitation Valley Greenway
Photo by: Carmen Magana

如果您需要中文翻譯, 請致電: (415) 554-3289. Si necesita una traducción o asistencia en español llame al: (415) 554-3289.

Communications Division
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