Public Utilities Commission of the City and County of San Francisco

Water Enterprise

Annual Disclosure Report

For Fiscal Year Ending
June 30, 2022

San Francisco
Water
Power
Sewer

Services of the San Francisco Public Utilities Commission

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

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San Francisco, CA 94102
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March 27, 2023

VIA: MSRB EMMA

To Whom it May Concern:

Attached hereto is the Fiscal Year 2022 Annual Disclosure Report for the Public Utilities Commission of the City and County of San Francisco ("SFPUC"), Water Enterprise. This filing relates to the following associated base CUSIP number(s):

SFPUC Water Enterprise: 79765R and 79771F

This Annual Disclosure Report is being provided by the SFPUC in connection with our undertaking entered into in accordance with Rule 15c2-12, promulgated by the U.S. Securities and Exchange Commission. The information provided in this Annual Disclosure Report speaks only as of its date, March 27, 2023. The delivery of this Annual Disclosure Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement. Other than as set forth in the Continuing Disclosure Agreement, SFPUC has not agreed to notify the secondary market of subsequent changes to the information in this Annual Disclosure Report ("Report").

The filing of this Report does not constitute or imply any representation (1) that any or all of the information provided is material to investors, (2) regarding any other financial, operating or other information relating to the security for the referenced securities, (3) that no changes, circumstances or events have occurred which may have a bearing on the security for the referenced securities or an investor's decision to buy, sell, or hold the referenced securities.

Any statements regarding the referenced securities, other than a statement made by the City and County of San Francisco in an official release or subsequent notice or annual report, published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board ("MSRB") or on Electronic Municipal Market Access ("EMMA"), are not authorized by the SFPUC. The SFPUC shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Annual Disclosure Report, please contact Nikolai J. Sklaroff, Capital Finance Director at (415) 551-2973 or by e-mail at capitalfinance@sfwater.org.

Sincerely,

Dennis Herrera
General Manager

Enclosure

CC: Nancy L. Hom, SFPUC Chief Financial Officer/ AGM for Business Services
José Cisneros, Treasurer
Ben Rosenfield, Controller
David Chiu, City Attorney
Anna Van Degna, Director, Office of Public Finance
Angela Calvillo, Clerk of the Board of Supervisors

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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

PUBLIC UTILITIES COMMISSION OFFICIALS

Dennis Herrera, General Manager
Ron Flynn, Deputy General Manager and Chief Operating Officer
Steven Ritchie, Assistant General Manager, Water Enterprise
Nancy L. Hom, Assistant General Manager, Business Services & Chief Financial Officer
Masood Ordikhani, Assistant General Manager, External Affairs and Chief Strategy Officer
Barbara Hale, Assistant General Manager, Power Enterprise
Stephen Robinson, Assistant General Manager, Infrastructure Division
Greg Norby, Assistant General Manager, Wastewater Enterprise

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

London Breed

BOARD OF SUPERVISORS

Aaron Peskin, President

Connie Chan
Matt Dorsey
Joel Engardio
Rafael Mandelman
Myrna Melgar
Dean Preston
Hillary Ronen
Ahsha Safai
Catherine Stephani

CITY ATTORNEY

David Chiu

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Ben Rosenfield, Controller
Carmen Chu, City Administrator

Current as of March 27, 2023

The San Francisco Public Utilities Commission ("SFPUC") hereby provides this Annual Disclosure Report for the fiscal year ending June 30, 2022 in connection with obligations undertaken pursuant to Continuing Disclosure Certificates for revenue bonds issued by SFPUC's Water Enterprise, as provided in the table below. Audited Financial Statements for the years ending June 30, 2022 and June 30, 2021 are attached and submitted separately and may be viewed on EMMA or downloaded from the SFPUC website at: https://sfpuc.org/about-us/reports/audited-financial-statements-reports.

SFPUC WATER ENTERPRISE
OUTSTANDING PARITY REVENUE BONDS AND LOAN OBLIGATIONS [1] *
($000's)

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2022)
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series B[2]	Water system improvements under Proposition E	June 17, 2010	SV2	417,720	349,170
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series E[2]	Water system improvements under Proposition E	August 4, 2010	TK5	344,200	344,200
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series G[2]	Water system improvements under Proposition E	December 22, 2010	TL3	351,470	351,470
Water Revenue Bonds, 2011 Series B[3]	Hetch Hetchy improvements under Proposition E	August 4, 2011	WA3	28,975	0
Water Revenue Bonds, 2011 Series C[3]	Water main replacement projects under Proposition E	August 4, 2011	XB0	33,595	0
Water Revenue Bonds, 2015 Series A	Refund previously outstanding 2006A Bonds and a portion of 2009A Bonds	April 16, 2015	E96	429,600	382,420
Water Revenue Bonds, 2016 Series A	Refund portions of previously outstanding 2009A, 2009B, and 2010F Bonds	October 20, 2016	J67	763,005	719,735
Water Revenue Bonds, 2016 Series B	Refund previously outstanding 2006B and 2006C Bonds, and a portion of 2010A Bonds	October 20, 2016	L49	130,815	71,510

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2022)
Water Revenue Bonds, 2016 Series C (Green Bonds)	Refunds previously outstanding Commercial Paper Notes, and Water System Improvement Program	December 14, 2016	Q51	259,350	231,230
Water Revenue Bonds, 2017 Series A (Green Bonds)	Refunds previously outstanding Commercial Paper Notes, and Water System Improvement Program	December 13, 2017	T41	121,140	27,000
Water Revenue Bonds, 2017 Series B	Water main replacement projects under Proposition E	December 13, 2017	W54	147,725	32,930
Water Revenue Bonds, 2017 Series C	Refunds previously outstanding Commercial Paper Notes, and Hetch Hetchy Water Capital Improvements	December 13, 2017	Z69	70,675	15,570
Water Revenue Bonds, 2017 Series D (Green Bonds)	Refund portions of previously outstanding 2011A and 2012A Bonds.	December 28, 2017	2S7	350,305	346,795
Water Revenue Bonds, 2017 Series E	Refund portions of 2011C, 2011D, and 2012C Bonds	December 28, 2017	3D9	48,890	48,890
Water Revenue Bonds, 2017 Series F	Refund a portion of previously outstanding 2011B Bonds	December 28, 2017	3P2	8,705	8,705
Water Revenue Bonds, 2017 Series G (Green Bonds)	Refund a portion of previously outstanding 2011A Bonds	December 28, 2017	3W7	34,280	31,960
Water Revenue Bonds, 2019 Series A (Green Bonds)	Refund a portion of previously outstanding 2010F, 2011A, and 2012A	January 9, 2020	5B1	622,580	591,320

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2022)
	Bonds				
Water Revenue Bonds, 2019 Series B	Refund a portion of previously outstanding 2011B	January 9, 2020	5D7	16,450	16,385
Water Revenue Bonds, 2019 Series C	Refund a portion of previously outstanding 2011C	January 9, 2020	5F2	17,925	17,850
Water Revenue Bonds, 2020 Series A, (Green Bonds)	Retired previously outstanding commercial paper for Water System Improvement Program	September 23, 2020	5H8	150,895	150,895
Water Revenue Bonds, 2020 Series B	For Non-WSIP Regional Capital Improvements	September 23, 2020	5L9	61,330	61,330
Water Revenue Bonds, 2020 Series C	For Non-WSIP Local Capital Improvements	September 23, 2020	5N5	85,335	85,335
Water Revenue Bonds, 2020 Series D	Retired previously outstanding commercial paper for Hetch Hetchy Water Capital Improvements	September 23, 2020	5Q8	49,200	49,200
Water Revenue Bonds, 2020 Series E, (Green Bonds)	Refunded and partially refunded 2010D, 2012A, 2017A Bonds	October 21, 2020	79771F AB3	341,435	335,535
Water Revenue Bonds, 2020 Series F	Partially Refunded 2017B Bonds	October 21, 2020	79771F AT4	136,880	135,455
Water Revenue Bonds, 2020 Series G	Refunded and partially refunded 2010D, 2011D, 2012B, 2012C Bonds	October 21, 2020	79771F BK2	120,585	114,765
Water Revenue Bonds, 2020 Series H	Partially Refunded 2017C Bonds	October 21, 2020	79771F CB1	65,495	64,815

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2022)
TOTAL[4]				**$5,208,560**	**4,584,650**

Loan Agreement	Purpose	Date	Agreement Amount	Disbursements Received (June 30, 2022)	Principal Outstanding (June 30, 2022)
Clean Water State Revolving Fund Loan and Grant D17-01001	San Francisco Westside Recycled Water Project	September 14, 2017	186,220[5]	128,975[5]	121,761[5]
Clean Water State Revolving Fund Loan D21-02030	Mountain Tunnel Improvement Project	April 28, 2022	238,219	0	0

* All outstanding bonds held in trust by U.S. Bank National Association (the "Trustee").

(1) Represents outstanding indebtedness secured by a senior lien parity pledge of Net Revenues. Does not include subordinate debt.

(2) The 2010 Sub-Series B, Sub-Series E, and Sub-Series G Bonds were issued as Build America Bonds.

(3) Final payments for 2011 Sub-Series B and Sub-Series C Bonds were made during Fiscal Year 2021-22.

(4) Total excludes Commercial Paper. The Water Enterprise maintains a $500 million Interim funding program, which is subordinate to the outstanding revenue bonds. As of June 30, 2022, the SFPUC had approximately $206 million principal amount of Water Commercial Paper Notes outstanding. The Commercial Paper Notes are secured by respective bank credit facilities, as follows: (a) a $100 million letter of credit from SMBC, which expires on May 16, 2025; (b) a $200 million letter of credit from Sumitomo Mitsui, which expires on June 15, 2027 (c) a $100 million letter of credit from Barclay's Bank PLC, which expires on July 19, 2024, and(d) a $100 million Revolving Credit Agreement from U.S. Bank National Association, which expires on July 19, 2024; There was no outstanding amount on the Revolving Credit Agreement as of June 30, 2022. See "Subsequent Events" section for more information regarding the Water Enterprise Interim Funding Program.

(5) Represents the maximum possible loan amount; a portion of this loan is anticipated to be a grant ($15 million); includes disbursements requested but not received as of June 30, 2022.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2022

The following tables are provided pursuant to the Continuing Disclosure Certificates executed in connection with the SFPUC's Water Revenue Bonds.

SFPUC WATER ENTERPRISE
HISTORIC WHOLESALE AND RETAIL WATER SALES
FOR FISCAL YEARS ENDED JUNE 30
(IN MGD)†

	2018	2019	2020	2021	2022	2022 % of Total
Retail customers						
Multi-Family Residential	22.7	22.5	23.3	22.7	21.9	12.1%
Single-Family Residential	14.3	13.9	14.4	14.6	13.1	7.3%
Commercial(1)	17.5	16.7	15.1	10.6	11.8	6.5%
Industrial	0.2	0.2	0.2	0.1	0.1	0.1%
Municipal (2)	3.2	3.3	3.4	2.8	2.8	1.5%
Suburban Retail(2)	3.1	2.9	3.0	2.8	2.7	1.5%
Retail water sales	**61.1**	**59.5**	**59.3**	**53.6**	**52.4**	**29.0%**
Wholesale customers						
California Water Service(3)	27.5	26.3	29.0	29.6	29.0	16.0%
Hayward Municipal Water	14.6	14.0	14.2	14.5	14.0	7.7%
City of Palo Alto	10.0	9.4	9.7	9.8	9.6	5.3%
City of Sunnyvale	9.5	8.8	9.4	9.7	8.9	4.9%
Alameda County Water	7.9	7.7	7.7	9.5	9.4	5.2%
City of Redwood City	8.4	8.1	8.8	8.6	7.9	4.4%
City of Mountain View	7.5	7.3	7.6	7.9	7.4	4.1%
City of Milpitas	5.2	5.1	6.1	5.4	4.8	2.6%
Estero Municipal Improvement District	4.2	4.0	4.3	4.3	3.9	2.1%
City of San Jose	4.5	4.3	4.2	4.2	4.1	2.2%
All Other Wholesale Customers(3)	29.6	30.0	31.0	31.5	29.5	16.3%
Wholesale water sales	**128.9**	**125.0**	**131.6**	**135.0**	**128.4**	**71.0%**
Total water sales(4)	**190.0**	**184.5**	**190.4**	**188.6**	**180.8**	**100.0%**
% Change from prior year	**8.8%**	**-2.9%**	**4.0%**	**-1.6%**	**-4.1%**	

† Totals may not add due to independent rounding.

(1) Includes Docks and Ships under Commercial.

(2) Master-metered Treasure Island water sales were included under Suburban Retail from Fiscal Year 2014-15 to 2015-16. Beginning in Fiscal Year 2016-17, they have been classified under Municipal. Current Treasure Island usage represents purchases by the Treasure Island Development Authority and various commercial, residential line items, and the master-metered amount will be reduced accordingly.

(3) California Water Service Company, Daly City, and San Bruno, participate in the conjunctive use groundwater program. These customers receive a bill credit for regional water system usage in-lieu of groundwater pumping. Totals reported in this table exclude water credited under the conjunctive use program.

(4) Unaccounted for in-city water was 6.1 mgd in Fiscal Year 2017-18, 6.7 mgd in Fiscal Year 2018-19, 6.3 mgd in Fiscal Year 2019-20, 4.8 mgd in Fiscal Year 2020-21, and 5.9 mgd in Fiscal Year 2021-22 as determined by comparing SFPUC Customer Service sales data with delivery data from City Distribution Division. Unaccounted for water includes water delivery system leaks and water not billed or tracked in the system (i.e., water used for firefighting, flushing water system pipes). Unaccounted for water has averaged approximately 10% of retail sales per year over the last 10 years. For Fiscal Year 2021-22, 5.9 mgd represents an unaccounted for water loss of approximately 10% of retail sales.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2022 and SFPUC Financial Services

SFPUC WATER ENTERPRISE
HISTORICAL AND APPROVED PERCENTAGE INCREASES (DECREASES)
IN RETAIL AND WHOLESALE WATER RATES

Fiscal Year	Retail Rates	Wholesale Rates *
2013-14	6.5[1]	(16.4)
2014-15	12.0[2]	19.6
2015-16	12.0[2]	28.0
2016-17	10.0[2]	9.3
2017-18	7.0[2]	0.0
2018-19	7.8[3]	0.0
2019-20	8.3[3]	0.0
2020-21	7.8[3]	0.0
2021-22	7.9[3]	0.0
2022-23	0.0	15.9

* Pursuant to the 25-year Water Supply Agreement (“WSA”), wholesale rates are adopted annually based on an estimate of the Wholesale Revenue Requirement.
(1) Adjustment effective July 1, 2009 through June 30, 2014.
(2) Four-year rate increases for retail customers adopted effective July 1, 2014 through June 30, 2018.
(3) Four-year rate increases for retail customers adopted effective July 1, 2018 through June 30, 2022 resulting in revenue requirement increases of 9% in fiscal year ending 2019, 8% in fiscal year ending 2020, and 7% in fiscal year ending 2021 and 2022.

Source: SFPUC Financial Services

SFPUC WATER ENTERPRISE
ACCOUNTS AND BILLINGS BY USER TYPE
FOR FISCAL YEAR ENDING JUNE 30, 2022

User Type	Active Accounts	Billings ($000's)	Billings as % of Total
Multi-Family Residential	43,693	$121,922	20.6
Single Family Residential	110,485	84,328	14.3%
Subtotal Residential	154,178	206,250	34.9%
Commercial[1]	20,399	71,480	12.1%
Municipal Customers	2,049	16,224	2.7%
Industrial	72	612	0.1%
Subtotal Non-Residential	22,520	88,316	14.9%
Suburban Retail	296	11,668	2.0%
Wholesale	78	285,174	48.2%
Total	**177,072**	**591,408**	**100.0%**

(1) Includes Docks and Ships and Builders and Contractors under Commercial.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2022

SFPUC WATER ENTERPRISE
HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES AND DEBT SERVICE COVERAGE FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS) [1]

	2018	2019	2020	2021	2022
OPERATING & INVESTMENT REVENUE					
Charges for Services[2]					
Retail Water Sales	$248,136	$261,913	$280,609	$270,514	$297,226
Wholesale Water Sales[19]	247,002	247,790	270,144	278,981	240,925
Subtotal – Water Sales	$495,138	$509,703	$550,753	$549,495	$538,151
Rental Income[3]	12,906	13,010	12,124	12,911	13,765
Other Revenues [4]	15,875	17,310	18,305	17,069	22,134
Capacity Fees[5]	1,720	2,368	2,169	1,326	2,163
Investing Activities[6]	6,448	15,650	10,517	340	(10,896)
Total Revenues	$532,087	$558,041	$593,868	$581,141	$565,317
OPERATING & MAINTENANCE EXPENSE					
Personnel Services[7]	$128,295	$111,594	$119,943	$132,528	$83,385
Contractual Services[8]	14,131	13,715	14,523	15,501	13,457
Materials and Supplies[9]	15,936	13,421	14,050	13,175	15,719
Depreciation [10]	118,751	120,815	142,228	144,033	147,904
Services of Other Departments[11]	56,860	59,751	61,128	70,235	73,307
General/Administrative & Other[12]	36,174	37,798	46,245	73,218	67,862
Total Operating Expenses	$370,147	$357,094	$398,117	$448,690	$401,634
OPERATING AND INVESTMENT INCOME	$161,940	$200,947	$195,751	$132,451	$163,683
COVERAGE CALCULATION					
Operating and Investment Income	$161,940	$200,947	$195,751	$132,451	$163,683
+Adjustment to Investing Activities[13]	(1,245)	(4,821)	(516)	3,846	13,050
+Depreciation & Non-Cash Expenses	119,624	122,248	148,294	150,257	151,114
+Changes in Working Capital[14]	31,060	(11,073)	(20,763)	24,707	(42,906)
+Appropriated Fund Balance[15]	1,452	4,318	17,181	27,785	21,977
= "Net Revenue"[16],[17]	$312,831	$311,619	$339,947	$339,046	$306,918
+Other Available Funds[18]	186,752	221,362	241,931	128,692	103,506
Funds Available for Debt Service	$499,583	$532,981	$581,878	$467,738	$410,424
Bond Debt Service[17]	$233,959	$261,638	$269,210	$248,427	$306,918
DEBT SERVICE COVERAGE[19]					
Including "Other Available Funds"[18]	2.14x	2.04x	2.16x	1.88x	1.47x
Current Basis[17],[20]	1.34x	1.19x	1.26x	1.36x	1.10x

(1) Operating and Investment Income presented in this table differs from the Change in Net Assets presented in the Statement of Revenues, Expenses and Changes in Net Assets in the Audited Financial Statements. This table excludes certain elements of non-operating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Position. Examples of excluded elements are Grant Revenue, Interest Expense and Gains from Sale of Assets.

(2) Decrease between Fiscal Years 2020-21 and 2021-22 mainly due to $38.1M decrease in sales to Wholesale Customers from an 8% decrease in water consumption and a $22.4M decrease from Wholesale Balancing Account adjustment; offset by a $23.2M increase from retail customers as a result of a 7% planned rate increase, and a 5% drought surcharge.

(3) Increase between Fiscal Years 2020-21 and 2021-22 mainly due to a lease transfer fee charged, and an increase of three tenants.

(4) Increase between Fiscal Years 2020-21 and 2021-22 mainly due to increase in numbers of water installations and a planned rate increase of 7% in Fiscal Year 2021-22. Also, non-operating revenues were added in Fiscal Year 2021-22 per indenture.

(5) Increase between Fiscal Years 2020-21 and 2021-22 due to increase of Capacity Fees permits issued.

(6) Decrease between Fiscal Years 2020-21 and 2021-22 are as a result of an increase in unrealized loss due to loss on invested cash with fiscal agent and treasurer. The increase was due to the decline in market value of investments from rising interest rates to curtail inflation.

(7) Decrease between Fiscal Years 2020-21 and 2021-22 due to pensions based on actuarial reports.

(8) Decrease between Fiscal Years 2020-21 and 2021-22 due to decreases for other current expenses, and other professional services.

(9) Increase between Fiscal Years 2020-21 and 2021-22 mainly for water treatment supplies, fuels and lubricants.

(10) Increase between Fiscal Years 2020-21 and 2021-22 due to additional capital assets placed into service in the current fiscal year.

(11) Increase between Fiscal Years 2020-21 and 2021-22 mainly due to additional water assessment fees paid to Hetchy Water and increased gas and electric charges paid to Hetchy Power.

(12) Decrease between Fiscal Years 2020-21 and 2021-22 due to increase in construction in progress interest capitalization offset by pending entry for judgement and claims.

(13) Represents adjustment to show investing activities annualized on a cash basis.

(14) Fiscal Year 2021-22 adjustments primarily driven by adjustments relating to pension and OPEB obligations.

(15) The SFPUC budgeted and appropriated $22 million of available fund balances to be used as a source of funds in Fiscal Year 2021-22. Such amount offsets Operating and Maintenance Expenses in Current Basis calculations.

(16) "Net Revenue" is presented on a cash basis.

(17) Partial BABs Subsidy Payments actually received by the SFPUC are reflected as reductions in Bond Debt Service and are excluded from Net Revenue. Prior to January 9, 2020, due to federal sequestration, the Indenture required that such Partial BABs Subsidy Payments not be reflected as reductions in Bond Debt Service but rather permitted an adjustment to Net Revenue; however, an amendment to the Indenture that allows for partial BABs Subsidy Payments actually received by the SFPUC to be reflected as reductions in Bond Debt Service and excluded from Net Revenue went into effect on January 9, 2020.

(18) Per Indenture, in addition to current year cash flow, coverage calculation includes certain "Other Available Funds," which are not budgeted to be spent in such twelve months and legally available to pay debt service.

(19) Coverage does not include debt service on subordinate obligations, including the Water Enterprise's share of lease payments associated with the 2009 Golden Gate COPs and debt service on Commercial Paper Notes.

(20) Unaudited. Calculated as ratio between Net Revenues over debt service on all senior lien obligations; excludes "Other Available Funds."

Source: SFPUC, Audited Financial Statements June 30, 2022 & SFPUC Financial Services

SFPUC WATER ENTERPRISE
WATER SYSTEM IMPROVEMENT PROGRAM (WSIP)
BUDGET AND SPENDING SUMMARY AS OF JUNE 30, 2022
(IN MILLIONS)

	Total Approved(1)	Expended/ Encumbered	Unencumbered Remaining Balance
Regional Projects	3,803.1	3,708.3	94.8
Local Projects(2)	612.7	552.3	60.4
Financing Costs(3)	372.0	372.0	0
Total†	**$4,787.8**	**$4,632.6**	**$155.2**

†Totals may not add due to independent rounding.

(1) Based on March 2022 Approved WSIP Budget, approved by the Commission
(2) Local projects include $281 million in WSIP funding to Water Supply Projects; however, these projects were transferred to the Water Enterprise Capital Improvements Program in July 2011 and have anticipated completion dates later than December 2019.
(3) Financing Project appropriated to date

Note: Certain amounts set forth in the table are projections. Actual results may differ materially from these projections.

Source: SFPUC Financial Services

SFPUC WATER ENTERPRISE
STATUS OF WSIP PROJECTS
AS OF JUNE 30, 2022
(IN MILLIONS)

	Number of Projects		Value of Projects(1)	
Active Phase	Local Program(2)	Regional Program	Local Program	Regional Program
Planning	0	0	$ 0	$ 0
Design	0	0	0	0
Bid & Award	0	0	0	0
Construction	0	3	0	215
Close-Out	0	1	0	95
Completed	35	47	331	3,481
Not Applicable(3)	0	1	0	12
Total†	**35**	**52**	**$331**	**$3,803**

†Totals may not add due to independent rounding.

(1) Project value based on the March 2022 Approved WSIP Budget plus any additional budget and schedule changes approved by the Commission as part of additional contingencies on construction contracts. Project value for various phases includes proportional allocation of approved program management budget. Projects active in multiple phases are counted in the phase with the greatest amount of project activities.
(2) Does not include Local Water Supply Projects managed as part of the Water Enterprise Capital Improvement Program.
(3) "Not Applicable" category is for projects that do not include construction, including the Watershed Environmental Improvement Program and the Long-Term Mitigation Endowment.

Source: SFPUC, Q4 FY2021-22 WSIP Quarterly Report, SFPUC Financial Services

SUBSEQUENT EVENTS

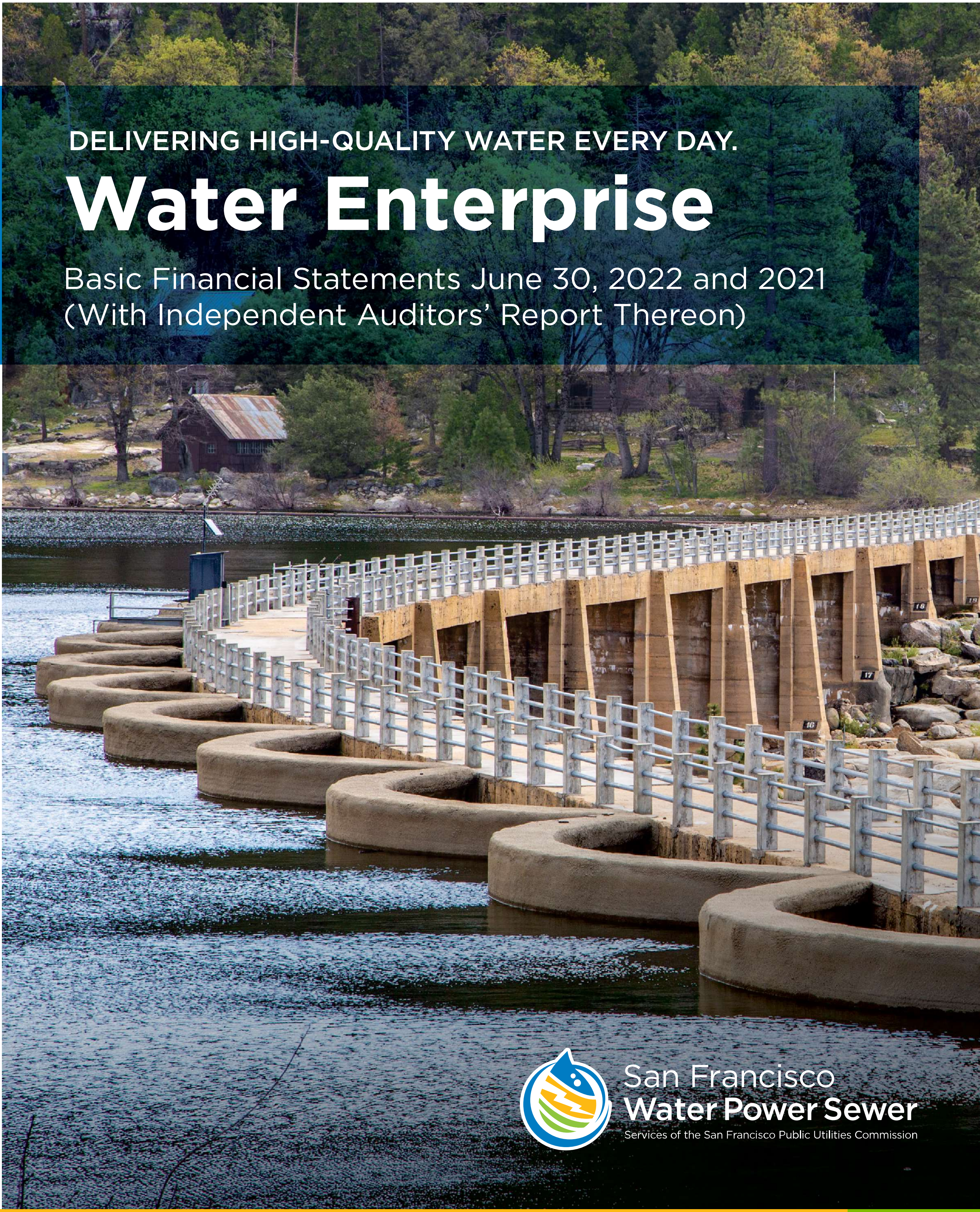
1. Extension Moratorium on Shutoffs

On September 13, 2022, the Commission approved to extend moratorium on shutoff of water service for residents in the City through June 30, 2023 and granted the General Manager discretion to restart severance and liens processes to multifamily residential accounts carrying balances greater than $25 which are 90 days or more past due.

DELIVERING HIGH-QUALITY WATER EVERY DAY.

Water Enterprise

Basic Financial Statements June 30, 2022 and 2021
(With Independent Auditors' Report Thereon)



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

SAN FRANCISCO WATER ENTERPRISE

Table of Contents

KPMG LLP
Suite 1400
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San Francisco, CA 94105

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Francisco Water Enterprise (the Enterprise), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise, as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

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 business-type activities and each major fund of the City and county of San Francisco, California 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 and County of San Francisco, California, as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards* , we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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, 2023 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, 2023

This section presents management's analysis of the San Francisco Water Enterprise's (the Enterprise) financial condition and activities as of and for the fiscal years ended June 30, 2022 and 2021. 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 (the Enterprise), Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater. The Enterprise collects, transmits, treats, and distributes high-quality drinking water to a total population of approximately 2.7 million people, including retail customers in the City and wholesale customers located in San Mateo, Santa Clara, and Alameda Counties. The Enterprise sold approximately 181 million gallons of water per day in the year ended June 30, 2022. Approximately three-quarter of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining one-quarter and are primarily San Francisco consumers, including residential, commercial, industrial, and governmental users. Wholesale customers include cities, water districts, one private utility, and one non-profit university. Service to these customers is provided pursuant to the 25-year Amended and Restated Water Supply Agreement (WSA), commenced on July 1, 2009, which established the basis for determining the costs of wholesale service.

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 as of 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 authorized 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 March 31, 2022. The suspension was extended again to July 31, 2022 for shut off of water service and to June 30, 2023 for late payment penalties. This proclamation did not have a material effect on the operations of the Water enterprise.

Financial Analysis

Financial Highlights for Fiscal Year 2022

- Total assets exceeded total liabilities by $727,275.
- Net position decreased by $17,946 or 2.8% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $29,795 or 0.5% to $5,617,594.
- Current and other assets increased by $7,239 or 0.9% mainly due to net pension asset.
- Operating revenues decreased by $9,319 or 1.6% to $573,117.
- Operating expenses decreased by $46,996 or 10.5% to $401,786.

Financial Highlights for Fiscal Year 2021

- Total assets exceeded total liabilities by $418,167.
- Net position increased by $8,502 or 1.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $57,254 or 1.0% to $5,587,799.

(Dollars in thousands, unless otherwise stated)

- Current and other assets increased by $31,110 or 4.4% mainly due to bond proceeds from the issuance of 2020 Series ABCD bonds.
- Operating revenues decreased by $1,739 or 0.3% to $581,612.
- Operating expenses increased by $50,726 or 12.7% to $448,843.

Financial Position

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

Table 1
Comparative Condensed Net Position
June 30, 2022, 2021, and 2020

	2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Total assets:					
Current and other assets	$ 793,761	786,522	701,206	7,239	85,316
Capital assets, net of accumulated depreciation and amortization	5,617,594	5,587,799	5,530,545	29,795	57,254
Total assets	6,411,355	6,374,321	6,231,751	37,034	142,570
Deferred outflows of resources:					
Unamortized loss on refunding of debt	139,481	154,991	144,189	(15,510)	10,802
Pensions	52,852	64,797	67,084	(11,945)	(2,287)
Other post-employment benefits	32,445	37,762	27,583	(5,317)	10,179
Total deferred outflows of resources	224,778	257,550	238,856	(32,772)	18,694
Liabilities:					
Current liabilities:					
Revenue bonds	125,285	108,500	94,080	16,785	14,420
Certificates of participation	3,138	2,970	2,824	168	146
Commercial paper	206,297	105,862	362,354	100,435	(256,492)
State revolving fund loans	3,283	1,667	—	1,616	1,667
Other liabilities	181,489	154,257	134,563	27,232	19,694
Subtotal current liabilities	519,492	373,256	593,821	146,236	(220,565)
Long-term liabilities:					
Revenue bonds	4,735,650	4,886,275	4,601,215	(150,625)	285,060
Certificates of participation	92,499	95,692	98,754	(3,193)	(3,062)
State revolving fund loans	118,478	105,740	73,271	12,738	32,469
Other liabilities	217,961	445,234	415,865	(227,273)	29,369
Subtotal long-term liabilities	5,164,588	5,532,941	5,189,105	(368,353)	343,836
Total liabilities:					
Revenue bonds	4,860,935	4,994,775	4,695,295	(133,840)	299,480
Certificates of participation	95,637	98,662	101,578	(3,025)	(2,916)
Commercial paper	206,297	105,862	362,354	100,435	(256,492)
State revolving fund loans	121,761	107,407	73,271	14,354	34,136
Other liabilities	399,450	599,491	550,428	(200,041)	49,063
Total liabilities	5,684,080	5,906,197	5,782,926	(222,117)	123,271
Deferred inflows of resources:					
Related to pensions	248,704	4,885	34,894	243,819	(30,009)
Leases	44,583	48,110	—	(3,527)	48,110
Other post-employment benefits	25,348	21,315	11,772	4,033	9,543
Total deferred inflows of resources	318,635	74,310	46,666	244,325	27,644
Net position:					
Net investment in capital assets	537,644	517,302	527,856	20,342	(10,554)
Restricted for debt service	14,671	45,586	15,916	(30,915)	29,670
Restricted for capital projects	—	22,319	43,122	(22,319)	(20,803)
Unrestricted	81,103	66,157	54,121	14,946	12,036
Total net position	$ 633,418	651,364	641,015	(17,946)	10,349

* Restated due to the implementation of GASB 87 - *Leases*

Net Position, Fiscal Year 2022

For the period ended June 30, 2022, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $633,418. Total net position decreased from prior year by $17,946 or 2.8% (see Table 1). The decrease in net position was the result of an increase of $22,208 in liabilities and deferred inflows of resources offset by an increase of $4,262 in assets and deferred outflows of resources.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interfund receivables due from other governmental agencies, and inventory.

During the fiscal year 2022, current and other assets increased by $7,239 or 0.9%. The increases included $100,407 in net pension asset based on actuarial estimates, $6,276 in prepaid charges advances and other receivables mainly for a settlement from PG&E related to damages on Casitas Avenue in San Francisco, $6,267 in charges for services attributed to more billings, net of decrease in allowance for doubtful accounts due to utility arrearage relief payment received from the State as Federal pass-through from the California Water and Wastewater Arrearages Payment Program (CWWAPP), $865 in inventory due to more purchases than issuances during the fiscal year, $167 in interest, leases and other receivables due to higher interest rates, and $159 in restricted interest and other receivables. These increases were offset by decreases of $60,453 in restricted and unrestricted cash and investments mainly due to debt principal and interest payments, capital projects spending, payments for salaries and goods and services, $41,993 reimbursement from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Recycled Water project, $2,945 in leases receivable from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87 - *Leases*, $1,425 in lease asset from the implementation of GASB Statement No. 87 - *Leases*, $70 mainly for custom work projects due from the Department of Public Works, and $16 for a Federal grant of culvert repairs relating to the Santa Clara Unit Lightning Complex fires.

Capital assets, net of accumulated depreciation and amortization, increased by $29,795 or 0.5% mainly due to Water Main Replacement, Treasure Island Well, Serramonte Well and all other well construction, and capital improvement activities. The largest portion of the Enterprise's net position of $537,644 or 84.9% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which increased by $20,342 or 3.9% from prior year's $517,302. The change was explained by an increase of $29,794 in capital assets mainly from increased buildings, structures and improvements, offset by a increase of $9,452 in liabilities related to capital assets mainly from bond principal repayment.

Deferred outflows of resources decreased by $32,772 due to decreases of $15,510 from amortization for unamortized loss on refunding, $11,945 relating to pensions based on actuarial reports, and $5,317 from OPEB obligations based on actuarial estimates.

Total liabilities decreased by $222,117 which was due to decreases of $216,417 in pensions based on actuarial report, $133,840 in outstanding revenue bonds from principal repayments, $4,656 from OPEB obligations due to actuarial report, $3,025 in certificates of participation mainly due to principal repayments, $1,381 in lease liability from the implementation of GASB Statement No. 87 - *Leases*, $757 in interest payable mainly due to lower bonds outstanding, and $654 in general liability based on actuarial report. These decreases were offset by increases of $100,435 in commercial paper from additional principal issuances, $14,354 in State Revolving Funds Loan payable due to additional loans related to the SF Westside Recycled Water project, $4,759 in restricted and unrestricted payables due to higher year end accruals as compared to prior year, $463 in accrued payroll, vacation and sick leave due to actuarial entries, $171 in unearned revenues mainly for deposits on custom work, and $145 in workers' compensation based on actuarial estimates. The Enterprise owed the wholesale customers $79,150, an increase of $18,286 which was mainly due to annual revenues from the wholesale customers exceeding their share of expenditures. This amount was recorded as a liability in accordance with the 2009 Water Supply agreement. See Note 10, Water Supply Agreement, for additional details.

Deferred inflows of resources increased by $244,325 due to an increase of $243,819 related to pensions and $4,033 from OPEB benefits based on actuarial reports, offset by a decrease of $3,527 from leases due to the implementation of GASB Statement No. 87 - *Leases*.

Net Position, Fiscal Year 2021

For the period ended June 30, 2021, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $649,517. Total net position increased from prior year by $8,502 or 1.3% (see Table 1). The increase in net position was the result of an increase of $107,058 in assets and deferred outflows, offset by a net increase of $98,556 in liabilities and deferred inflows of resources.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interfund receivables due from other governmental agencies, and inventory. They also include receivables, which represent cumulative amounts due from the wholesale customers to match revenues with the Enterprise's costs of providing service (the Balancing Account), in accordance with the provisions set forth in the WSA effective July 1, 2009. Balances are applied to future year rates. As of June 30, 2021, the Enterprise owed the wholesale customers $60,864, which was mainly due to higher water demand by the wholesale customers. This amount was recorded as a liability in accordance with the 2009 agreement. See Note 10, Water Supply Agreement, for additional details.

During the fiscal year 2021, current and other assets increased by $31,110 or 4.4%. The increases included $57,567 in restricted and unrestricted cash and investments mainly due to the issuance of the 2020 Series ABCD bonds, $2,372 in prepaid charges advances and others mainly for prepaid expenses of multiple software licensing and membership fees, $209 in restricted interest and other receivables, and $160 in inventory due to more purchases than issuances during the fiscal year. The increases were offset by decreases of $23,725 from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Recycled Water project mainly from reimbursements received for prior year receivable, $4,470 in charges for services due to more collections than billings and an increase in allowance for doubtful accounts (allowance for doubtful accounts increased by $2,934 primarily due to the Mayor's COVID-19 proclamation suspending shutoff of water service and collection of past due accounts), $994 in interest receivable mainly due to lower interest rates and higher cash distributions than interest earnings, $7 due to cash received from other governments for grants relating to water efficiency, and $2 mainly due to collections from the Department of Public Works (DPW) for custom work projects.

Capital assets, net of accumulated depreciation and amortization, increased by $57,254 or 1.0% mainly due to San Andreas Pipeline No. 2 and San Francisco Groundwater Supply construction and capital improvement activities. The largest portion of the Enterprise's net position of $517,302 or 79.6% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $10,554 or 2.0% from prior year's $527,856. The change was explained by an increase of $67,808 in liabilities related to capital assets mainly from the issuance of 2020 Series ABCD and 2020 Series EFGH bonds, offset by an increase of $57,254 in capital assets in buildings, structures, and improvements and construction in progress from depreciation.

(Dollars in thousands, unless otherwise stated)

Deferred outflows of resources increased by $18,694 due to increases of $10,802 for unamortized loss on refunding (the result of a $27,010 increase from the issuance of 2020 Series EFGH bonds, offset by a $15,156 decrease from amortization and $1,052 from refunding of the 2010 Series D, 2011 Series D and 2012 Series C bonds), and $10,179 from OPEB obligations based on actuarial reports. These increases were offset by a $2,287 decrease relating to pensions based on actuarial reports.

Total liabilities increased by $119,022 or 2.1% which is due to increases of $299,480 in outstanding revenue bonds mainly due to the issuance of 2020 Series ABCD and 2020 Series EFGH bonds, $38,284 in net pension liability based on actuarial report, $34,136 increase in State Revolving Funds Loan payable due to additional loans relating to the SF Westside Recycled Water project, $25,956 in general liability based on actuarial report, $3,650 in accrued payroll, vacation and sick leave 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, $2,921 in restricted and unrestricted payables due to higher accruals as compared to prior year mainly for the Information Technology project and 19th Ave. Infrastructure Improvement project, and $792 in unearned revenues mainly due to additional customer credit balances from overpayments. These increases were offset by decreases of $256,492 in commercial paper primarily due to refunding from the 2020 Series ABCD bonds, $14,913 in other post-employment benefits obligations from actuarial estimates, $6,557 in interest payable mainly due to refunding from the 2020 Series EFGH Bonds, $3,993 in the Wholesale Balancing Account due to higher demand from the wholesale customers (see Note 9 for details), $2,916 in certificates of participation from repayments and amortization of premium, $674 in due to other City departments from payments made for legal services provided by the City Attorney and projects performed by the Department of Public Works for Sidewalk Inspection and Repair projects, $346 in workers' compensation based on actuarial estimates, and $306 in pollution remediation liability as a result of additional expenditures incurred for the Lake Merced Pacific Rod and Gun Club and 17th and Folsom sites (see Note 13(d) for details).

Deferred inflows of resources decreased by $20,466 from a $30,009 decrease related to pensions based on actuarial reports, offset by a $9,543 increase from OPEB obligations based on actuarial reports.

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, 2022, 2021, and 2020

		2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Revenues:						
Charges for services	$	539,526	550,306	550,753	(10,780)	(447)
Rents and concessions		13,765	13,735	12,124	30	1,611
Other operating revenues		19,826	18,395	20,474	1,431	(2,079)
Interest and investment (loss) income		(10,896)	1,374	10,517	(12,270)	(9,143)
Other non-operating revenues		41,871	45,874	94,734	(4,003)	(48,860)
Total revenues		604,092	629,684	688,602	(25,592)	(58,918)
Expenses:						
Operating expenses		401,786	448,782	398,117	(46,996)	50,665
Interest expenses		213,668	184,678	191,246	28,990	(6,568)
Amortization of premium, discount, refunding loss, and issuance costs		(9,875)	(7,782)	(13,752)	(2,093)	5,970
Non-operating expenses		828	2,208	529	(1,380)	1,679
Total expenses		606,407	627,886	576,140	(21,479)	51,746
Change in net position before capital contributions and transfers		(2,315)	1,798	112,462	(4,113)	(110,664)
Capital contributions		—	4,180	—	(4,180)	4,180
Transfers from the City and County of San Francisco		15,035	21,025	1,220	(5,990)	19,805
Transfers to the City and County of San Francisco		(30,666)	(16,654)	(14,805)	(14,012)	(1,849)
Capital contributions and net transfers		(15,631)	8,551	(13,585)	(24,182)	22,136
Change in net position		(17,946)	10,349	98,877	(28,295)	(88,528)
Net position at beginning of year		651,364	641,015	542,138	10,349	98,877
Net position at end of year	$	633,418	651,364	641,015	(17,946)	10,349

* Restated due to the implementation of GASB 87 - *Leases*

Results of Operations, Fiscal Year 2022

The Enterprise's total revenues of $604,092 for the year represented a decrease of $25,592 or 4.1% from prior year (see Table 2). Decreases included $12,270 from interest and investment loss, $10,780 from charges for services, and $4,003 from other non-operating revenues. These decreases were offset by increases of $1,431 in other operating revenues, and $30 in rents and concessions.

Charges for services were $539,526, a decrease of $10,780 or 2.0% mainly due to 4.1% reduced consumption, offset by an adopted rate increase of 7.0% for retail customers beginning July 1, 2021. Rents and concessions were $13,765, an increase of $30 or 0.2% mainly due to a lease transfer fee and new tenants. Other operating revenues were $19,826, an increase of $1,431 or 7.8% mainly from increased capacity fee permits issued and a 7.0% adopted rate increase for retail customers. Interest and investment loss was $10,896, a decrease of $12,270 or 893.0% mainly due to unrealized losses as a result of the decline in market value of investments due to rising interest rates. Other non-operating revenues were $41,871, a decrease of $4,003 or 8.7% mainly due to $15,000 in State revolving fund (SRF) grant recognized in the prior year, $1,477 decrease in gain from sale of fixed assets, $292 in federal bond subsidies, offset by increases of $6,750 from a PG&E settlement and $5,929 from a water utility arrearages relief grant and $87 in other non-operating revenues.

The Enterprise's total expenses were $606,407, a decrease of $21,479 or 3.4%. Operating expenses were $401,786, a decrease of $46,996 or 10.5%, the result of decreases of $49,143 in personnel services mainly due to decreases in pension obligations based on actuarial report, $5,357 in general and administrative and other expenses due to higher judgement and claims in prior year, and $572 in contractual services mainly from other current expenses and subscriptions. These decreases were offset by increases of $3,072 in services provided by other departments mainly for higher water assessment fees paid to Hetch Hetchy Water and higher gas and electric charges paid to Hetch Hetchy Power, $2,544 in materials and supplies mainly for water treatment supplies, and $2,460 in depreciation due to additional capital assets placed into service. Interest expenses increased by $28,990 due to reduced bond interest capitalization resulting from the implementation of GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* in fiscal year 2022. Amortization of bond premium, discount, refunding loss and issuance costs increased by $2,093 due to prior year bond issuance costs. Non-operating expenses decreased by $1,380 mainly due to prior year grant payments for water conservation.

Transfers in of $15,035 from the City included $15,030 for the Earthquake Safety and Emergency Response program, and $5 from the General Fund for low income assistance programs. Transfers out of $30,666 included $30,000 to Hetch Hetchy Water to fund various Mountain Tunnel projects, $500 to DPW for the UN Plaza Large Alternative Water Source project and purchase of capital assets, $134 for the Arts Commission for the arts enrichment fund for the new CDD Headquarters, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program.

Results of Operations, Fiscal Year 2021

The Enterprise's total revenues of $627,826 for the year represented a decrease of $60,776 or 8.8% from prior year (see Table 2). Decreases included $48,860 from other non-operating revenues, $10,177 from interest and investment income, $2,079 from other operating revenues, and $447 from charges for service. These decreases were offset by an increase of $787 from rents and concessions.

Charges for services were $550,306, a decrease of $447 or 0.1% mainly due to an 8.8% decrease in consumption for retail customers, and the COVID-19 emergency proclamation issued by the City's Mayor suspending collection of past due accounts, mainly resulting in a $2,945 increase in the allowance for doubtful accounts which reduced charges for services. This was offset by an adopted rate increase of 7.0%

for retail customers beginning July 1, 2020. Rents and concessions were $12,911, an increase of $787 or 6.5% mainly due to rent increases and increased royalty revenues. Other operating revenues were $18,395, a decrease of $2,079 or 10.2% due to reduced capacity fees and sale of water to other City departments as a result of the SF Health Order relating to COVID-19, offset by a 7.0% adopted rate increase. Interest and investment income was $340, a decrease of $10,177 or 96.8% mainly due to unrealized losses resulting from decreases in value of fixed income securities from the City Treasury pool and lower interest earned on cash balances. Other non-operating revenues were $45,874, a decrease of $48,860 or 51.6% mainly due to a prior year one-time gain of $63,600 from the property transfer of 2000 Marin Street and 639 Bryant Street offset by a $15,000 grant from the State of California for the SF Westside Recycle Water project in current year.

The Enterprise's total expenses were $627,875, an increase of $51,735 or 9.0%. Operating expenses were $448,843, an increase of $50,726 or 12.7%, the result of increases of $27,126 in general administrative and other mainly from judgement and claims based on actuarial estimates, $12,585 in personnel services mainly due to pension obligations based on actuarial report and a 3% cost of living adjustment, $9,107 in services provided by other departments mainly from higher water assessment fees paid to Hetch Hetchy Water, $1,805 in depreciation and amortization due to additional capital assets placed into service, and $978 in contractual services mainly from equipment maintenance. These increases were offset by a decrease of $875 in materials and supplies mainly for building and construction supplies. Interest expenses decreased by $6,640, as compared to prior year, mainly due to refunded bonds. Amortization of bond premium, discount, refunding loss and issuance costs decreased by $5,970 due to the issuance of the 2020 Series EFGH revenue bonds, which refunded 2010 Series D, 2011 Series D, 2012 Series ABC, and 2017 Series ABC revenue bonds. Non-operating expenses increased by $1,679 due to increased grants and rebates awarded for water conservation relating to the Onsite Water Reuse Grant Program and community-based services.

Transfers in of $21,025 from the City included $20,040 for the Emergency Firefighting Water System and $985 from the General Fund for Native Plant Garden project and low income assistance programs. Transfers out of $16,654 included $16,000 to Hetch Hetchy Water to fund various upcountry water projects, $622 to the Arts Commission for arts enrichment fund for the SF Recycled Water, Sunol Valley Water Improvement and Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. Capital contribution of $4,180 was received for water pipeline assets from the Department of Public Works in the current year.

(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, 2022, 2021, and 2020

	2022	2021	2020	2022-2021 Change	2021-2020 Change
Facilities, improvements, machinery, and equipment	$ 5,056,747	4,948,186	4,928,438	108,561	19,748
Intangible assets	3,152	2,763	4,089	389	(1,326)
Land and rights-of-way	113,441	104,248	105,336	9,193	(1,088)
Construction work in progress	444,254	532,602	492,682	(88,348)	39,920
Total	$ 5,617,594	5,587,799	5,530,545	29,795	57,254

Capital Assets, Fiscal Year 2022

The Enterprise has net capital assets of $5,617,594 invested in a broad range of utility capital assets as of June 30, 2022 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by $29,795 from the prior year. Facilities, improvements, machinery, and equipment increased by $108,561 mainly due to Water Main Replacement and Treasure Island Well projects. Land increased by $9,193 mainly from the acquisition of Oak Ridge Ranch Estates and Arroyo Hondo Estates. Construction work in progress decreased by $88,348 mainly due to Water Main Replacement and Treasure Island Well projects placed into service. Intangible assets increased by $389 mainly due to Java to Groovy Conversion software and Cross-Connection Assembly asset additions.

Major additions to construction work in progress during the year ended June 30, 2022 include the following:

SF Recycled Water Project	$ 18,684
Sunol Long Term Improvements	17,655
New Water Utility Service Facilities	8,843
Watershed Right of Way Land Acquisition	7,731
Upper Alameda Creek Filter Gallery	6,347
Regional Groundwater Storage & Recovery	5,769
Water Main Replacement - WD-2739 Castro/19th/26th Streets	5,504
Auxiliary Water Supply System - Pump Station No. 2	5,116
Other project additions individually below $5,000	99,542
Total	$ 175,191

(Dollars in thousands, unless otherwise stated)

Major land, 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, 2022 include the following:

Water Main Replacement - WD-2739 Castro/19th/26th Streets	$	15,666
Treasure Island Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		11,656
Serramonte Well - Architectural/Structural/Well		10,977
Lake Merced Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		8,851
New Water Utility Service Facilities		8,843
Colma BART Well - Architectural/Structural/Well		8,739
Serramonte Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		8,351
Colma BART Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		7,826
Treasure Island Well - Architectural/Structural/Well		7,646
Hickey Well - Architectural/Structural/Well		7,137
Auxiliary Water Supply System - Pipelines on 19th Ave		6,990
Linear Park Well - Architectural/Structural/Well		6,576
Water Main Replacement - WD-2616 Baker/Sutter Streets		6,567
Hickey Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		6,465
Funeral Home Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		6,447
Millbrae Yard Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		6,086
Linear Park Well - Civil/Electrical/I&C/Mechanical/Pipeline/Plumbing		5,736
Water Main Replacement - WD-2842 Casitas/Lansdale Ave		5,423
Lake Merced Well - Architectural/Structural/Well		5,266
Other items individually below $5,000		113,430
Total	$	264,678

See Note 4 for additional information about Capital Assets.

Water System Improvement Program (WSIP)

The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high-quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara, and San Mateo Counties, as well as approximately 800,000 residential customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements and long-term water supply objectives, as well as improve seismic and delivery reliability.

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2022. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2022, 35 local projects were completed. For regional projects, 47 projects are completed, the Alameda Creek Recapture, Regional Groundwater Storage and Recovery Phase 2A, Regional Groundwater Storage and Recovery Phase 2B projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is February 2027. Additional details regarding the WSIP are available at https://sfpuc.org/construction-contracts/water-infrastructure-improvements.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2021

The Enterprise has net capital assets of $5,587,799 invested in a broad range of utility capital assets as of June 30, 2021 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by $57,524 from the prior year. Construction work in progress increased by $39,920 primarily due to additions from the SF Recycled Water project, Sunol Long Term Improvements and Regional Groundwater Storage and Recovery projects. Facilities, improvements, machinery, and equipment increased by $19,748 mainly attributable to the San Andreas Pipeline No. 2 and Water Main Replacement projects. Intangible assets decreased by $1,326 due to $1,601 in amortization, offset by $143 addition for information technology and $132 addition for automated meter reading system. Land decreased by $1,088 as the result of sale of the Wool Ranch property in the Alameda Creek Watershed and reimbursement of land costs for 2000 Marin Street, San Francisco, CA.

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

SF Recycled Water Project	$	41,231
Sunol Long Term Improvements		15,516
Regional Groundwater Storage & Recovery		12,298
New Water Utility Services		7,992
San Andreas Pipeline No. 2 Replacement		7,961
Water Main Replacement - WD-2739 Castro/19th/26th Streets		7,953
Calaveras Dam Replacement		7,915
Water Main Replacement - WD-2766 Taraval Street		5,172
Auxiliary Water Supply System - Pump Station No. 2		5,135
Other project additions individually below $5,000		86,496
Total	$	197,669

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:

San Andreas Pipeline No. 2 Replacement - 4 Segments in San Bruno	$	43,340
Water Main Replacement - WD-2692 Geary Blvd/36th/48th/Point Lobos Ave		9,329
Water Main Replacement - WD-2719 22nd/Valencia St/Potrero Ave		8,004
New Water Utility Services		7,992
Alameda Creek Watershed Fish Passage Facilities		7,465
Water Main Replacement - WD-2766 Taraval Street		7,328
Water Main Replacement - WD-2793 Geary Blvd/Cleary Ct/Market St		6,655
Other items individually below $5,000		72,342
Total	$	162,455

See Note 4 for additional information about Capital Assets.

(Dollars in thousands, unless otherwise stated)

Water System Improvement Program

The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high-quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara, and San Mateo Counties, as well as approximately 800,000 residential customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements and long-term water supply objectives, as well as improve seismic and delivery reliability.

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2021. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2021, 35 local projects were completed, and the completion date was June 3, 2020. For regional projects, 44 are completed and the expected completion date is May 2023. Additional details regarding the WSIP are available at https://sfpuc.org/construction-contracts/water-infrastructure-improvements.

Debt Administration

As of June 30, 2022, the Enterprise had $5,284,630 total debt outstanding, a decrease of $22,076 over the prior year, as shown below 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, 2022, 2021, and 2020

		2022	2021	2020	2022-2021 Change	2021-2020 Change
Revenue bonds	$	4,860,935	4,994,775	4,695,295	(133,840)	299,480
Commercial paper		206,297	105,862	362,354	100,435	(256,492)
Certificates of participation		95,637	98,662	101,578	(3,025)	(2,916)
State revolving fund loans		121,761	107,407	73,271	14,354	34,136
Total	$	5,284,630	5,306,706	5,232,498	(22,076)	74,208

The decrease of $133,840 in revenue bonds was due to decreases of $108,500 from bond repayment, $25,349 in bond premium from amortization, offset by a $9 increase in bond discount from amortization. The $3,025 decrease of certificates of participation was due to a $2,970 decrease for principal repayment, and a $55 decrease for amortization of premium. The increase of $14,354 in State revolving funds loans was from additional reimbursement requests for the SF Westside Recycled Water project. The Enterprise had $179,600 in tax-exempt and $26,697 in taxable commercial paper as of June 30, 2022, and $79,251 in tax-exempt and $26,611 in taxable commercial paper as of June 30, 2021. The increase of $100,435 was due to additional issuances of $130,135 in tax-exempt and $86 in taxable commercial paper, offset by $29,786 from repayment of tax-exempt commercial paper.

Credit Ratings and Bond Insurance – The Enterprise carried underlying ratings of "Aa2" and "AA-" from Moody's and Standard & Poor's (S&P) at June 30, 2022, and "Aa2" and "AA-" from Moody's and Standard & Poor's (S&P) at June 30, 2021, respectively.

Debt Service Coverage – Pursuant to the Amended and Restated Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds), which 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 2022 and 2021, 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 Enterprise's Amended and Restated 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 approved by voters in Proposition E in November 2002. As of June 30, 2022, the Board of Supervisors has authorized the issuance of $4,617,099 in revenue bonds under Proposition E, with $3,898,744 issued against this authorization. The Enterprise can also incur indebtedness of up to $1,628,000 for improvements to the water system pursuant to Proposition A that was approved by the voters in November 2002. As of June 30, 2022, $1,499,230 of the $1,628,000 Proposition A authorized bonds were issued. The Enterprise is also authorized to issue up to $500,000 in commercial paper.

Cost of Debt Capital – The Enterprise's outstanding long-term debt has coupon interest rates ranging from 0.3% to 7.0% as of June 30, 2022 and 2021. The Enterprise's short-term debt has interest rates ranging from 0.1% to 2.0% during fiscal year 2022, and 0.1% to 0.3% during fiscal year 2021.

Rates and Charges

Rate Setting Process

Retail Customers

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIIIB, entitled "Public Utilities," which changed the Commission's ability to issue new revenue bonds and set retail water rates. For the retail water rate setting, 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 rate study was completed in April 2018 and resulted in an approved four-year retail rate increase. The Commission adopted retail rates effective for four fiscal years from July 1, 2018 through June 30, 2022. The rates effective July 1, 2021 for fiscal year 2022 will remain unchanged for fiscal year 2023, which are effective July 1, 2022. These rates exclude those changed by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, as well as rates adjusted by the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine. SFPUC Rates Schedules and Fees is available at https://sfpuc.org/accounts-services/water-power-and-sewer-rates.

Wholesale Customers

The WSA prescribes the rate setting process for the wholesale water rates, and has a 25-year term, beginning on July 1, 2009, with two 5-year extension options. The WSA was amended and restated on December 11, 2018 by the SFPUC. The contract changed the rate basis by which the capital cost recovery is determined from a "utility basis" to a "cash basis," resulting in the repayment of the cost of capital over the life of the debt funding of those assets rather than the life of the asset. The WSA requires the rate be calculated and set annually and include a reconciliation between prior year revenues and expenses. Refer to Note 10 of the notes to financial statements for further discussion on the balancing account of the wholesale customers.

(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments

Effective Date:	Retail		Wholesale [5]
July 1, 2013	6.5	[1]	(16.4)
July 1, 2014	12.0	[2]	19.6
July 1, 2015	12.0	[2]	28.0
July 1, 2016	10.0	[2]	9.3
July 1, 2017	7.0	[2]	-
July 1, 2018	9.0	[3]	-
July 1, 2019	8.0	[3]	-
July 1, 2020	7.0	[3]	-
July 1, 2021	7.0	[3]	-
July 1, 2022	-	[4]	15.9

[1] Five-year retail rate increases adopted and effective July 1, 2009.
[2] Four-year retail rate increases adopted and effective July 1, 2014.
[3] Four-year retail rate increases adopted and effective July 1, 2018.
[4] No retail rate increase adopted and effective July 1, 2022.
[5] Wholesale rates adopted annually; no increase for wholesale rates effective July 1, 2017 to June 30, 2022.

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, 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 WATER ENTERPRISE
Statements of Net Position
June 30, 2022 and 2021
(In thousands)

	2022	Restated 2021*
Assets		
Current assets:		
Cash and investments with City Treasury	$ 460,954	483,827
Cash and investments outside City Treasury	318	301
Receivables:		
Charges for services (net of allowance for doubtful accounts of $3,915 as of June 30, 2022 and $5,445 as of June 30, 2021)	61,740	55,473
Due from other City departments	178	248
Due from other governments	—	16
Interest	399	257
Interest - Leases	884	859
Restricted due from other governments	7,553	49,546
Leases receivable, current portion	3,325	3,289
Restricted interest and other receivable (net of allowance for doubtful accounts of $146 as of June 30, 2022 and $24 as of June 30, 2021)	4,142	3,983
Total current receivables	78,221	113,671
Prepaid charges, advances, and other receivables, current portion	12,180	6,147
Inventory	6,802	5,937
Restricted cash and investments outside City Treasury, current portion	11,063	57,165
Total current assets	569,538	667,048
Non-current assets:		
Net pension asset	100,407	—
Restricted cash and investments with City Treasury	9,299	—
Restricted cash and investments outside City Treasury, less current portion	64,894	65,688
Leases receivable, less current portion	42,840	45,821
Lease asset, net of accumulated amortization	2,812	4,237
Restricted interest and other receivable (net of allowance for doubtful accounts of $8 as of June 30, 2022 and $8 as of June 30, 2021)	4	4
Charges for services, less current portion (net of allowance for doubtful accounts of $656 as of June 30, 2022 and $658 as of June 30, 2021)	207	207
Capital assets, not being depreciated and amortized	558,374	637,529
Capital assets, net of accumulated depreciation and amortization	5,059,220	4,950,270
Prepaid charges, advances, and other receivables, less current portion	3,760	3,517
Total non-current assets	5,841,817	5,707,273
Total assets	6,411,355	6,374,321
Deferred outflows of resources		
Unamortized loss on refunding of debt	139,481	154,991
Pensions	52,852	64,797
Other post-employment benefits	32,445	37,762
Total deferred outflows of resources	224,778	257,550
Liabilities		
Current liabilities:		
Accounts payable	22,852	16,183
Accrued payroll	10,495	9,845
Accrued vacation and sick leave, current portion	6,888	6,787
Accrued workers' compensation, current portion	1,700	1,694
Damage claims liability, current portion	10,191	14,400
Unearned revenues, refunds, and other	19,137	18,966
Bond, loan and lease interest payable	35,443	36,200
Lease liability, current portion	1,008	1,381
Revenue bonds, current portion	125,285	108,500
Certificates of participation, current portion	3,138	2,970
Commercial paper	206,297	105,862
State revolving fund loans, current portion	3,283	1,667
Wholesale balancing account, current portion	48,422	21,538
Current liabilities payable from restricted assets	25,353	27,263
Total current liabilities	519,492	373,256
Long-term liabilities:		
Other post-employment benefits obligations	144,115	148,771
Net pension liability	—	216,417
Lease liability, less current portion	1,855	2,863
Accrued vacation and sick leave, less current portion	6,841	7,129
Accrued workers' compensation, less current portion	7,273	7,134
Damage claims liability, less current portion	25,878	22,323
Revenue bonds, less current portion	4,735,650	4,886,275
Certificates of participation, less current portion	92,499	95,692
State revolving fund loans, less current portion	118,478	105,740
Wholesale balancing account, less current portion	30,728	39,326
Pollution remediation obligation	1,271	1,271
Total long-term liabilities	5,164,588	5,532,941
Total liabilities	5,684,080	5,906,197
Deferred inflows of resources		
Related to pensions	248,704	4,885
Leases	44,583	48,110
Other post-employment benefits	25,348	21,315
Total deferred inflows of resources	318,635	74,310
Net position		
Net investment in capital assets	537,644	517,302
Restricted for debt service	14,671	45,586
Restricted for capital projects	—	22,319
Unrestricted	81,103	66,157
Total net position	$ 633,418	651,364

* Restatement due to implementation of GASB 87 - *Leases*
See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021
(In thousands)

	2022	Restated 2021*
Operating revenues:		
Charges for services	$ 539,526	550,306
Rents and concessions	13,765	13,735
Capacity fees	2,163	1,326
Other revenues	17,663	17,069
Total operating revenues	573,117	582,436
Operating expenses:		
Personnel services	83,385	132,528
Contractual services	13,457	14,029
Materials and supplies	15,719	13,175
Depreciation and amortization	147,904	145,444
Services provided by other departments	73,307	70,235
General and administrative and other	68,014	73,371
Total operating expenses	401,786	448,782
Operating income	171,331	133,654
Non-operating revenues (expenses):		
Federal and state grants	5,931	14,829
Interest and investment (loss) income	(10,896)	1,374
Interest expenses	(213,668)	(184,678)
Amortization of premium, discount, refunding loss, and issuance costs	9,875	7,782
Net gain from sale of assets	1,079	2,556
Other non-operating revenues	34,861	28,489
Other non-operating expenses	(828)	(2,208)
Net non-operating expenses	(173,646)	(131,856)
Change in net position before capital contributions and transfers	(2,315)	1,798
Capital contributions	—	4,180
Transfers from the City and County of San Francisco	15,035	21,025
Transfers to the City and County of San Francisco	(30,666)	(16,654)
Capital contributions and net transfers	(15,631)	8,551
Change in net position	(17,946)	10,349
Net position at beginning of year	651,364	641,015
Net position at end of year	$ 633,418	651,364

* Restatement due to implementation of GASB 87 - *Leases*

See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE
Statements of Cash Flows
Years Ended June 30, 2022 and 2021
(In thousands)

	2022	Restated 2021*
Cash flows from operating activities:		
Cash received from customers, including cash deposits	$ 563,433	570,041
Cash received from tenants for rent	15,032	12,542
Cash received from miscellaneous revenues	4,558	4,643
Cash paid to employees for services	(137,080)	(132,235)
Cash paid to suppliers for goods and services	(159,338)	(136,653)
Cash paid for judgments and claims	(2,515)	(3,969)
Net cash provided by operating activities	284,090	314,369
Cash flows from non-capital financing activities:		
Cash received from grants	5,947	14,836
Cash received from settlements	6,750	—
Cash paid for rebates and program incentives	(828)	(2,208)
Transfers from the City and County of San Francisco	15,035	21,025
Transfers to the City and County of San Francisco	(30,666)	(16,654)
Net cash (used in) provided by non-capital financing activities	(3,762)	16,999
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	986	2,647
Proceeds from bond issuance, net of premium, discount, refunding loss, and issuance costs	—	1,000,920
Proceeds from commercial paper borrowings	130,221	16,328
Proceeds from State revolving fund loan	56,113	57,861
Principal paid on commercial paper	(29,786)	(272,820)
Principal paid on long-term debt	(111,470)	(704,344)
Interest paid on long-term debt	(213,922)	(210,276)
Interest paid on commercial paper	(212)	(348)
Issuance cost paid on long-term debt	(10)	(3,032)
Lease payment	(1,439)	(1,472)
Acquisition and construction of capital assets	(182,776)	(184,144)
Federal interest income subsidy from Build America Bonds	23,590	23,869
Net cash used in capital and related financing activities	(328,705)	(274,811)
Cash flows from investing activities:		
Interest income received	2,154	4,185
Proceeds from sale of investments outside City Treasury	398,825	323,586
Purchase of investments outside City Treasury	(398,825)	(323,586)
Net cash provided by investing activities	2,154	4,185
(Decrease) increase in cash and cash equivalents	(46,223)	60,742
Cash and cash equivalents:		
Beginning of year	606,589	545,847
End of year	560,366	606,589
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments with City Treasury:		
Unrestricted	460,954	483,827
Restricted	9,299	—
Add: Unrealized loss (gain) on investments with City Treasury	13,838	(392)
Cash and investments outside City Treasury:		
Unrestricted	318	301
Restricted	75,957	122,853
Cash and cash equivalents at end of year on statements of cash flows	$ 560,366	606,589

* Restatement due to implementation of GASB 87 - *Leases*

SAN FRANCISCO WATER ENTERPRISE
Statements of Cash Flows
Years Ended June 30, 2022 and 2021
(In thousands)

	2022	Restated 2021*
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 171,331	133,654
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	147,904	145,444
Miscellaneous revenue	4,558	4,643
Provision for uncollectible accounts	(1,410)	2,945
Write-off of capital assets and other non-cash items	4,592	3,810
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(4,734)	1,537
Prepaid charges, advances, and other	(6,543)	(2,385)
Due from other City departments	70	93
Inventory	(865)	(160)
Leases	380	(824)
Accounts payable	6,669	5,609
Accrued payroll	650	1,354
Other post-employment benefits obligations	4,694	(15,549)
Pension obligations	(61,060)	10,562
Accrued vacation and sick leave	(187)	2,296
Accrued workers' compensation	145	(346)
Due to other City departments	–	(674)
Wholesale balancing account	18,286	(3,993)
Pollution remediation obligation	–	(306)
Damage claims liability	(654)	25,956
Unearned revenues, refunds, and other liabilities	264	703
Total adjustments	112,759	180,715
Net cash provided by operating activities	$ 284,090	314,369
Noncash transactions:		
Accrued capital asset costs	$ 25,353	27,263
Unrealized loss (gain) on investments	13,838	(392)
Capital contribution	–	4,180

* Restatement due to implementation of GASB 87 - *Leases*

See accompanying notes to financial statements.

(1) Description of Reporting Entity

The San Francisco Water Enterprise (the Enterprise) was established in 1930 under the provisions of the Charter of the City and County of San Francisco (the City). The Enterprise acquired the fully developed, mature water works for San Francisco on March 3, 1930. Since then, the City has operated and maintained the water works as the San Francisco Water Enterprise. The Board of Supervisors of the City has adopted resolutions (the Water Resolutions) providing for the issuance of various water revenue and refunding bond series. The Water Resolutions require the City to keep separate books of records and accounts of the Enterprise. The Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the distribution of water to San Francisco and certain suburban areas. In fiscal year 2022, the Enterprise sold approximately 66,005 million gallons, i.e., about 181 million gallons per day of water, to approximately 2.7 million people within San Francisco and certain suburban areas.

The San Francisco Public Utilities Commission (SFPUC or the Commission), established in 1932, is responsible for providing operational oversight of the public utility enterprises of the City, which include the Enterprise along with the City's power and sewer utilities (i.e., Hetch Hetchy Water and Power and CleanPowerSF, of which the Power Enterprise is a component, and the San Francisco Wastewater 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 SEC. 4.112 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 Wastewater 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, 2022 and 2021, 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 and are included as 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 U.S. GAAP. Under this method, all assets and liabilities associated with its operations are included on the statement 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 cash 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 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 on 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 buildings, 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 discontinued construction projects 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). Per the implementation of GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, no interest was capitalized to capital assets in fiscal year 2022.

(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 is offset against the related debt and is 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 13(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 13(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. The arbitrage rebate liability was $0 at June 30, 2022 and 2021.

(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

Water service charges are based on water usage as determined by the Enterprise. Effective July 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 amounts for the fiscal years ending June 30, 2022 and 2021 were $29,774 and $30,277, 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 14(d)).

(s) Leases

Leases are defined as a contract that conveys control of the right to use another entity's underlying asset for a specified period. The Enterprise is a lessee and lessor for various noncancellable leases of land, building, equipment, vehicles, easement, etc.

Short-term Leases
For leases with a maximum possible term of 12 months or less at commencement, the Enterprise recognizes lease revenue if the Enterprise executes a lessor lease or lease expense if the Enterprise executes a lessee lease based on the provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Leases Other Than Short-term
For all other leases (i.e. those that are not short-term) the Enterprise recognizes a lease liability and intangible right-to-use lease asset for the Enterprise as lessee leases, or lease receivable and deferred inflow of resources for the Enterprise as lessor leases.

Measurement of Lease Amounts (Lessee)
The Enterprise's lease liability is recorded at the present value of future minimum lease payments as of the date of inception. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Enterprise is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Measurement of Lease Amounts (Lessor)
The Enterprise's lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments collected. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, plus lease payments received from the lease at or before the commencement of the lease term that related to future periods. Subsequently, the deferred inflow of resources as lease revenue is on a straight-line basis over the lease term.

Key Estimates and Judgements
Key estimates and judgements include how the Enterprise determines (a) the discount rate it uses to calculate the present value of the expected lease payments, (b) lease terms, (c) lease payments, and (d) materiality threshold for equipment.

- The Enterprise generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate implicit in the lease. The City's incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table. The City's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease payments under similar terms at the commencement or remeasurement date.

- The lease term includes the noncancellable period of the lease, plus any additional periods covered by either lessee or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.

- Payments are evaluated by the Enterprise to determine if they should be included in the measurement of the lease receivables or lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.

- Equipment and other leases have a capitalization threshold of $100. 70% below market rent and/or ground leases are determined to be below market rent (BMR), excluded from lease capitalization.

(Dollars in thousands, unless otherwise stated)

Remeasurement of Lease
The Enterprise monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability, the receivable or liability is remeasured and a corresponding adjustment is made to the deferred inflow of resources or lease asset, respectively.

Presentation in Statement of Net Position
Lease assets are reported with non-current assets, lease liabilities are reported with current and long-term liabilities in the statement of net position.

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

As prescribed under GASB 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 (see Note 11(b)).

(u) New Accounting Standards Adopted in Fiscal Year 2022

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 adopted the provisions of Statement No. 87 in fiscal year 2022. As a result of adoption, the cumulative effect of applying this Statement is recorded as beginning balances for the following accounts as of July 1, 2020:

	FY2021 Beginning Balance	FY2021 Activities	Total
Lease Receivable - Current	$ 7,293	$ (4,004)	$ 3,289
Lease Receivable - Long Term	43,419	2,402	45,821
Interest Receivable - GASB 87		859	859
Right-to-use Assets	5,399	247	5,646
Accumulated Amortization	-	(1,409)	(1,409)
Deferred Inflows - Leases	(50,712)	2,602	(48,110)
Accrued Int Payable - Current	-	(5)	(5)
Lease Liability - Current	(1,467)	86	(1,381)
Lease Liability - Long Term	(3,932)	1,069	(2,863)
Revenues	-	(1,859)	(1,859)
Expenses	-	12	12
Change to Net Position	$ -	$ (1,847)	$ (1,847)

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 adopted the provisions of Statement No. 89 in fiscal year 2022.

3) 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 adopted the provisions of Statement No. 92 in fiscal year 2022, which did not have a significant effect on its financial statements.

4) 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 adopted the provisions of Statement No. 93 in fiscal year 2022, which did not have a significant effect on its financial statements.

(v) GASB Statements Implemented 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 the criteria used in determining whether a fiduciary component unit exists and clarifies financial reporting for Internal Revenue Code section 457 deferred compensation plans. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted early the provision 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.

(Continued)

(w) Future Implementation of New Accounting Standards

1) 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.

2) 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.

3) 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.

4) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 99 in fiscal year 2024.

5) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 100 in fiscal year 2024.

6) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 101 in fiscal year 2025.

(x) 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.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The current balances as of June 30, 2022 and 2021 were $75,957 and $122,853, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of Treasury and Government Obligations.

Funds held by the trustee established under the 2002 Amended and Restated Indentures agreements are invested in "Permitted Investments," as defined in the agreement, which includes money market funds and investment agreements. The agreement permits investment in money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and have a rating by S&P of "AAAm-G," "AAAm," or "AAm," and a rating by Moody's of "Aaa," "Aa1," or "Aa2". The credit ratings of the money market funds invested in as of June 30, 2022 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1+" by S&P. The credit ratings of the money market funds invested in as of June 30, 2021 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1+" by S&P. Investment agreements must be with a U.S. bank or trust company that have a rating by Moody's and S&P of "A" or higher, or are guaranteed by any entity with a rating of "A" or higher, at the time the agreement is entered.

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 tables present the restricted and unrestricted cash and investments outside City Treasury as of June 30, 2022 and 2021:

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2022 Maturities	June 30, 2022 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: 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	62,854	62,854	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	48	48	–	–	–
Cash and Cash Equivalents	N/A		13,055	13,055	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 75,957	75,957	–	–	–
Cash and Cash Equivalents	N/A		318	318	–	–	–
Total Cash and Investments outside City Treasury			$ 318	318	–	–	–

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2021 Maturities	June 30, 2021 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: 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	79,973	79,973	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	55	55	–	–	–
Cash and Cash Equivalents	N/A		42,825	42,825	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 122,853	122,853	–	–	–
Cash and Cash Equivalents	N/A		301	301	–	–	–
Total Cash and Investments outside City Treasury			$ 301	301	–	–	–

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, 2022 and 2021 included an unrealized gain due to changes in fair value on commercial paper of $0.

Additional cash outside of the investment pool included revolving fund and cash in transit. The revolving fund has a balance of $28 as of June 30, 2022 and 2021, respectively, which is held in a commercial bank in non-interest bearing checking accounts covered by Federal Deposit Insurance Corporation depository insurance. These accounts were established as provided by the City's Administrative Code for revolving fund needs. The cash in transit was $290 and $273 as of June 30, 2022 and 2021, respectively.

(Dollars in thousands, unless otherwise stated)

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

		2022	2021
Current assets:			
Cash and investments with City Treasury	$	460,954	483,827
Cash and investments outside City Treasury		318	301
Restricted cash and investments outside City Treasury		11,063	57,165
Non-current assets:			
Restricted cash and investments with City Treasury		9,299	—
Restricted cash and investments outside City Treasury		64,894	65,688
Total cash, cash equivalents, and investments	$	546,528	606,981

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

Fiscal years ended June 30	Investment maturities (in months) Under 1	1 to less than 6	6 to less than 12	12 to 60
2022	20.2%	14.0%	14.9%	50.9%
2021	14.5%	27.6%	29.7%	28.2%

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, treatment plants, pump stations, certain water mains and pipelines, sewer systems, tunnels, and bridges.

Capital assets as of June 30, 2022 and 2021 consist of the following:

		2021	Increases	Decreases	2022
Capital assets not being depreciated and amortized:					
Land	$	104,248	9,193	—	113,441
Intangible assets		679	—	—	679
Construction work in progress		532,602	175,191	(263,539) *	444,254
Total capital assets not being depreciated and amortized		637,529	184,384	(263,539)	558,374
Capital assets being depreciated and amortized:					
Facilities and improvements		6,413,238	247,453	—	6,660,691
Intangible assets		23,772	1,370	—	25,142
Machinery and equipment		326,126	6,662	(315)	332,473
Total capital assets being depreciated and amortized		6,763,136	255,485	(315)	7,018,306
Less accumulated depreciation and amortization for:					
Facilities and improvements		(1,554,515)	(134,202)	—	(1,688,717)
Intangible assets		(21,688)	(981)	—	(22,669)
Machinery and equipment		(236,663)	(11,352)	315	(247,700)
Total accumulated depreciation and amortization		(1,812,866)	(146,535)	315	(1,959,086)
Total capital assets being depreciated and amortized, net		4,950,270	108,950	—	5,059,220
Total capital assets, net	$	5,587,799	293,334	(263,539)	5,617,594

* Decrease in construction work in progress of $8,054 includes $4,592 in capital project write offs, mainly related to Stern Grove Emergency Restoration and Lake Merced Water Level Restoration projects and $9,193 transferred to land. The remaining difference of $5,731 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

(Dollars in thousands, unless otherwise stated)

		2020	Increases	Decreases		2021
Capital assets not being depreciated and amortized:						
Land	$	105,336	–	(1,088)		104,248
Intangible assets		679	–	–		679
Construction work in progress		492,682	197,669	(157,749)	*	532,602
Total capital assets not being depreciated and amortized		598,697	197,669	(158,837)		637,529
Capital assets being depreciated and amortized:						
Facilities and improvements		6,258,333	154,905	–		6,413,238
Intangible assets		23,497	275	–		23,772
Machinery and equipment		319,000	7,275	(149)		326,126
Total capital assets being depreciated and amortized		6,600,830	162,455	(149)		6,763,136
Less accumulated depreciation and amortization for:						
Facilities and improvements		(1,423,722)	(130,793)	–		(1,554,515)
Intangible assets		(20,087)	(1,601)	–		(21,688)
Machinery and equipment		(225,173)	(11,639)	149		(236,663)
Total accumulated depreciation and amortization		(1,668,982)	(144,033)	149		(1,812,866)
Total capital assets being depreciated and amortized, net		4,931,848	18,422	–		4,950,270
Total capital assets, net	$	5,530,545	216,091	(158,837)		5,587,799

* Decrease in construction work in progress includes $3,810 in capital project write-offs, mainly related to Eastside Recycled Water and San Andreas Spillway projects. The remaining difference of $8,516 is due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

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. Per the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, no interest was capitalized to construction in progress beginning in fiscal year 2022.

Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2022 and 2021 are as follows:

	2022		Restated 2021	
Interest expensed	$ 213,668		184,678	**
Interest included in construction work in progress	—	*	19,461	
Total interest incurred	$ 213,668		204,139	

* Per the implementation of GASB No 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* no interest was capitalized to construction work in progress beginning in fiscal year 2022.

**Restated per implementation of GASB 87 - *Leases*

(5) Restricted Assets

Pursuant to the Indentures, all revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Water Revenue and Refunding Bonds. Accordingly, the revenues of the Enterprise shall not be used for any other purpose while any of its Water Revenue and Refunding Bonds are outstanding, except as expressly permitted by the Indentures. Further, all revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Water Enterprise Revenue Fund (the Water Revenue Fund), which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statement of net position of the Enterprise as cash and investments. Deposits in the

Water Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes pertaining to the financing, maintenance, and operation of the Enterprise in accordance with the following priority:

1. The payment of operation and maintenance expenses for such utility and related facilities;
2. The payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Enterprise may establish or the Board of Supervisors may require with respect to employees of the Enterprise;
3. The payment of principal, interest, reserve, sinking fund, and other mandatory funds created to secure Revenue Bonds and parity State revolving fund loans issued by the Enterprise for the acquisition, construction, or extension of facilities owned, operated, or controlled by the Enterprise;
4. The payment of principal and interest on General Obligation Bonds issued by the City for the Enterprise’s purposes;
5. Reconstruction and replacement as determined by the Enterprise or as required by any of the Enterprise’s Revenue Bond ordinances duly adopted and approved; and
6. The acquisition of land, real property, or interest in real property for, and the acquisition, construction, enlargement, and improvement of, new and existing buildings, structures, facilities, equipment, appliances, and other property necessary or convenient to the development or improvement of such utility owned, controlled, or operated by the Enterprise; and for any other lawful purpose of the Enterprise, including the transfer of surplus funds pursuant to the Charter.

(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the bond financing program maintains that certain restricted cash and investment balances be held in trust. Restricted assets held in trust consisted of the following as of June 30, 2022 and 2021:

		2022	2021
Cash and investments with City Treasury:			
Water revenue bond construction fund	$	9,299	—
Cash and investments outside City Treasury:			
2010B Water revenue bond fund		21,386	21,492
2010D Water revenue bond fund		1	—
2010E Water revenue bond fund		16,304	16,299
2010G Water revenue bond fund		17,703	17,698
2011B Water revenue bond fund		—	670
2011C Water revenue bond fund		—	140
2012A Water revenue bond fund		1	1
2020A Water revenue bond fund		86	7,370
2020B Water revenue bond fund		34	3,097
2020C Water revenue bond fund		54	3,463
2020D Water reveune bond fund		38	1,513
2020F Water revenue refunding bond fund		12	12
2020G Water reveune refunding bond fund		22	22
2020H Water revenue refunding bond fund		7	7
2009C Certificates of participation - 525 Golden Gate		1,638	1,638
2009D Certificates of participation - 525 Golden Gate		5,567	6,551
Commercial Paper - Tax Exempt		14	29,793
Commercial Paper - Taxable		37	34
Habitat reserve endowment fund		13,053	13,053
Total cash and investments outside City Treasury	$	75,957	122,853
Interest and other receivables:			
Water bond construction fund including capacity fee receivables		4,146	3,987
Due from other government for State Revolving Fund		7,553	49,546
Total restricted assets	$	96,955	176,386

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

(6) Short-Term Debt

The Commission and the Board of Supervisors have authorized the issuance of up to $500,000 in commercial paper pursuant to the voter-approved 2002 Proposition E. As of June 30, 2022 and 2021, amounts outstanding under Proposition E were $206,297 and $105,862, respectively. Commercial paper interest rates ranged from 0.1% to 2.0%.

With maturities up to 270 days, the Enterprise intends to maintain the program by remarketing the commercial paper upon maturity over the near-to-medium term, at which time outstanding commercial paper will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the commercial paper interest rates rise to a level that exceeds these benefits, the Enterprise will refinance the commercial paper with the long-term, fixed-rate debt.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, the Enterprise had $293,703 and $394,138 in unused authorization as of June 30, 2022 and 2021, respectively. Significant Events of default as specified in the Reimbursement Agreements, or Revolving Credit Agreement 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, 2022, there were no such events describe herein.

(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2021*	Additions	Reductions	2022	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 361,500	–	(12,330)	349,170	12,780
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	–	344,200	12,745
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2011B revenue bonds	3.50 – 5.00	2041	755	–	(755)	–	–
2011C revenue bonds	3.00 – 5.00	2041	825	–	(825)	–	–
2015A revenue refunding bonds	2.00 – 5.00	2036	397,745	–	(15,325)	382,420	16,045
2016A revenue refunding bonds	4.00 – 5.00	2039	743,050	–	(23,315)	719,735	32,790
2016B revenue refunding bonds	1.50 – 5.00	2030	81,525	–	(10,015)	71,510	12,530
2016C revenue bonds	0.87 – 4.19	2046	237,050	–	(5,820)	231,230	5,955
2017A revenue bonds	5.00	2047	27,000	–	–	27,000	2,325
2017B revenue bonds	5.00	2047	32,930	–	–	32,930	2,835
2017C revenue bonds	5.00	2047	15,750	–	–	15,750	1,355
2017D revenue refunding bonds	2.00 – 5.00	2035	347,720	–	(925)	346,795	1,455
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	–	–	48,890	765
2017F revenue refunding bonds	5.00	2031	8,705	–	–	8,705	700
2017G revenue refunding bonds	2.03 – 2.91	2024	32,780	–	(820)	31,960	13,070
2019A revenue refunding bonds	1.81 – 3.47	2043	615,725	–	(24,405)	591,320	3,495
2019B revenue refunding bonds	3.15 – 3.52	2041	16,450	–	(65)	16,385	70
2019C revenue refunding bonds	3.15 – 3.52	2041	17,925	–	(75)	17,850	75
2020A revenue bonds	4.00 – 5.00	2050	150,895	–	–	150,895	–
2020B revenue bonds	5.00	2050	61,330	–	–	61,330	–
2020C revenue bonds	4.00	2050	85,335	–	–	85,335	–
2020D revenue bonds	3.00	2050	49,200	–	–	49,200	–
2020E revenue refunding bonds	2.83 – 2.95	2047	341,435	–	(5,900)	335,535	500
2020F revenue refunding bonds	0.26 – 3.15	2047	136,880	–	(1,425)	135,455	–
2020G revenue refunding bonds	0.26 – 3.10	2043	120,585	–	(5,820)	114,765	5,795
2020H revenue refunding bonds	0.26 – 3.15	2047	65,495	–	(680)	64,815	–
Less issuance discount			(133)	–	9	(124)	–
Add issuance premiums			301,758	–	(25,349)	276,409	–
Total revenue bonds payable			4,994,775	–	(133,840)	4,860,935	125,285
2009C certificates of participation (COPs)	2.00 – 5.00	2022	6,094	–	(2,970)	3,124	3,124
2009C COPs issuance premiums			69	–	(55)	14	14
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	–
State Revolving Funds Loan	1.00	2051	107,407	14,354	–	121,761	3,283
Other post-employment benefits obligations			148,771	14,868	(19,524)	144,115	–
Lease liability			4,244	–	(1,381)	2,863	1,008
Net pension liability			216,417	–	(216,417)	–	–
Accrued vacation and sick leave			13,916	8,177	(8,364)	13,729	6,888
Accrued workers' compensation			8,828	2,793	(2,648)	8,973	1,700
Damage claims liability			36,723	452	(1,106)	36,069	10,191
Wholesale balancing account			60,864	18,633	(347)	79,150	48,422
Pollution remediation obligation			1,271	–	–	1,271	–
Total			$ 5,691,878	59,277	(386,652)	5,364,503	199,915

*Restated due to implementation of GASB 87 - *Leases*

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2020	Additions	Reductions	Restated 2021*	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 373,420	–	(11,920)	361,500	12,330
2010D revenue refunding bonds	3.00 – 5.00	2021	30,990	–	(30,990)	–	–
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	–	344,200	–
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2011B revenue bonds	3.50 – 5.00	2041	1,485	–	(730)	755	755
2011C revenue bonds	3.00 – 5.00	2041	1,620	–	(795)	825	825
2011D revenue refunding bonds	4.00 – 5.00	2028	19,135	–	(19,135)	–	–
2012A revenue bonds	4.00 – 5.00	2043	216,540	–	(216,540)	–	–
2012B revenue bonds	4.00 – 5.00	2043	16,520	–	(16,520)	–	–
2012C1 revenue refunding bonds	4.00	2031	8,465	–	(8,465)	–	–
2012C2 revenue refunding bonds	4.00 – 5.00	2032	69,570	–	(69,570)	–	–
2015A revenue refunding bonds	2.00 – 5.00	2036	412,380	–	(14,635)	397,745	15,325
2016A revenue refunding bonds	4.00 – 5.00	2039	763,005	–	(19,955)	743,050	23,315
2016B revenue refunding bonds	1.50 – 5.00	2030	95,980	–	(14,455)	81,525	10,015
2016C revenue bonds	0.87 – 4.19	2046	242,755	–	(5,705)	237,050	5,820
2017A revenue bonds	5.00	2047	121,140	–	(94,140)	27,000	–
2017B revenue bonds	5.00	2047	147,725	–	(114,795)	32,930	–
2017C revenue bonds	5.00	2047	70,675	–	(54,925)	15,750	–
2017D revenue refunding bonds	2.00 – 5.00	2035	348,610	–	(890)	347,720	925
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	–	–	48,890	–
2017F revenue refunding bonds	5.00	2031	8,705	–	–	8,705	–
2017G revenue refunding bonds	2.03 – 2.91	2024	33,280	–	(500)	32,780	820
2019A revenue refunding bonds	1.81 – 3.47	2043	622,580	–	(6,855)	615,725	24,405
2019B revenue refunding bonds	3.15 – 3.52	2041	16,450	–	–	16,450	65
2019C revenue refunding bonds	3.15 – 3.52	2041	17,925	–	–	17,925	75
2020A revenue bonds	4.00 – 5.00	2050	–	150,895	–	150,895	–
2020B revenue bonds	5.00	2050	–	61,330	–	61,330	–
2020C revenue bonds	4.00	2050	–	85,335	–	85,335	–
2020D revenue bonds	3.00	2050	–	49,200	–	49,200	–
2020E revenue refunding bonds	2.83 – 2.95	2047	–	341,435	–	341,435	5,900
2020F revenue refunding bonds	0.26 – 3.15	2047	–	136,880	–	136,880	1,425
2020G revenue refunding bonds	0.26 – 3.10	2043	–	120,585	–	120,585	5,820
2020H revenue refunding bonds	0.26 – 3.15	2047	–	65,495	–	65,495	680
Less issuance discount			(143)	–	10	(133)	–
Add issuance premiums			311,923	73,542	(83,707)	301,758	–
Total revenue bonds payable			4,695,295	1,084,697	(785,217)	4,994,775	108,500
2009C certificates of participation (COPs)	2.00 – 5.00	2022	8,918	–	(2,824)	6,094	2,970
2009C COPs issuance premiums			161	–	(92)	69	–
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	–
State Revolving Funds Loan	1.00	2051	73,271	49,546	(15,410)	107,407	1,667
Other post-employment benefits obligations			163,684	14,036	(28,949)	148,771	–
Leases			5,399	–	(1,155)	4,244	1,381
Net pension liability			178,133	93,066	(54,782)	216,417	–
Accrued vacation and sick leave			11,620	10,109	(7,813)	13,916	6,787
Accrued workers' compensation			9,174	1,912	(2,258)	8,828	1,694
Damage claims liability			10,767	27,643	(1,687)	36,723	14,400
Wholesale balancing account			64,857	–	(3,993)	60,864	21,538
Pollution remediation obligation			1,577	–	(306)	1,271	–
Total			$ 5,315,355	1,281,009	(904,486)	5,691,878	158,937

*Restated due to implementation of GASB 87 - *Leases*

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

(a) Water Revenue Bonds 2010 Series B

The 2010 Series B Bonds in the par amount of $417,720 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $364,757 in new money for WSIP capital projects and pay financing costs. The 2010 Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 6.0% and have a final maturity of 2040. The Series B bonds have a true interest cost (net of federal subsidy) of 3.9%. As of June 30, 2022 and 2021, the principal amount outstanding was $349,170 and $361,500, respectively.

(b) Water Revenue Bonds 2010 Series DE

In July 2010, the Enterprise issued revenue bonds 2010 Series DE in the combined principal amount of $446,925. The purpose of the bonds is to advance refund $31,570 of outstanding 2002 Series A revenue bonds and to provide $372,689 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve fund. The bonds were rated “AA-” and “Aa2” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates ranging from 3.0% to 6.0%.

The 2010 Series D Bonds in the par amount of $102,725 were issued as tax-exempt bonds to provide $72,243 in new money for WSIP capital projects and $35,080 to advance refund a portion of outstanding 2002 Series A revenue bonds. The Series D bonds were issued as serial bonds with coupons ranging from 3.0% to 5.0% and have a final maturity of 2021. The Series D bonds have a true interest cost of 2.5%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $12,360 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series D bonds. BAWSCA repayment funds were combined with $165 from the 2010 Series D Capitalized Interest Account. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series D bonds maturing November 1, 2015 through 2017. A portion of the proceeds from 2020 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated October 1, 2020, to refund and legally defease the outstanding 2010 Series D bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2010 Series D bonds starting on November 1, 2021. As of June 30, 2022 and 2021, the principal amount of 2010 Series D bonds outstanding was $0.

The 2010 Series E Bonds in the par amount of $344,200 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $300,446 in new money proceeds for WSIP capital projects. The Series E bonds were issued as serial and term bonds with coupons ranging from 4.9% to 6.0% and have a final maturity of 2040. The Series E bonds have a true interest cost (net of federal subsidy) of 3.8%. As of June 30, 2022 and 2021, the principal amount of 2010 Series E bonds outstanding was $344,200.

(c) Water Revenue Bonds 2010 Series FG

In December 2010, the Enterprise issued revenue bonds 2010 Series FG in the combined principal amount of $532,430. The purpose of the bonds is to provide $437,980 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “Aa2” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates ranging from 3.0% to 7.0%.

The $180,960 Series F bonds were issued as tax-exempt bonds to provide $149,728 in new money for WSIP capital projects. The Series F bonds were issued as serial and term bonds with coupons ranging from 3.0% to 5.5% and have a final maturity of 2030. The Series F bonds have a true interest cost of 4.8%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $3,646 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series F bonds. BAWSCA repayment funds were combined with $131 from the 2010 Series F Capitalized Interest Account. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series F bonds maturing November 1, 2017 and 2018.

A portion of the proceeds of the 2016 Series A refunding bonds and 2019 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated October 1, 2016 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2010 Series F bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2010 Series F bonds starting on November 1, 2020 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2010 Series F bonds outstanding was $0.

The $351,470 Series G bonds were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $288,252 in new money for WSIP capital projects. The Series G bonds were issued as term bonds with a coupon of 7.0% and have a final maturity of 2050. The Series G bonds have a true interest cost (net of federal subsidy) of 4.5%. As of June 30, 2022 and 2021, the principal amount of 2010 Series G bonds outstanding was $351,470.

(d) Water Revenue Bonds 2011 Series ABCD

In August 2011, the Enterprise issued revenue bonds, 2011 Series ABCD in the combined principal amount of $720,750. The purpose of the bonds is to provide new money for WSIP capital projects, to finance Hetch Hetchy Water Improvements, and to finance the Local Water Main Replacement Projects, as well as refund $56,670 of outstanding 2001 Series A and 2002 Series A revenue bonds, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated "AA-" and "Aa3" from S&P and Moody's, respectively. The bonds included serial and term bonds with interest rates varying from 3.0% to 5.0%.

The $602,715 Series A bonds were issued as tax-exempt bonds to provide $525,000 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons ranging from 4.3% to 5.0% and have a final maturity of 2041. The Series A bonds have a true interest cost of 4.6%.

A portion of the proceeds of the 2017 Series D and G and 2019 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series A bonds starting on November 1, 2020 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2011 Series A bonds outstanding was $0.

The $28,975 Series B bonds were issued as tax-exempt bonds to provide $27,710 to finance improvements to certain up-country water storage and transmission facilities under the jurisdiction of Hetch Hetchy Water and Power and CleanPowerSF. The Series B bonds were issued as serial and term bonds with coupons ranging from 3.5% to 5.0% and have a final maturity of 2041. The Series B bonds have a true interest cost of 4.5%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $515 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2011 Series B bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2011 Series B bonds maturing November 1, 2017 through 2018.

A portion of the proceeds from the 2017 Series F and 2019 Series B refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series B bonds starting on November 1, 2022 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2011 Series B bonds outstanding was $0 and $755, respectively.

The $33,595 Series C bonds were issued as tax-exempt bonds to provide $33,772 to finance certain water main replacement projects within the City. The Series C bonds were issued as serial and term bonds with coupons ranging from 3.0% to 5.0% and have a final maturity of 2041. The Series C bonds have a true interest cost of 4.4%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $3,824 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2011 Series C bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2011 Series C bonds maturing November 1, 2014 through 2018.

A portion of the proceeds of the 2017 Series E and 2019 Series C refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series C bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series C bonds starting on November 1, 2022 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2011 Series C bonds outstanding was $0 and $825, respectively.

The $55,465 Series D bonds were issued as tax-exempt bonds to provide $59,381 to refund, on a current basis, a portion of the 2001 Series A bonds as well as refund, on an advance basis, a portion of the 2002 Series A bonds. The Series D bonds were issued as serial bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2028. The Series D bonds have a true interest cost of 3.8%.

A portion of the proceeds of the 2017 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and October 1, 2020, respectively, to refund and legally defease a portion of the outstanding 2011 Series D bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series D bonds starting on November 1, 2022 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2011 Series D bonds outstanding was $0.

(e) Water Revenue Bonds 2012 Series AB and C (C1 and C2)

In June 2012, the Enterprise issued revenue bonds, 2012 Series ABC in the combined principal amount of $701,880. The purpose of the bonds was to provide $530,000 of new money for WSIP capital projects, $15,750 to reimburse the Enterprise for costs to settle litigation arising out of certain capital projects of benefit to the Enterprise, and to refund $99,180 of outstanding 2001 Series A and 2002 Series A revenue bonds, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “Aa3” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates varying from 4.0% to 5.0%.

The $591,610 Series A bonds were issued as tax-exempt bonds to provide $530,000 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2043. The Series A bonds have a true interest cost of 4.3%. A portion of the proceeds of the 2017 Series D, 2019 Series A, and 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017, December 1, 2019, and October

1, 2020 respectively, to refund and legally defease a portion of the outstanding 2012 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series A bonds starting on November 1, 2031 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2012 Series A bonds outstanding was $0.

The $16,520 Series B bonds were issued as tax-exempt bonds to reimburse the Enterprise $15,750 for costs to settle litigation arising out of certain capital projects of benefit to the Enterprise. The Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2043. The Series B bonds have a true interest cost of 4.1%. A portion of the proceeds of the 2020 Series G refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2012 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series B bonds starting on November 1, 2031 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2012 Series B bonds outstanding was $0.

The $93,750 Series C bonds were issued as tax-exempt bonds to provide $101,147 to refund, on a current basis, a portion of the 2001 Series A bonds as well as refund, on an advance basis, a portion of the 2002 Series A bonds. The Series C bonds were issued as serial bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2032. The Series C bonds have a true interest cost of 3.7%. A portion of the proceeds of the 2017 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements dated December 1, 2017 and October 1, 2020, respectively, to refund and legally defease a portion of the outstanding 2012 Series C bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series C bonds starting on November 1, 2025 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2012 Series C bonds outstanding was $0.

(f) Water Revenue Refunding Bonds 2015 Series A

In April 2015, the Enterprise issued tax-exempt revenue bonds, 2015 Series A in the amount of $429,600 for the purpose of refunding all the outstanding 2006 Series A bonds maturing on and after November 1, 2015 and portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2023. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2015 Series A bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2036. The Series A bonds have a true interest cost of 3.3%. Unamortized 2006 Series A bond issuance costs were $1,392, and there were no unamortized bond issuance costs for 2009 Series A bonds at the date of the refunding. The refunding resulted in the recognition of a deferred accounting loss of $25,365, gross debt service savings of $28,148 over the next 20 two-year terms, and an economic gain of $48,561 or 10.3% of refunded principal. As of June 30, 2022 and 2021, the principal amount of 2015 Series A bonds outstanding was $382,420 and $397,745, respectively.

(g) Water Revenue Refunding Bonds 2016 Series AB

In October 2016, the Enterprise issued tax-exempt revenue bonds, 2016 Series AB in the aggregate amount of $893,820. The 2016 Series A bonds were issued for the purpose of refunding a portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2020, a portion of the outstanding 2009 Series B bonds maturing on and after November 1, 2020, and a portion of the outstanding 2010 Series F bonds maturing on and after November 1, 2021. The 2016 Series B bonds were issued for the purpose of refunding, on a current basis, all the outstanding 2006 Series B and Series C bonds, and a portion of the outstanding 2010 Series A bonds maturing on and after November 1, 2020, the bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2016 Series AB bonds include serial bonds with interest rates varying from 1.5% to 5.0% and have a final maturity in 2039. The Series AB bonds have a true interest cost of 2.9%. Unamortized bond issuance costs at the date of refunding were $145 for 2006 Series B bonds and $54 for 2006 Series C bonds. The refunding resulted in the recognition of a deferred accounting loss of $106,205, gross debt service savings of $135,966, and an economic gain of $107,152 or 11.5% of refunded principal. As of June 30, 2022 and 2021, the principal amount of 2016 Series AB bonds outstanding was $791,245 and $824,575, respectively.

(h) Water Revenue Bonds 2016 Series C

In December 2016, the Enterprise issued taxable bonds, 2016 Series C in the amount of $259,350. The bonds were issued as Green Bonds. The purpose of the bonds was to refund all of the outstanding taxable commercial paper notes in the approximate amount of $237,000, and to provide $19,975 of new money for WSIP capital projects. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2016 Series C bonds include serial bonds with interest rates varying from 0.9% to 4.0% and have a final maturity in 2046, and two term bonds with 4.0% and 4.2% interest rates and final maturities of 2041 and 2046. The Series C bonds have a true interest cost of 3.9%. As of June 30, 2022 and 2021, the principal amount of 2016 Series C bonds outstanding was $231,230 and $237,050, respectively.

(i) Water Revenue Bonds 2017 Series ABC

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 ABC in the aggregate amount of $339,540. The purpose of the 2017 Series ABC Bonds was to refund approximately $120,500 aggregate principal amount of commercial paper notes and to provide $230,500 new money for WSIP capital projects, other various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2017 Series ABC bonds include serial bonds with coupon rates of 5.0% and have final maturity in 2045, and four term bonds with coupons of 5.0% and final maturities from 2045 to 2047.

The $121,140 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $60,265 of commercial paper notes and to provide $65,500 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. The Series A bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series A bonds starting on November 1, 2030 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2017 Series A bonds outstanding was $27,000.

The $147,725 2017 Series B bonds were issued as tax-exempt bonds to provide $150,000 in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. The Series B bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series F refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series B bonds starting on November 1, 2030 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2017 Series B bonds outstanding was $32,930.

The $70,675 2017 Series C bonds were issued as tax-exempt bonds to refund approximately $60,266 of commercial paper notes and to provide $15,000 in new money for Hetch Hetchy Water capital projects. The Series C bonds were issued as serial bonds and a term bond with coupons of 5.0% and have a final maturity of 2047. The Series C bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series H refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series C bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series C bonds starting on November 1, 2030 and thereafter. As of June 30, 2022 and 2021, the principal amount of 2017 Series C bonds outstanding was $15,750.

(j) Water Revenue Refunding Bonds 2017 Series DEFG

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 Series DEF, and taxable 2017 Series G refunding bonds in the aggregate amount of $442,180. The 2017 Series D (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2022, a portion of the outstanding 2012 Series A bonds maturing on and after November 1, 2031.

The 2017 Series E bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2022, a portion of the outstanding 2011 Series D bonds maturing on and after November 1, 2022, a portion of 2012 Series C1 bonds maturing on or after November 1, 2029.

The 2017 Series F bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2022.

The taxable 2017 Series G (WSIP, Green) bonds were issued to refund a portion of the outstanding 2011 Series A bonds maturing on and after November 1, 2022.

The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2017 Series DEFG bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2035. The Series DEFG bonds have a true interest cost of 2.9%. The refunding resulted in the recognition of a deferred accounting loss of $34,275, gross debt service savings of $68,942, and an economic gain of $51,698 or 10.7% of refunded principal. As of June 30, 2022 and 2021, the principal amount of 2017 Series DEFG bonds outstanding was $436,350 and $438,095 respectively.

(k) Water Revenue Refunding Bonds 2019 Series ABC

In January 2020, the Enterprise issued taxable revenue bonds, 2019 Series ABC refunding bonds in the aggregate amount of $656,955. The 2019 Series A (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series F (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2020, and a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2035.

The 2019 Series B (Hetch Hetchy Water) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2032.

The 2019 Series C (Local) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2032.

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2019 Series ABC bonds include serial bonds with interest rates varying from 1.8% to 3.5% and have a final maturity in 2043. The Series ABC bonds have a true interest cost of 3.3%. The refunding resulted in the recognition of a deferred accounting loss of $17,329, gross debt service savings of $119,827, and an economic gain of $92,556 or 14.0% of refunded principal. As of June 30, 2022 and 2021, the principal amount of 2019 Series ABC bonds outstanding was $625,555 and $650,100, respectively.

(l) Water Revenue Bonds 2020 Series ABCD

In September 2020, the Enterprise issued tax-exempt revenue bonds, 2020 Series ABCD in the aggregate amount of $346,760. The purpose of the 2020 Series ABCD Bonds was to refund approximately $229,770 aggregate principal amount of commercial paper notes and to provide $164,632 new money for various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2020 Series ABCD bonds include term bonds with coupons of 3.0% to 5.0% and final maturities from 2045 to 2050.

The $150,895 2020 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $180,000 of commercial paper notes for WSIP capital projects. The Series A bonds were issued as term bonds with coupons of 4.0% and 5.0% and a final maturity of 2050. The 2020 Series A bonds have a true interest cost of 3.3%. As of June 30, 2022 and 2021, the principal amount of 2020 Series A bonds outstanding was $150,895.

The $61,330 Series B bonds were issued as tax-exempt bonds to provide $69,644 in new money for Water Enterprise capital projects (non-WSIP, Regional). The Series B bonds were issued as term bonds with coupons of 5.0% and have a final maturity of 2050. The Series B bonds have a true interest cost of 3.7%. As of June 30, 2022 and 2021, the principal amount of 2020 Series B bonds outstanding was $61,330.

The $85,335 Series C bonds were issued as tax-exempt bonds to provide $94,948 in new money for Water Enterprise capital projects (non-WSIP, Local). The Series C bonds were issued as term bonds with coupons of 4.0% and have a final maturity of 2050. The Series C bonds have a true interest cost of 3.0%. As of June 30, 2022 and 2021, the principal amount of 2020 Series C bonds outstanding was $85,335.

The $49,200 Series D bonds were issued as tax-exempt bonds to refund approximately $49,761 of commercial paper notes for Hetch Hetchy Water capital projects. The Series D bonds were issued as term bonds with coupons of 3.0% and a final maturity of 2050. The 2020 Series D bonds have a true interest cost of 2.7%. As of June 30, 2022 and 2021, the principal amount of 2020 Series D bonds outstanding was $49,200.

(m) Water Revenue Refunding Bonds 2020 Series EFGH

In October 2020, the Enterprise issued taxable revenue bonds, 2020 Series EFGH refunding bonds in the aggregate amount of $664,395. The 2020 Series E (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2038, and a portion of the outstanding 2017 Series A (WSIP) bonds maturing on and after November 1, 2030.

The 2020 Series F (non-WSIP, Regional) bonds were issued for the purpose of refunding a portion of the outstanding 2017 Series B bonds maturing on or after November 1, 2030.

The 2020 Series G (non-WSIP, Local) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D bonds maturing on or after November 1, 2020, a portion of the 2011 Series D bonds maturing on or after November 1, 2022, a portion of 2012 Series B bonds maturing on or after November 1, 2031, and a portion of 2012 Series C bonds maturing on or after November 1, 2025.

The 2020 Series H (Hetch Hetchy Water) bonds issued for the purpose of refunding a portion of the outstanding 2017 Series C bonds maturing on or after November 1, 2030.

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2020 Series EFGH bonds include serial bonds and term bonds with interest rates varying from 0.3% to 3.1% and have a final maturity in 2047. The Series EFGH bonds have a true interest cost of 2.7%. The refunding resulted in the recognition of a deferred accounting loss of $27,010, gross debt service savings of $117,114, and an economic gain of $75,212 or 12.0% of refunded principal. As of June 30, 2022 and 2021, the principal amount of 2020 Series EFGH bonds outstanding was $650,570 and $664,395, respectively.

(n) Future Annual Debt Service of Revenue Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2022. The federal interest subsidy amounts represent 35.0%, excluding sequestration, of the interest for the revenue bond 2010 Series B, E, and G.

(Dollars in thousands, unless otherwise stated)

		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2023	$	125,285	203,067	(21,290)	181,777
2024		135,095	197,481	(20,841)	176,640
2025		140,485	191,563	(20,370)	171,193
2026		151,930	185,085	(19,876)	165,209
2027		157,635	177,956	(19,345)	158,611
2028-2032		892,755	770,116	(87,360)	682,756
2033-2037		1,092,025	540,947	(64,682)	476,265
2038-2042		1,037,900	295,084	(35,116)	259,968
2043-2047		464,125	145,355	(17,128)	128,227
2048-2051		387,415	40,159	(4,608)	35,551
		4,584,650	2,746,813	(310,616)	2,436,197
Less: Current portion		(125,285)			
Less: Unamortized bond discount		(124)			
Add: Unamortized bond premiums		276,409			
Long-term portion as of June 30, 2022	$	4,735,650			

* The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidies on the 2010 Series B bonds, 2010 Series E bonds, and 2010 Series G bonds are reduced by 5.7%, or a total reduction of $18,776, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

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

(o) Clean Water State Revolving Fund (CWSRF) Loan and Grant

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of $186,220, which includes $15,000 of principal forgiveness, or a grant. It will bear an interest rate of 1.0% for a 30-year term, with loan repayment beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2022 and 2021 were $121,761 and $107,407, respectively. In addition, there was $15,000 of principal forgiveness.

(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2023	$	3,283	1,142	4,425
2024		3,542	1,185	4,727
2025		3,577	1,149	4,726
2026		3,613	1,114	4,727
2027		3,649	1,077	4,726
2028-2032		18,801	4,833	23,634
2033-2037		19,760	3,874	23,634
2038-2042		20,768	2,866	23,634
2043-2047		21,827	1,806	23,633
2048-2052		22,941	692	23,633
		121,761	19,738	141,499
Less: Current portion		(3,283)		
Long-term portion as of June 30, 2022	$	118,478		

(p) *Drinking Water State Revolving Fund (DWSRF) Loan*

In April 2022, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Enterprise's Mountain Tunnel Improvement Project. The DWSRF loan is in the amount of $238,219. It will bear an interest rate of 1.1% for a 30-year term, with interest payments beginning annually after the initial loan proceed draw occurs and loan principal repayment beginning one year after substantial completion of project construction. Power Enterprise is responsible for repayment for its share of SRF Loan debt service costs representing up to its allocable share of the cost of the Mountain Tunnel Project by a Memorandum of Understanding that will be executed with the Water Enterprise. The DWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2022 was $0.

(q) *Proposition A*

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of indebtedness by the Commission in a principal amount not to exceed $1,628,000 to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2022, there was no commercial paper outstanding pursuant to this authorization and $1,499,230 of bonds had been issued in fiscal years 2006, 2010, 2012, 2021 against Prop A. The total authorization against Prop A was $1,499,230 as of June 30, 2022.

(r) *Proposition E*

On November 5, 2002, the San Francisco voters passed Proposition E, which authorizes the Board of Supervisors' approval of the issuance of revenue bonds and/or other forms of indebtedness by the Commission to finance costs for the Commission's capital programs, including WSIP. As of June 30, 2022, the Board of Supervisors authorized the issuance of $4,617,099 in revenue bonds with $3,898,744 issued against this authorization; in September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project in the amount of $186,220 (which includes a

(Dollars in thousands, unless otherwise stated)

$15,000 grant) and in April 2022, the SFPUC entered in to an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Mountain Tunnel Improvement Project in the amount of $238,219. Additionally, $206,297 and $105,862 in commercial paper was outstanding pursuant to this authorization as of June 30, 2022 and 2021, respectively.

(s) 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. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. There are no events of default stated in the 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 and D outstanding as of June 30, 2022 are as follows:

Certificates of Participation 2009 Series C (Tax-Exempt)	Principal	Interest	Total
Fiscal years ending June 30:			
2023	$ 3,124	78	3,202
	3,124	78	3,202
Less: Current portion	(3,124)		
Add: Unamortized bond premiums	14		
Less: Current portion	(14)		
Long-term portion as of June 30, 2022	$ —		

(Dollars in thousands, unless otherwise stated)

Certificates of Participation 2009 Series D (Taxable)	Principal	Interest before subsidy	Federal interest subsidy *	Interest net of subsidy
Fiscal years ending June 30:				
2023	$ –	5,968	(1,970)	3,998
2024	3,267	5,864	(1,935)	3,929
2025	3,402	5,652	(1,865)	3,787
2026	3,545	5,431	(1,792)	3,639
2027	3,695	5,201	(1,716)	3,485
2028-2032	20,949	22,183	(7,321)	14,862
2033-2037	25,811	14,651	(4,835)	9,816
2038-2042	31,830	5,335	(1,761)	3,574
Total		70,285	(23,195)	47,090
Long-term portion as of June 30, 2022	$ 92,499			

* The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of $1,402, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(t) *Events of Default and Remedies*

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Significant Events of default as specified in the Water Enterprise Indenture (applicable to Water Revenue Bonds, and SRF 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, 2022, there were no such events describe 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 loans provided financing for various capital construction projects, and to refund previously issued bonds. The bonds and State Revolving Fund loans are payable solely from revenues of the Enterprise through the fiscal year ending 2051.

The original amount of revenue bonds and State Revolving Funds loan issued, total principal and interest remaining, principal and interest paid during fiscal years 2022 and 2021, applicable net revenues and funds available for debt service are as follows:

	2022	2021
Bonds issued with revenue pledge	$ 4,891,480	4,891,480
Principal and interest remaining due at the end of the year	7,472,962	7,771,993
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	121,761	107,407
Principal and interest paid during the year	279,352	248,427
Net revenues for the year ended June 30	306,918	339,046
Funds available for debt service	410,424	467,738

(Dollars in thousands, unless otherwise stated)

(9) Leases

Water Enterprise as Lessee

The Enterprise has entered into long-term leases for land, office space, communication site, data processing, machinery, and other equipment. The terms and conditions for these leases vary, which range between 1 – 75 years.

A summary of intangible right-to-use leases during the year ended June 30, 2022 and 2021 is as follows:

		Balance July 1, 2021	Increases	Decreases	Remeasurements	Balance June 30, 2022
Right-to-use assets:						
Land	$	605	-	-	-	605
Building/Facility		5,041	-	-	-	5,041
Equipment		-	-	-	-	-
Total lease assets		5,646	-	-	-	5,646
Less accumulated amortization:						
Right-to-use assets:						
Land		187	196	-	-	383
Building/Facility		1,222	1,229	-	-	2,451
Equipment		-	-	-	-	-
Total accumulated amortization		1,409	1,425	-	-	2,834
Total lease assets, net	$	4,237	(1,425)	-	-	2,812

		Balance July 1, 2020	Increases	Decreases	Remeasurements	Balance June 30, 2021
Right-to-use assets:						
Land	$	605	-	-	-	605
Building/Facility		4,794	250	(3)	-	5,041
Equipment		-	-	-	-	-
Total lease assets		5,399	250	(3)	-	5,646
Less accumulated amortization:						
Right-to-use assets:						
Land		-	187	-	-	187
Building/Facility		-	1,225	(3)	-	1,222
Equipment		-	-	-	-	-
Total accumulated amortization		-	1,412	(3)	-	1,409
Total lease assets, net	$	5,399	(1,162)	-	-	4,237

(Dollars in thousands, unless otherwise stated)

A summary of changes in the related lease liabilities during the year ended June 30, 2022 and 2021 is as follows:

		Balance July 1, 2021	Additions	Remeasurements	Deductions	Balance June 30, 2022	Amounts Due Within One Year
Water lease liabilities	$	4,244			1,381	2,863	1,008
Total	$	4,244	-	-	1,381	2,863	1,008

		Balance July 1, 2020	Additions	Remeasurements	Deductions	Balance June 30, 2021	Amounts Due Within One Year
Water lease liabilities	$	5,399			1,155	4,244	1,381
Total	$	5,399	-	-	1,155	4,244	1,381

Future annual lease payments for fiscal years 2022 and 2021 are as follows:

Year ending June 30:		Principal amount	Interest amount	Total
2023	$	1,008	42	1,050
2024		370	33	403
2025		186	29	215
2026		101	27	128
2027		103	25	128
2028-2032		436	96	532
2033-2037		446	49	495
2038-2042		213	6	219
		2,863	307	3,170
Less: Current portion		(1,008)		
Long-term portion as of June 30, 2022	$	1,855		

Year ending June 30:		Principal amount	Interest amount	Total
2022	$	1,381	58	1,439
2023		1,008	42	1,050
2024		370	33	403
2025		186	29	215
2026		101	27	128
2027-2031		455	105	560
2032-2036		436	58	494
2037-2041		307	12	319
		4,244	364	4,608
Less: Current portion		(1,381)		
Long-term portion as of June 30, 2021	$	2,863		

Variable lease payments

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as lease expenses in the period in which the obligation for those payments is incurred.

Certain equipment or facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $34 and $0 during the year ended June 30, 2022 and 2021, respectively.

(Dollars in thousands, unless otherwise stated)

Water Enterprise as Lessor

The Enterprise has leased facilities, easements, communication site and equipment to various tenants. The terms and conditions for these leases vary, which range between 1- 65 years.

Variable payments include percentage of sales, payments depended on an index made by the lessee; these amounts are generally determined periodically. The Enterprise did not incur revenue related to residual value guarantees or lease termination penalties. The total amounts for lease revenue, interest revenue, and other lease-related revenues recognized during the year ended June 30, 2022 and 2021 were $2,332 and $2,976, respectively.

Principal and interest requirements to maturity for the lease receivable at June 30, 2022 and 2021 are as follows:

Year ended June 30	Principal	Interest	Total
2023	$ 3,325	$ 907	$ 4,232
2024	3,389	848	4,237
2025	3,470	804	4,274
2026	2,951	743	3,694
2027	2,619	687	3,306
2028-2032	10,827	2,777	13,604
2033-2037	10,736	1,691	12,427
2038-2042	2,258	940	3,198
2043-2047	-	998	998
2048-2052	-	1,157	1,157
2053-2057	-	1,341	1,341
2058-2062	765	789	1,554
2063-2067	1,128	675	1,803
2068-2072	1,577	513	2,090
2073+	3,120	327	3,447
	$ 46,165	$ 15,197	$ 61,362

(Dollars in thousands, unless otherwise stated)

Year ended June 30	Principal	Interest	Total
2022	$ 3,289	$ 957	$ 4,246
2023	3,285	901	4,186
2024	3,348	843	4,191
2025	3,427	800	4,227
2026	2,905	739	3,644
2027-2031	11,102	2,988	14,090
2032-2036	10,862	1,908	12,770
2037-2041	4,302	1,010	5,312
2042-2046	-	969	969
2047-2051	-	1,123	1,123
2052-2056	-	1,302	1,302
2057-2061	586	924	1,510
2062-2066	1,049	701	1,750
2067-2071	1,479	550	2,029
2072+	3,476	414	3,890
Total	$ 49,110	$ 16,129	$ 65,239

(10) Wholesale Balancing Account

Water Supply Agreement

From 1984-2009, the Enterprise provided water service pursuant to the terms of the 1984 Water Settlement Agreement and Master Water Sales Contract, which established the basis for water rates to be charged to those customers (Wholesale Customers). The Master Water Sales Contract expired on June 30, 2009. The Commission and the Wholesale Customers approved a Water Supply Agreement (WSA) effective July 1, 2009 (the contract was restated and amended by the SFPUC on December 11, 2018). The WSA has a 25-year term from July 1, 2009 with two options for five-year extensions. The existing 184 million gallons per day (mgd) Supply Assurance continues under the WSA and no increase in the Supply Assurance will be considered before December 31, 2028. During the period from 2009 to 2028, the WSA limits the quantity of water delivered to Retail Customers and Wholesale Customers from the watersheds to 265 mgd. Under the WSA, annual operating expenses, including debt service on bonds sold to finance regional system improvements and regional capital projects funded from revenues, will be allocated between Retail Customers and Wholesale Customers on the basis of proportionate annual water use. The original WSA stated the Wholesale Customers' share of net book value of existing regional assets as of June 30, 2009 would be recovered on level annual payment over the 25-year term of the WSA at an interest rate of 5.13%. The 25-year term repayment obligation was settled in February 2013. The Wholesale Customers made an early repayment to the Enterprise of the outstanding balance of $356,139 as discussed further in the "BAWSCA Early Repayment" Section 5.03 of the WSA. The WSA continues much of the rate setting, accounting, and dispute resolution provisions contained in the expired contract, and has emergency and drought-pricing adjustment provisions.

Pursuant to the terms of the WSA, the Enterprise is required to establish water rates applicable to the Wholesale Customers annually. The wholesale water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Article V of the WSA (the Wholesale Revenue Requirement (WRR), previously known as the Suburban Revenue Requirement). During fiscal years ending in 2022 and 2021, the WRR, net of adjustments, charged to such wholesale customers was $289,828 and $245,743 respectively. Such amounts are subject to final review by the Wholesale Customers, along with a trailing wholesale balancing account compliance audit of the WRR calculation.

Pursuant to Article VII, Section 7.02 of the WSA, the Enterprise is required to re-compute the WRR after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenues earned during the year and the “actual” WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if the wholesale revenues exceed the WRR) or owed to the City (if the WRR exceeds the wholesale revenues paid). In accordance with Article VI of the WSA, the amount recorded in the Balancing Account shall earn interest at a rate equal to the average rate received by the City during the year on the invested pooled funds of the City Treasury, and shall be taken into consideration in the determination of subsequent wholesale water rates. The Enterprise owed the Wholesale Customers $79,150 and $60,864 for the years ended June 30, 2022 and 2021, respectively, an increase of $18,286. Refer to the compliance audit report for the final balancing account available at https://sfpuc.org/about-us/reports/audited-financial-statements-annual-financial-reports.

In addition to advancing funds to acquire the pre-2009 assets as discussed previously, the Enterprise has also previously appropriated funds, advanced through rates charged to Retail Customers, for construction of capital projects that were not yet placed into service as of June 30, 2009. Wholesale Customers’ share of these construction work in progress costs is calculated in accordance with the provisions in the WSA, including a 10-year repayment term and payment of annual principal and interest rate calculated at 4.0% annually. The total obligation of the Wholesale Customers to the Enterprise is estimated at $9,532, and the level annual payment including principal and interest is approximately $1,159. The Wholesale Customers made the first annual payment as of June 30, 2015 and will end on June 30, 2024.

(11) Employee Benefits

(a) Pension Plan

The Enterprise participates in a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees’ Retirement System (SFERS). 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 the SFERS Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. 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.

(Dollars in thousands, unless otherwise stated)

Replacement Benefits Plan – The Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Plan. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

GASB Statements No. 68 and 73 require that the SFERS Plan and RBP reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Fiscal year 2022	
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021
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

The City is an employer of the plan with a proportionate share of 94.64% as of June 30, 2021 (measurement date), and 94.39% as of June 30, 2020 (measurement date), 0.25% increase from prior year. 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 2021 and 2020. The Enterprise's net pension liability/(assets), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 4.27% as of June 30, 2021, and 4.21% as of June 30, 2020 (measurement dates).

Replacement Benefits Plan – The Enterprise's allocation percentage was determined based on the Enterprise's headcount (both active members and retirees) divided by the City's total headcount for fiscal year 2021. The Enterprise's total pension liability/(assets), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 1.85% as of June 30, 2021, and 0.64% as of June 30, 2020 (measurement dates).

SFERS Plan Description – The 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 after retirement. The 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 Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website 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.

SFERS Benefits – Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments (COLA) after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the 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 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 CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the 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 Plan is also fully funded on a market value of assets basis. Certain provisions 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 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 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 and Contribution Policy

SFERS Plan – 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 2022 and 2021. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 was 19.91% to 24.41%. Based on the July 1, 2019 actuarial report, the required employer contribution rate for fiscal year 2021 was 22.40% to 26.90%.

Employer contributions and employee contributions made by the employer to the 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 year ended June 30, 2021 and 2020 (measurement period) were $791,736 and $701,307, respectively. The Enterprise's allocation of employer contributions for fiscal year 2021 and 2020 (measurement period) were $33,367 and $29,647, respectively.

For the year ended June 30, 2022, the City's actuarial determined contribution was $729,578. Water's share was $31,151 for fiscal year 2022 and will be recognized as a reduction of the net pension liability in the subsequent fiscal period.

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $4,097 replacement benefits in the year ended June 30, 2022.

Pension Liabilities/(Asset), Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions

Fiscal Year 2022

As of June 30, 2022, the City reported net pension assets (NPA) for its proportionate share of the net pension (asset) of the SFERS Plan and net pension liability of RBP of $2,227 million. The City's net pension asset for the SFERS Plan is measured as the proportionate share of the net pension asset. The net pension (asset) of the SFERS Plan is measured as of June 30, 2021 (measurement date), and the total pension asset for the SFERS Plan and RBP used to calculate the net pension (asset) was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension (asset) 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 (asset) for the SFERS Plan and RBP as of June 30, 2022 (reporting year) was ($100,407). The Enterprise's allocation of total pension liability for the RBP as of June 30, 2022 was $4,056.

For the year ended June 30, 2022, the City's recognized pension (benefit) was ($922,979) including amortization of deferred outflow/inflow related pension items. The Enterprise's allocation of pension (benefit) including amortization of deferred outflow/inflow related pension items was ($29,908). Pension (benefit) increased from the prior year, largely due to the amortization of deferrals

As of June 30, 2022, the Enterprise 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 2022 Schedule of Deferred Outflows and Inflows of Resources

		SFERS Plan		Replacement Benefits Plan	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$	31,151	–	–	–
Differences between expected and actual experience		9,593	343	552	–
Changes in assumptions		7,068	18,339	757	–
Net difference between projected and actual earnings on pension plan investments		–	226,935	–	–
Change in employer's proportion		3,531	1,706	200	1,381
Total	$	51,343	247,323	1,509	1,381

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		SFERS Plan	Replacement Benefits Plan
2023	$	(57,166)	247
2024		(51,954)	52
2025		(54,608)	1
2026		(63,403)	(172)
Total	$	(227,131)	128

Fiscal Year 2021

The City reported net pension liabilities for its proportionate share of the pension liability of the Plan and RBP of $5,292,473 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 and RBP 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 Plan as of June 30, 2021 was $215,240. The Enterprise's allocation of the total pension liability for the RBP as of June 30, 2021 was $1,177.

For the year ended June 30, 2021, the City's recognized pension expense was $962,576 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 $43,929. Pension expense increased from the prior year, largely due to the amortization of deferrals.

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:

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021 Schedule of Deferred Outflows and Inflows of Resources

	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 33,367	–	–	–
Differences between expected and actual experience	7,310	674	112	–
Changes in assumptions	11,817	3,728	315	13
Net difference between projected and actual earnings on pension plan investments	4,507	–	–	–
Change in employer's proportion	6,987	54	382	416
Total	$ 63,988	4,456	809	429

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	SFERS Plan	Replacement Benefits Plan
2022	$ 54	109
2023	6,166	193
2024	11,286	12
2025	8,659	66
Total	$ 26,165	380

Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability/(Assets) for both SFERS Plan and RBP as of June 30, 2021 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 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, 2020 updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry - Age Normal Cost
Expected Rate of Return	7.40% net of investment expenses
Municipal Bond Yield	2.21% as of June 30, 2020
	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	7.40% as of June 30, 2020
	7.40% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2020
	0.60% of payroll as of June 30, 2021

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, 2020	2.00%	2.50%	3.10%	4.20%
June 30, 2021	2.00%	1.90%	2.50%	3.60%

Key Actuarial Assumptions	Replacement Benefits Plan
Valuation Date	June 30, 2020 updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost
Municipal Bond Yield	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	2.16% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2021

Basic COLA	Old Miscellaneous	Old Police & Fire	Old Police & Fire, Charters	Old Police & Fire, Charters
June 30, 2020	2.00%	2.50%	3.10%	4.20%
June 30, 2021	2.00%	1.90%	2.50%	3.60%

Mortality rates for health Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2021 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2020.

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2020 (measurement year) 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 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%

Key Actuarial Assumptions	Replacement Benefits Plan
Valuation Date	June 30, 2019 updated to June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry - Age Normal Cost
Municipal Bond Yield	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 employee classification and years of service
Discount Rate	2.21% as of June 30, 2020
Administrative Expenses	0.60% of payroll as of June 30, 2020

Basic COLA	Old Miscellaneous	Old Police & Fire	Old Police & Fire, Charters	Old Police & Fire, Charters
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 demographic experience study for the period July 1, 2009 through June 30, 2014 and an economic experience study as of July 1, 2019.

Discount Rate

Fiscal Year 2022

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 June 30, 2021 (measurement date) and June 30, 2020 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2021 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, 2020 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 3.25% 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.

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 COLAs 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, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

(Dollars in thousands, unless otherwise stated)

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2023	0.75 %	0.70 %
2025	0.75	0.70
2027	0.75	0.60
2029	0.75	0.60
2031	0.75	0.60
2033+	0.75	0.50

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 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 is 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.

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.2 %
Private Equity	23.0	7.9
Private Credit	10.0	5.1
Real Assets	10.0	5.1
Hedge Funds/Absolute Return	10.0	2.9
Treasuries	8.0	0.0
Liquid Credit	5.0	2.3
Leverage	-3.0	0.1
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 2.16% as of June 30, 2021. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 25, 2020 and June 24, 2021. These are the rates used to determine the total pension liability as of June 30, 2021.

(Continued)

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $230 for 2021 was used for the 2021 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2022, City's membership in the RBP had a total of 350 active members and 135 retirees and beneficiaries currently receiving benefits. The Enterprise has 9 active members and 3 retirees and beneficiary currently receiving benefits.

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 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 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.

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 COLAs 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.

(Dollars in thousands, unless otherwise stated)

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 is 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 Return	15.0	3.0
Private Credit	10.0	4.8
Treasuries	6.0	-0.5
Liquid Credit	3.0	2.7
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 2.21% as of June 30, 2020. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 27, 2019 and June 25, 2020. These are the rates used to determine the total pension liability as of June 30, 2020.

The inflation assumption of 2.75% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $230 for 2020 was used for the 2020 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2021, City's membership in the RBP had a total of 683 active members and 105 retirees and beneficiaries currently receiving benefits. The Enterprise has 4 active members and 1 retiree and beneficiary currently receiving benefits.

Sensitivity of Proportionate Share of the Net Pension Liability (NPL)/Net Pension Assets (NPA) to Changes in the Discount Rate – The following presents the Enterprise's allocation of the employer's proportionate share of the net pension liability/(asset) 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/(asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2022

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPA @ 7.40%	1% Increase Share of NPA @ 8.40%
Water	$ 69,621	(104,463)	(248,184)

Fiscal Year 2021

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPL @ 7.40%	1% Increase Share of NPL @ 8.40%
Water	$ 380,571	215,240	78,645

(Dollars in thousands, unless otherwise stated)

The following presents the Enterprise's allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits 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 2022

Employer	1% Decrease @ 1.16%	Measurment Date @ 2.16%	1% Increase @ 3.16%
Water	$ 4,889	4,056	3,411

Fiscal Year 2021

Employer	1% Decrease @ 1.21%	Measurment Date @ 2.21%	1% Increase @ 3.21%
Water	$ 1,418	1,177	989

(b) *Other Post-Employment Benefits*

The Enterprise participates in a 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. It 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 postemployment 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.

San Francisco Health Service System Retiree Plan - Single-Employer

	Fiscal year 2022
Valuation Date (VD)	June 30 2020, updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

	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

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, 2021 and 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, 2021 and 2020 measurement dates were 3.90% and 3.89%, respectively.

(Continued)

(Dollars in thousands, unless otherwise stated)

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

(Dollars in thousands, unless otherwise stated)

January 9, 2009. When the City's 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, 2022 and 2021, funding was based on "pay-as-you-go" plus a contribution of $41,841 and $39,555 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $211,025 for a total contribution of $252,866 for the fiscal year ending June 30, 2022, and $206,439 for a total contribution of $245,994 for the fiscal year ending June 30, 2021. The Enterprise's proportionate share of the City's contributions for fiscal year 2022 was $9,873, and for fiscal year 2021 was $9,572, and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

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

Fiscal Year 2022

As of June 30, 2022, the City reported net OPEB liabilities related to the Plan of $3,691,122. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2022 was $144,115.

For the year ended June 30, 2022, the City's recognized OPEB expense was $272,001. 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 $14,566.

As of June 30, 2022, the Enterprise reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 9,873	$ -
Differences between expected and actual experience	4,330	22,191
Changes in assumptions	6,091	-
Net difference between projected and actual earnings on plan investments	-	2,728
Change in Proportion	12,151	429
Total	$ 32,445	$ 25,348

(Dollars in thousands, unless otherwise stated)

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:	
2023	$ (313)
2024	(324)
2025	(286)
2026	(263)
2027	(669)
Thereafter	(921)
Total	$ (2,776)

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 $148,771.

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 $5,978.

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 9,572	$ -
Differences between expected and actual experience	5,394	21,315
Changes in assumptions	7,531	-
Change in Proportion	15,168	
Net difference between projected and actual earnings on plan investments	97	-
Total	$ 37,762	$ 21,315

(Dollars in thousands, unless otherwise stated)

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 follow:

Year ended June 30:	
2022	$ 1,266
2023	1,324
2024	1,312
2025	1,351
2026	1,368
Thereafter	254
Total	$ 6,875

Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2021 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
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 6.74% trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 7.24% trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 5.50% 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

(Dollars in thousands, unless otherwise stated)

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

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.

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:

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2022

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 122,667	$ 144,115	$ 170,851

Fiscal Year 2021

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 128,633	$ 148,771	$ 175,020

Discount Rate

Fiscal Year 2022

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 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%	8.2%
U.S. Small Cap	3.0%	9.5%
Developed Market Equity (non-U.S.)	15.0%	8.9%
Emerging Market Equity	13.0%	11.0%
Credit		
Bank Loans	3.0%	4.4%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.3%
Rate Securities		
Investment Grade Bonds	9.0%	1.9%
Long-term Government Bonds	4.0%	3.2%
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0%	1.5%
Private Markets		
Private Equity	5.0%	13.0%
Core Private Real Estate	5.0%	6.2%
Risk Mitigating Strategies		
Global Macro	5.0%	4.4%
Total	100.0%	

(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:

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 168,520	$ 144,115	$ 124,181

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 (TIPS)	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%	

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%.

(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:

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 172,646	$ 148,771	$ 129,281

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.

(12) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF Enterprise, and the Wastewater 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 including COVID-19 Project expenses of $52,769 or 49.2% and $48,374 or 49.4% were allocated to the Enterprise for the years ended June 30, 2022 and 2021, 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 water from Hetch Hetchy Water. The amounts, totaling $45,815 and $44,149 for the years ended June 30, 2022 and 2021, respectively, have been included in the services provided by other departments in the accompanying financial statements.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. The amounts, totaling $11,394 and $9,790 for the years ended June 30, 2022 and 2021, respectively, have been included in services provided by other departments in the accompanying financial statements.

The Enterprise sold water to the Wastewater Enterprise at retail rates. This amount, totaling $1,819 and $1,308 for the years ended June 30, 2022 and 2021, respectively, has been included in charges for services in the accompanying financial statements.

Since fiscal year 2008, the Enterprise has charged City departments for water usage except for fire hydrants, which are used for general public safety. In fiscal years 2022 and 2021, the Enterprise delivered water for fire hydrant purposes totaling $8 and $7, respectively, based on metered usage and applicable water rates, and the amount has been excluded from operating revenues in the accompanying financial statements.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling $15,951 and $16,239 for the years ended June 30, 2022 and 2021, respectively, have been included in services provided by other departments in the accompanying financial statements.

During the fiscal year ended June 30, 2022, the Enterprise transferred $30,000 to Hetch Hetchy Water to fund various Mountain Tunnel projects, $500 to the Department of Public Works for the UN Plaza Large Alternative Water Source project and purchase of capital assets, $134 to the Arts Commission for arts enrichment fund for the new CDD Headquarters, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. The Enterprise received $15,030 for the Earthquake Safety and Emergency Response program, and $5 from the General Fund for low income assistance programs.

As of June 30, 2022, the Enterprise had interfund receivables of $102 from DPW relating to custom work projects and $69 from Academy of Sciences for unpaid interdepartmental services. As of June 30, 2021, the Enterprise had $248 due from DPW for custom work projects.

The Enterprise had receivables due from the Treasure Island Development Authority for capacity fees of $195 and from the Office of Community Investment and Infrastructure for custom work projects of $7 for the year ended June 30, 2022. As of June 30, 2021, the Enterprise had no receivables due from component units.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Park Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. The 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, 2022, the Enterprise's allocable shares of expenses and prepayment were $44 and $3,265, respectively; and at June 30, 2021, the Enterprise's allocable shares of expenses and prepayment were $45 and $3,309, respectively.

(13) 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	Coverage Approach
(a)	General liability	Self-Insured
(b)	Workers' compensation	Self-Insured through Citywide 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 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, 2022 and 2021 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2022	$	36,723	452	(1,106)	36,069
2021		10,767	27,643	(1,687)	36,723

(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.

The changes in the liabilities for workers' compensation for the years ended June 30, 2022 and 2021 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2022	$	8,828	2,793	(2,648)	8,973
2021		9,174	1,912	(2,258)	8,828

(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.

(14) Commitments and Litigation

(a) Commitments

As of June 30, 2022 and 2021, the Enterprise has outstanding commitments with third parties of $322,132 and $185,161, respectively, for various capital projects and other purchase agreements for materials and services.

(b) Grants

Grants that the Enterprise receives 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 those 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, 2022 and 2021, the pollution remediation liability of $1,271 related to the Pacific Rod & Gun Club site.

(15) Subsequent Events

(a) Extension Moratorium on Shutoffs

On September 13, 2022, the Commission approved to extend moratorium on shutoff of water service for residents in the City through June 30, 2023 and granted the General Manager discretion to restart severance and liens processes to multifamily residential accounts carrying balances greater than $25 which are 90 days or more past due.

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

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: 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 Water Enterprise (the Enterprise), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements, and have issued our report thereon dated January 27, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 27, 2023

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.

Cover photo: Eleanor Dam & Reservoir
Back photos: San Francisco Aquatic Park, Hetch Hetchy Flowers
Photos by: Robin Scheswohl and Sabrina Wong

Date of Publication: January 2023

SFPUC Financial Services
525 Golden Gate Avenue, 4th Floor
San Francisco, CA 94102-3220
sfpuc.org

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

Delivering high-quality water every day.

Water Enterprise

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

SAN FRANCISCO WATER ENTERPRISE

Table of Contents

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 Water 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 – 17 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 Water 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 (the Enterprise), Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater. The Enterprise collects, transmits, treats, and distributes high-quality drinking water to a total population of approximately 2.7 million people, including retail customers in the City and wholesale customers located in San Mateo, Santa Clara, and Alameda Counties. The Enterprise sold approximately 189 million gallons of water per day in the year ended June 30, 2021. Approximately three-quarter of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining one-quarter and are primarily San Francisco consumers, including residential, commercial, industrial, and governmental users. Wholesale customers include cities, water districts, one private utility, and one non-profit university. Service to these customers is provided pursuant to the 25-year Amended and Restated Water Supply Agreement (WSA), commenced on July 1, 2009, which established the basis for determining the costs of wholesale service.

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 as of 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 March 31, 2022. This proclamation did not have a material effect on the operations of the Water enterprise.

Financial Analysis

Financial Highlights for Fiscal Year 2021

- Total assets exceeded total liabilities by $418,167.
- Net position increased by $8,502 or 1.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $57,254 or 1.0% to $5,587,799.
- Current and other assets increased by $31,110 or 4.4% mainly due to bond proceeds from the issuance of 2020 Series ABCD bonds.
- Operating revenues decreased by $1,739 or 0.3% to $581,612.
- Operating expenses increased by $50,726 or 12.7% to $448,843.

Financial Highlights for Fiscal Year 2020

- Total assets exceeded total liabilities by $448,825.
- Net position increased by $98,877 or 18.2% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $141,887 or 2.6% to $5,530,545.

(Dollars in thousands, unless otherwise stated)

- Current and other assets increased by $96,743 or 16.0% mainly due to increased receivables from other governments and cash from operating activities.
- Operating revenues increased by $40,960 or 7.6% to $583,351.
- Operating expenses increased by $41,023 or 11.5% to $398,117.

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	$ 732,316	701,206	604,463	31,110	96,743
Capital assets, net of accumulated depreciation and amortization	5,587,799	5,530,545	5,388,658	57,254	141,887
Total assets	6,320,115	6,231,751	5,993,121	88,364	238,630
Deferred outflows of resources:					
Unamortized loss on refunding of debt	154,991	144,189	139,061	10,802	5,128
Pensions	64,797	67,084	55,465	(2,287)	11,619
Other post-employment benefits	37,762	27,583	13,142	10,179	14,441
Total deferred outflows of resources	257,550	238,856	207,668	18,694	31,188
Liabilities:					
Current liabilities:					
Revenue and capital appreciation bonds	108,500	94,080	100,899	14,420	(6,819)
Certificates of participation	2,970	2,824	2,688	146	136
Commercial paper	105,862	362,354	161,336	(256,492)	201,018
State revolving fund loans	1,667	–	–	1,667	–
Other liabilities	152,871	134,563	132,251	18,308	2,312
Subtotal current liabilities	371,870	593,821	397,174	(221,951)	196,647
Long-term liabilities:					
Revenue and capital appreciation bonds	4,886,275	4,601,215	4,709,678	285,060	(108,463)
Certificates of participation	95,692	98,754	101,704	(3,062)	(2,950)
State revolving fund loans	105,740	73,271	–	32,469	73,271
Other liabilities	442,371	415,865	402,782	26,506	13,083
Subtotal long-term liabilities	5,530,078	5,189,105	5,214,164	340,973	(25,059)
Total liabilities:					
Revenue and capital appreciation bonds	4,994,775	4,695,295	4,810,577	299,480	(115,282)
Certificates of participation	98,662	101,578	104,392	(2,916)	(2,814)
Commercial paper	105,862	362,354	161,336	(256,492)	201,018
State revolving fund loans	107,407	73,271	–	34,136	73,271
Other liabilities	595,242	550,428	535,033	44,814	15,395
Total liabilities	5,901,948	5,782,926	5,611,338	119,022	171,588
Deferred inflows of resources:					
Related to pensions	4,885	34,894	33,330	(30,009)	1,564
Other post-employment benefits	21,315	11,772	13,983	9,543	(2,211)
Total deferred inflows of resources	26,200	46,666	47,313	(20,466)	(647)
Net position:					
Net investment in capital assets	517,302	527,856	563,457	(10,554)	(35,601)
Restricted for debt service	45,586	15,916	16,193	29,670	(277)
Restricted for capital projects	22,319	43,122	–	(20,803)	43,122
Unrestricted	64,310	54,121	(37,512)	10,189	91,633
Total net position	$ 649,517	641,015	542,138	8,502	98,877

Net Position, Fiscal Year 2021

For the period ended June 30, 2021, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $649,517. Total net position increased from prior year by $8,502 or 1.3% (see Table 1). The increase in net position was the result of an increase of $107,058 in assets and deferred outflows, offset by a net increase of $98,556 in liabilities and deferred inflows of resources.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interfund receivables due from other governmental agencies, and inventory. They also include receivables, which represent cumulative amounts due from the wholesale customers to match revenues with the Enterprise's costs of providing service (the Balancing Account), in accordance with the provisions set forth in the WSA effective July 1, 2009. Balances are applied to future year rates. As of June 30, 2021, the Enterprise owed the wholesale customers $60,864, which was mainly due to higher water demand by the wholesale customers. This amount was recorded as a liability in accordance with the 2009 agreement. See Note 9, Water Supply Agreement, for additional details.

During the fiscal year 2021, current and other assets increased by $31,110 or 4.4%. The increases included $57,567 in restricted and unrestricted cash and investments mainly due to the issuance of the 2020 Series ABCD bonds, $2,372 in prepaid charges advances and others mainly for prepaid expenses of multiple software licensing and membership fees, $209 in restricted interest and other receivables, and $160 in inventory due to more purchases than issuances during the fiscal year. The increases were offset by decreases of $23,725 from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Recycled Water project mainly from reimbursements received for prior year receivable, $4,470 in charges for services due to more collections than billings and an increase in allowance for doubtful accounts (allowance for doubtful accounts increased by $2,934 primarily due to the Mayor's COVID-19 proclamation suspending shutoff of water service and collection of past due accounts), $994 in interest receivable mainly due to lower interest rates and higher cash distributions than interest earnings, $7 due to cash received from other governments for grants relating to water efficiency, and $2 mainly due to collections from the Department of Public Works (DPW) for custom work projects.

Capital assets, net of accumulated depreciation and amortization, increased by $57,254 or 1.0% mainly due to San Andreas Pipeline No. 2 and San Francisco Groundwater Supply construction and capital improvement activities. The largest portion of the Enterprise's net position of $517,302 or 79.6% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $10,554 or 2.0% from prior year's $527,856. The change was explained by an increase of $67,808 in liabilities related to capital assets mainly from the issuance of 2020 Series ABCD and 2020 Series EFGH bonds, offset by an increase of $57,254 in capital assets in buildings, structures, and improvements and construction in progress from depreciation.

Deferred outflows of resources increased by $18,694 due to increases of $10,802 for unamortized loss on refunding (the result of a $27,010 increase from the issuance of 2020 Series EFGH bonds, offset by a $15,156 decrease from amortization and $1,052 from refunding of the 2010 Series D, 2011 Series D and 2012 Series C bonds), and $10,179 from OPEB obligations based on actuarial reports. These increases were offset by a $2,287 decrease relating to pensions based on actuarial reports.

Total liabilities increased by $119,022 or 2.1% which is due to increases of $299,480 in outstanding revenue bonds mainly due to the issuance of 2020 Series ABCD and 2020 Series EFGH bonds, $38,284 in net pension liability based on actuarial report, $34,136 increase in State Revolving Funds Loan payable due to additional loans relating to the SF Westside Recycled Water project, $25,956 in general liability based on actuarial report, $3,650 in accrued payroll, vacation and sick leave 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, $2,921 in restricted and unrestricted payables due to higher accruals as compared to prior year mainly for the Information Technology project and 19th Ave. Infrastructure Improvement project, and $792 in unearned revenues mainly due to additional customer credit balances from overpayments. These increases were offset by decreases of $256,492 in commercial paper primarily due to refunding from the 2020 Series ABCD bonds, $14,913 in other post-employment benefits obligations from actuarial estimates, $6,557 in interest payable mainly due to refunding from the 2020 Series EFGH Bonds, $3,993 in the Wholesale Balancing Account due to higher demand from the wholesale customers (see Note 9 for details), $2,916 in certificates of participation from repayments and amortization of premium, $674 in due to other City departments from payments made for legal services provided by the City Attorney and projects performed by the Department of Public Works for Sidewalk Inspection and Repair projects, $346 in workers' compensation based on actuarial estimates, and $306 in pollution remediation liability as a result of additional expenditures incurred for the Lake Merced Pacific Rod and Gun Club and 17th and Folsom sites (see Note 13(d) for details).

Deferred inflows of resources decreased by $20,466 from a $30,009 decrease related to pensions based on actuarial reports, offset by a $9,543 increase from OPEB obligations based on actuarial reports.

Net Position, Fiscal Year 2020

For the period ended June 30, 2020, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $641,015. Total net position increased from prior year by $98,877 or 18.2% (see Table 1). The increase in net position was the result of an increase of $269,818 in assets and deferred outflows of resources offset by an increase of $170,941 in liabilities and deferred inflows of resources.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interfund receivables due from other governmental agencies, and inventory. This also includes receivables, which represent cumulative amounts due from the wholesale customers to match revenues with the Enterprise's costs of providing service (the Balancing Account), in accordance with the provisions set forth in the WSA effective July 1, 2009. Balances are applied to future year rates. As of June 30, 2020, the Enterprise owed the wholesale customers $64,857, which was mainly due to lower water demand by the wholesale customers. This amount was recorded as a liability in accordance with the 2009 agreement. See Note 9, Water Supply Agreement, for additional details.

During the fiscal year 2020, current and other assets increased by $96,743 or 16.0%. The increases included $73,271 due from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Recycled Water project, $18,866 in restricted and unrestricted cash and investments mainly due to higher cash collections from customers, $4,810 in charges for services receivable mainly due to an 8% rate increase, $1,336 in prepaid charges, advances and other receivables mainly for prepaid expenses of software licensing and membership fees, and $351 in inventory as a result of more purchases than issuances during the fiscal year. These increases were offset by decreases of $1,393 in interest receivable for interest allocation due to lower rates, $390 mainly due from the Office of Economic and Workforce Development for custom work projects, $88 due from other governments for grants relating to water efficiency, and $20 in restricted interest and other receivables from lower federal interest subsidy receivables compared to prior year.

Capital assets, net of accumulated depreciation and amortization, increased by $141,887 or 2.6% mainly from the property transfer of 639 Bryant Street for 2000 Marin Street and from construction and capital improvement activities. The largest portion of the Enterprise's net position of $527,856 or 82.3%

represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $35,601 or 6.3% from prior year's $563,457; as explained by a $177,488 increase in liabilities related to capital assets mainly from the issuance of commercial paper, offset by an increase of $141,887 in capital assets in buildings, structures, and improvements and construction in progress mainly from assets placed into service and pending year end fixed assets entries.

Deferred outflows of resources increased by $31,188 due to a $14,441 increase from OPEB obligations, and $11,619 increase relating to pensions based on actuarial reports. Unamortized loss on refunding increased by $5,128 from the issuance of the 2010 Series ABC revenue bonds.

Total liabilities increased by $171,588 or 3.1% which is explained by increases of $201,018 from additional commercial paper issuances, $73,271 in State Revolving Funds Loan payable relating to the SF Recycled Water project, $12,913 in other post-employment benefits obligations from actuarial assumptions, $4,464 in interest payable mainly from the issuance of 2019 Series ABC revenue bonds, $3,068 in accrued payroll, vacation and sick leave due to more days in current year end payroll accrual compared to prior year end accrual and 3% cost of living adjustment (COLA), $2,704 in net pension liability based on actuarial report, $674 due to other City departments primarily for legal services provided by the City Attorney and projects performed by the Department of Public Works for Sidewalk Inspection and Repair projects, and $28 in the Wholesale Balancing Account (see Note 9 for details). These increases were offset by decreases of $113,253 in outstanding revenue bonds due to refunding of principal from the issuance of 2019 Series ABC revenue bonds, principal repayments and premium and discount amortization, $4,014 in restricted and unrestricted payables mainly due to lower retained contracts payable, $2,814 in outstanding certificates of participation due to repayment and amortization of premium, $2,029 in principal of capital appreciation bonds from repayment offset by accretions, $1,921 in unearned revenues mainly due to reduced custom work deposits, $1,162 in workers' compensation based on actuarial estimates, $742 in general liability based on actuarial report, and $617 in pollution remediation liability due to additional expenditures incurred in the current year for the Lake Merced and 17th and Folsom sites (see Note 13(d) for details).

Deferred inflows of resources decreased by $647 due to a $2,211 decrease in OPEB obligations, offset by a $1,564 increase relating to 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	$ 550,306	550,753	509,703	(447)	41,050
Rents and concessions	12,911	12,124	13,010	787	(886)
Other operating revenues	18,395	20,474	19,678	(2,079)	796
Interest and investment income	340	10,517	15,650	(10,177)	(5,133)
Other non-operating revenues	45,874	94,734	32,399	(48,860)	62,335
Total revenues	627,826	688,602	590,440	(60,776)	98,162
Expenses:					
Operating expenses	448,843	398,117	357,094	50,726	41,023
Interest expenses	184,606	191,246	177,998	(6,640)	13,248
Amortization of premium, discount, refunding loss, and issuance costs	(7,782)	(13,752)	(17,788)	5,970	4,036
Non-operating expenses	2,208	529	1,388	1,679	(859)
Total expenses	627,875	576,140	518,692	51,735	57,448
Change in net position before capital contributions and transfers	(49)	112,462	71,748	(112,511)	40,714
Capital contributions	4,180	–	–	4,180	–
Transfers from the City and County of San Francisco	21,025	1,220	1,200	19,805	20
Transfers to the City and County of San Francisco	(16,654)	(14,805)	(20,334)	(1,849)	5,529
Capital contributions and net transfers	8,551	(13,585)	(19,134)	22,136	5,549
Change in net position	8,502	98,877	52,614	(90,375)	46,263
Net position at beginning of year	641,015	542,138	489,524	98,877	52,614
Net position at end of year	$ 649,517	641,015	542,138	8,502	98,877

Results of Operations, Fiscal Year 2021

The Enterprise's total revenues of $627,826 for the year represented a decrease of $60,776 or 8.8% from prior year (see Table 2). Decreases included $48,860 from other non-operating revenues, $10,177 from interest and investment income, $2,079 from other operating revenues, and $447 from charges for service. These decreases were offset by an increase of $787 from rents and concessions.

Charges for services were $550,306, a decrease of $447 or 0.1% mainly due to an 8.8% decrease in consumption for retail customers, and the COVID-19 emergency proclamation issued by the City's Mayor suspending collection of past due accounts, mainly resulting in a $2,945 increase in the allowance for doubtful accounts which reduced charges for services. This was offset by an adopted rate increase of 7.0% for retail customers beginning July 1, 2020. Rents and concessions were $12,911, an increase of $787 or 6.5% mainly due to rent increases and increased royalty revenues. Other operating revenues were $18,395, a decrease of $2,079 or 10.2% due to reduced capacity fees and sale of water to other City departments as a result of the SF Health Order relating to COVID-19, offset by a 7.0% adopted rate increase. Interest and investment income was $340, a decrease of $10,177 or 96.8% mainly due to unrealized losses resulting from decreases in value of fixed income securities from the City Treasury pool and lower interest earned on cash balances. Other non-operating revenues were $45,874, a decrease of $48,860 or 51.6% mainly due to a prior year one-time gain of $63,600 from the property transfer of 2000 Marin Street and 639 Bryant Street offset by a $15,000 grant from the State of California for the SF Westside Recycle Water project in current year.

The Enterprise's total expenses were $627,875, an increase of $51,735 or 9.0%. Operating expenses were $448,843, an increase of $50,726 or 12.7%, the result of increases of $27,126 in general administrative and other mainly from judgement and claims based on actuarial estimates, $12,585 in personnel services mainly due to pension obligations based on actuarial report and a 3% cost of living adjustment, $9,107 in services provided by other departments mainly from higher water assessment fees paid to Hetch Hetchy Water, $1,805 in depreciation and amortization due to additional capital assets placed into service, and $978 in contractual services mainly from equipment maintenance. These increases were offset by a decrease of $875 in materials and supplies mainly for building and construction supplies. Interest expenses decreased by $6,640, as compared to prior year, mainly due to refunded bonds. Amortization of bond premium, discount, refunding loss and issuance costs decreased by $5,970 due to the issuance of the 2020 Series EFGH revenue bonds, which refunded 2010 Series D, 2011 Series D, 2012 Series ABC, and 2017 Series ABC revenue bonds. Non-operating expenses increased by $1,679 due to increased grants and rebates awarded for water conservation relating to the Onsite Water Reuse Grant Program and community-based services.

Transfers in of $21,025 from the City included $20,040 for the Emergency Firefighting Water System and $985 from the General Fund for Native Plant Garden project and low income assistance programs. Transfers out of $16,654 included $16,000 to Hetch Hetchy Water to fund various upcountry water projects, $622 to the Arts Commission for arts enrichment fund for the SF Recycled Water, Sunol Valley Water Improvement and Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. Capital contribution of $4,180 was received for water pipeline assets from the Department of Public Works in the current year.

Results of Operations, Fiscal Year 2020

The Enterprise's total revenues of $688,602 for the year represented an increase of $98,162 or 16.6% from prior year (see Table 2). Increases included $62,335 from other non-operating revenues, $41,050 from charges for services, and $796 from other operating revenues. These increases were offset by decreases of $5,133 in interest and investment income, and $886 from rents and concessions.

Charges for services were $550,753, an increase of $41,050 or 8.1% due to an adopted rate increase of 8.0% for retail customers beginning July 1, 2019 coupled with a 5.7% increase in consumption by wholesale customers. Rents and concessions were $12,124, a decrease of $886 or 6.8% mainly from termination of leases. Other operating revenues were $20,474, an increase of $796 or 4.0% due to an 8.0% rate increase offset by a decrease in capacity fee revenues. Interest and investment income were $10,517, a decrease of $5,133 or 32.8% due to lower annualized interest rates. Other non-operating revenues were $94,734, an increase of $62,335 or 192.4% mainly due to a one-time gain of $63,600 from the property transfer of 639 Bryant Street for 2000 Marin Street in San Francisco, CA.

The Enterprise's total expenses were $576,140, an increase of $57,488 or 11.1%. Operating expenses were $398,117, an increase of $41,023 or 11.5% due to increases of $21,413 in depreciation and amortization due to additional capital assets placed into service in the prior year, $8,447 in general administrative and other mainly from reduced capitalization of buildings, structures and improvements and equipment purchases and higher capital project expenses, $8,349 in personnel services primarily due to cost of living adjustments, pension and OPEB obligations based on actuarial reports, $1,377 in services provided by other departments mainly from higher water assessment fees paid to Hetch Hetchy Water, $808 in contractual services mainly from consulting and maintenance services, $629 in materials and supplies mainly for building and construction supplies. Interest expenses increased by $13,248 from reduced interest capitalization for capital projects. Amortization of bond premium, discount, refunding loss and issuance costs decreased by $4,036 due to issuance of 2019 Series ABC revenue bonds which refunded 2010 Series F, 2011 Series A, 2011 Series B, 2011 Series C, and 2012 Series A bonds. Non-operating expenses decreased by $859 mainly from reduced rebates paid to customers.

(Dollars in thousands, unless otherwise stated)

Transfers in of $1,220 were from the General Fund for low income assistance programs and pathway improvements to Miraloma Park. Transfers out of $14,805 included $14,000 to Hetch Hetchy Water to fund various upcountry capital projects, $558 to the Arts Commission for arts enrichment, $215 to the San Francisco Municipal Transportation Agency for water conservation projects, and $32 to the Office of the City Administrator for the Surety Bond Program.

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	$ 4,948,186	4,928,438	4,890,207	19,748	38,231
Intangible assets	2,763	4,089	5,816	(1,326)	(1,727)
Land	104,248	105,336	30,029	(1,088)	75,307
Construction work in progress	532,602	492,682	462,606	39,920	30,076
Total	$ 5,587,799	5,530,545	5,388,658	57,254	141,887

Capital Assets, Fiscal Year 2021

The Enterprise has net capital assets of $5,587,799 invested in a broad range of utility capital assets as of June 30, 2021 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by $57,524 from the prior year. Construction work in progress increased by $39,920 primarily due to additions from the SF Recycled Water project, Sunol Long Term Improvements and Regional Groundwater Storage and Recovery projects. Facilities, improvements, machinery, and equipment increased by $19,748 mainly attributable to the San Andreas Pipeline No. 2 and Water Main Replacement projects. Intangible assets decreased by $1,326 due to $1,601 in amortization, offset by $143 addition for information technology and $132 addition for automated meter reading system. Land decreased by $1,088 as the result of sale of the Wool Ranch property in the Alameda Creek Watershed and reimbursement of land costs for 2000 Marin Street, San Francisco, CA.

 (Continued)

(Dollars in thousands, unless otherwise stated)

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

SF Recycled Water Project	$	41,231
Sunol Long Term Improvements		15,516
Regional Groundwater Storage & Recovery		12,298
New Water Utility Services		7,992
San Andreas Pipeline No. 2 Replacement		7,961
Water Main Replacement - WD-2739 Castro/19th/26th Streets		7,953
Calaveras Dam Replacement		7,915
Water Main Replacement - WD-2766 Taraval Street		5,172
Auxiliary Water Supply System - Pump Station No. 2		5,135
Other project additions individually below $5,000		86,496
Total	$	197,669

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:

San Andreas Pipeline No. 2 Replacement - 4 Segments in San Bruno	$	43,340
Water Main Replacement - WD-2692 Geary Blvd/36th/48th/Point Lobos Ave		9,329
Water Main Replacement - WD-2719 22nd/Valencia St/Potrero Ave		8,004
New Water Utility Services		7,992
Alameda Creek Watershed Fish Passage Facilities		7,465
Water Main Replacement - WD-2766 Taraval Street		7,328
Water Main Replacement - WD-2793 Geary Blvd/Cleary Ct/Market St		6,655
Other items individually below $5,000		72,342
Total	$	162,455

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high-quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara, and San Mateo Counties, as well as approximately 800,000 residential customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements and long-term water supply objectives, as well as improve seismic and delivery reliability.

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2021. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2021, 35 local projects were completed, and the completion date was June 3, 2020. For regional projects, 44 are completed and the expected completion date is May 2023. Additional details regarding the WSIP are available at https://sfpuc.org/construction-contracts/water-infrastructure-improvements.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2020

The Enterprise has net capital assets of $5,530,545 invested in a broad range of utility capital assets as of June 30, 2020 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by $141,887 from the prior year. Land increased by $75,307 mainly as the result of a property transfer related to 639 Bryant Street for 2000 Marin Street completed in the fiscal year. Facilities, improvements, machinery, and equipment increased by $38,231 mainly attributable to Sunol Corp Yard, Water Main Replacement, and Alameda Creek Watershed projects. Construction work in progress increased by $30,076 primarily due to additions from Recycled Water project, San Andreas Pipeline replacement, and Watershed and Environmental Improvement program. Intangible assets decreased by $1,727 due to $2,101 amortization, offset by increases of $374 from Microsoft SharePoint software and IBM Maximo software improvements.

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

Recycled Water Project	$	46,912
San Andreas Pipeline No. 2 Replacement		27,817
Watershed and Environmental Improvement Program		13,117
Regional Groundwater Storage & Recovery		11,864
Calaveras Dam Replacement		11,119
Water Main Replacement - Van Ness Avenue/Market/Lombard Streets		8,120
New Water Utility Services		7,908
Sunol Long Term Improvements		7,222
San Francisco Groundwater Supply		6,647
Renew Water Utility Services		6,276
Peninsula Water System Improvements		5,922
Water Main Replacement - 16th Street		5,769
Other project additions individually below $5,000		61,734
Total	$	220,427

(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:

Sunol Corp Yard - Administration Building	$	32,965
Water Main Replacement - Van Ness Avenue/Market/Lombard Streets		20,692
Water Main Replacement - 16th Street		9,104
Alameda Creek Watershed Fish Passage Facilities		8,597
Sunol Corp Yard - Shop Building #1		8,543
Irving Street Pipeline		7,926
New Water Utility Services		7,908
Renew Water Utility Services		6,276
Sunol Corp Yard - Shop Building #4		5,847
Other items individually below $5,000		70,874
Total	$	178,732

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high-quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara, and San Mateo Counties, as well as approximately 800,000 residential customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements and long-term water supply objectives, as well as improve seismic and delivery reliability.

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2020. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2020, 35 local projects were completed, and the completion date was June 3, 2020. For regional projects, 42 are completed and the expected completion date is May 2023. Additional details regarding the WSIP are available at https://sfpuc.org/construction-contracts/water-infrastructure-improvements.

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2021, the Enterprise had $5,306,706 total debt outstanding, an increase of $74,208 over the prior year, as shown below 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	$	4,994,775	4,695,295	4,808,548	299,480	(113,253)
Capital appreciation bonds		—	—	2,029	—	(2,029)
Commercial paper		105,862	362,354	161,336	(256,492)	201,018
Certificates of participation		98,662	101,578	104,392	(2,916)	(2,814)
State revolving fund loans		107,407	73,271	—	34,136	73,271
Total	$	5,306,706	5,232,498	5,076,305	74,208	156,193

The increase of $299,480 in revenue bonds was due to increases of $1,011,155 from the issuance of 2020 Series ABCD revenue bonds and 2020 Series EFGH revenue refunding bonds, $73,542 in bond premium from the issuance of 2020 Series ABCD revenue bonds, and $10 from amortization of discount. These increases were offset by decreases of $625,080 from the refunding of various revenue bonds by the 2020 Series EFGH refunding revenue bonds, $76,440 from principal repayment, $57,820 from refunding of premium, and $25,887 from amortization of premium. The increase of $34,136 in State revolving funds loans was from $49,546 additional loan proceeds and reimbursement request for the SF Westside Recycled Water project, offset by $15,410 due to $15,000 for the grant portion received and $410 of disallowed reimbursement request from the program. The decrease of $2,916 in certificates of participation was $2,824 from repayment and $92 from amortization of premium. The Enterprise had $79,251 in tax-exempt and $26,611 in taxable commercial paper as of June 30, 2021, and $335,793 in tax-exempt and $26,561 in taxable commercial paper as of June 30, 2020. The decrease of $256,492 was due to $272,820 from refunding of tax-exempt commercial paper by the 2020 Series ABCD revenue bonds, offset by additional issuances of $16,278 in tax-exempt and $50 in taxable commercial paper.

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

Debt Service Coverage – Pursuant to the Amended and Restated Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds), which 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 Enterprise's Amended and Restated 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 approved by voters in Proposition E in November 2002. As of June 30, 2021, the Board of Supervisors has authorized the issuance of $4,617,099 in revenue bonds under Proposition E, with $3,660,525 issued against this authorization. The Enterprise can also incur indebtedness of up to $1,628,000 for improvements to the water system pursuant to Proposition A that was approved by the voters in November 2002. As of June 30, 2021, $1,499,230 of the $1,628,000 Proposition A authorized bonds were issued. The Enterprise is also authorized to issue up to $500,000 in commercial paper.

Cost of Debt Capital – The Enterprise's outstanding long-term debt has coupon interest rates ranging from 0.3% to 7.0% as of June 30, 2021 and 2020. The Enterprise's short-term debt has interest rates ranging from 0.1% to 0.3% during fiscal year 2021, and 0.2% to 2.2% during fiscal year 2020.

Rates and Charges

Rate Setting Process

Retail Customers

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIIIB, entitled "Public Utilities," which changed the Commission's ability to issue new revenue bonds and set retail water rates. For the retail water rate setting, 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 rate study was completed in April 2018 and resulted in an approved four-year retail rate increase. The Commission adopted retail rates effective for four fiscal years from July 1, 2018 through June 30, 2022. SFPUC Rates Schedules and Fees is available at https://sfpuc.org/accounts-services/water-power-and-sewer-rates.

Wholesale Customers

The WSA prescribes the rate setting process for the wholesale water rates. The WSA has a 25-year term, beginning on July 1, 2009, with two 5-year extension options. The WSA was amended and restated on December 11, 2018 by the SFPUC. The contract changed the rate basis by which the capital cost recovery is determined from a "utility basis" to a "cash basis," resulting in the repayment of the cost of capital over the life of the debt funding of those assets rather than the life of the asset. The WSA requires the rate be calculated and set annually and include a reconciliation between prior year revenues and expenses. Refer to Note 9 of the notes to financial statements for further discussion on the balancing account of the wholesale customers.

(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments

Effective Date:	Retail	Wholesale [3]
July 1, 2012	12.5 [1]	11.4
July 1, 2013	6.5 [1]	(16.4)
July 1, 2014	12.0 [2]	19.6
July 1, 2015	12.0 [2]	28.0
July 1, 2016	10.0 [2]	9.3
July 1, 2017	7.0 [2]	-
July 1, 2018	9.0 [4]	-
July 1, 2019	8.0 [4]	-
July 1, 2020	7.0 [4]	-
July 1, 2021	7.0 [4]	-

[1] Five-year retail rate increases adopted and effective July 1, 2009.

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

[3] Wholesale rates adopted annually; no increase for wholesale rates effective July 1, 2017; no increase projected to June 30, 2022 from 10 Year Financial Plan.

[4] Four-year retail 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, 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 WATER ENTERPRISE
Statements of Net Position
June 30, 2021 and 2020
(In thousands)

	2021	2020
Assets		
Current assets:		
Cash and investments with City Treasury	$ 483,827	451,499
Cash and investments outside City Treasury	301	353
Receivables:		
Charges for services (net of allowance for doubtful accounts of $5,445 as of June 30, 2021 and $2,500 as of June 30, 2020)	55,473	59,946
Due from other City departments	248	250
Due from other governments	16	23
Interest	257	1,251
Restricted due from other governments	49,546	73,271
Restricted interest and other receivable (net of allowance for doubtful accounts of $24 as of June 30, 2021 and $13 as of June 30, 2020)	3,983	3,774
Total current receivables	109,523	138,515
Prepaid charges, advances, and other receivables, current portion	6,147	3,705
Inventory	5,937	5,777
Restricted cash and investments outside City Treasury, current portion	57,165	16,638
Total current assets	662,900	616,487
Non-current assets:		
Restricted cash and investments outside City Treasury, less current portion	65,688	80,924
Restricted interest and other receivable (net of allowance for doubtful accounts of $8 as of June 30, 2021 and $8 as of June 30, 2020)	4	4
Charges for services, less current portion (net of allowance for doubtful accounts of $658 as of June 30, 2021 and $669 as of June 30, 2020)	207	204
Capital assets, not being depreciated and amortized	637,529	598,697
Capital assets, net of accumulated depreciation and amortization	4,950,270	4,931,848
Prepaid charges, advances, and other receivables, less current portion	3,517	3,587
Total non-current assets	5,657,215	5,615,264
Total assets	6,320,115	6,231,751
Deferred outflows of resources		
Unamortized loss on refunding of debt	154,991	144,189
Pensions	64,797	67,084
Other post-employment benefits	37,762	27,583
Total deferred outflows of resources	257,550	238,856
Liabilities		
Current liabilities:		
Accounts payable	16,183	10,574
Accrued payroll	9,845	8,491
Accrued vacation and sick leave, current portion	6,787	6,169
Accrued workers' compensation, current portion	1,694	1,781
Due to other City departments	—	674
Damage claims liability, current portion	14,400	4,740
Unearned revenues, refunds, and other	18,966	18,174
Bond and loan interest payable	36,195	42,752
Revenue bonds, current portion	108,500	94,080
Certificates of participation, current portion	2,970	2,824
Commercial paper	105,862	362,354
State revolving fund loans, current portion	1,667	—
Wholesale balancing account, current portion	21,538	11,257
Current liabilities payable from restricted assets	27,263	29,951
Total current liabilities	371,870	593,821
Long-term liabilities:		
Other post-employment benefits obligations	148,771	163,684
Net pension liability	216,417	178,133
Accrued vacation and sick leave, less current portion	7,129	5,451
Accrued workers' compensation, less current portion	7,134	7,393
Damage claims liability, less current portion	22,323	6,027
Revenue bonds, less current portion	4,886,275	4,601,215
Certificates of participation, less current portion	95,692	98,754
State revolving fund loans, less current portion	105,740	73,271
Wholesale balancing account, less current portion	39,326	53,600
Pollution remediation obligation	1,271	1,577
Total long-term liabilities	5,530,078	5,189,105
Total liabilities	5,901,948	5,782,926
Deferred inflows of resources		
Related to pensions	4,885	34,894
Other post-employment benefits	21,315	11,772
Total deferred inflows of resources	26,200	46,666
Net position		
Net investment in capital assets	517,302	527,856
Restricted for debt service	45,586	15,916
Restricted for capital projects	22,319	43,122
Unrestricted	64,310	54,121
Total net position	$ 649,517	641,015

See accompanying notes to financial statements.

SAN FRANCISCO WATER 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	$ 550,306	550,753
Rents and concessions	12,911	12,124
Capacity fees	1,326	2,169
Other revenues	17,069	18,305
Total operating revenues	581,612	583,351
Operating expenses:		
Personnel services	132,528	119,943
Contractual services	15,501	14,523
Materials and supplies	13,175	14,050
Depreciation and amortization	144,033	142,228
Services provided by other departments	70,235	61,128
General and administrative and other	73,371	46,245
Total operating expenses	448,843	398,117
Operating income	132,769	185,234
Non-operating revenues (expenses):		
Federal and state grants	14,829	209
Interest and investment income	340	10,517
Interest expenses	(184,606)	(191,246)
Amortization of premium, discount, refunding loss, and issuance costs	7,782	13,752
Net gain from sale of assets	2,556	63,963
Other non-operating revenues	28,489	30,562
Other non-operating expenses	(2,208)	(529)
Net non-operating expenses	(132,818)	(72,772)
Change in net position before capital contributions and transfers	(49)	112,462
Capital contributions	4,180	–
Transfers from the City and County of San Francisco	21,025	1,220
Transfers to the City and County of San Francisco	(16,654)	(14,805)
Capital contributions and net transfers	8,551	(13,585)
Change in net position	8,502	98,877
Net position at beginning of year	641,015	542,138
Net position at end of year	$ 649,517	641,015

See accompanying notes to financial statements.

SAN FRANCISCO WATER 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	$	570,041	565,100
Cash received from tenants for rent		12,542	11,921
Cash paid to employees for services		(132,235)	(127,216)
Cash paid to suppliers for goods and services		(138,125)	(133,064)
Cash paid for judgments and claims		(3,969)	(3,976)
Net cash provided by operating activities		308,254	312,765
Cash flows from non-capital financing activities:			
Cash received from grants		14,836	255
Cash received from settlements		—	914
Cash received from miscellaneous revenues		4,643	5,771
Cash paid for rebates and program incentives		(2,208)	(529)
Transfers from the City and County of San Francisco		21,025	1,220
Transfers to the City and County of San Francisco		(16,654)	(14,805)
Net cash provided by (used in) non-capital financing activities		21,642	(7,174)
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		2,647	397
Proceeds from bond issuance, net of premium, discount, refunding loss, and issuance costs		1,000,920	613,002
Proceeds from commercial paper borrowings		16,328	201,018
Proceeds from State revolving fund loan		57,861	—
Principal paid on commercial paper		(272,820)	—
Principal paid on long-term debt		(704,344)	(720,633)
Interest paid on long-term debt		(210,276)	(211,864)
Interest paid on commercial paper		(348)	(2,010)
Issuance cost paid on long-term debt		(3,032)	(1,913)
Acquisition and construction of capital assets		(184,144)	(200,600)
Federal interest income subsidy from Build America Bonds		23,869	23,894
Net cash used in capital and related financing activities		(273,339)	(298,709)
Cash flows from investing activities:			
Interest income received		4,185	10,001
Proceeds from sale of investments outside City Treasury		323,586	347,361
Purchase of investments outside City Treasury		(323,586)	(297,633)
Net cash provided by investing activities		4,185	59,729
Increase in cash and cash equivalents		60,742	66,611
Cash and cash equivalents:			
Beginning of year		545,847	479,236
End of year		606,589	545,847
Reconciliation of cash and cash equivalents to the statement of net position:			
Cash and investments with City Treasury:			
Unrestricted		483,827	451,499
Less: Unrealized gain on investments with City Treasury		(392)	(3,567)
Cash and investments outside City Treasury:			
Unrestricted		301	353
Restricted		122,853	97,562
Cash and cash equivalents at end of year on statements of cash flows	$	606,589	545,847

(Continued)

SAN FRANCISCO WATER 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	$	132,769	185,234
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		144,033	142,228
Provision for uncollectible accounts		2,945	781
Write-off of capital assets and other non-cash items		3,810	5,285
Changes in operating assets and liabilities:			
Receivables:			
Charges for services		1,537	(5,585)
Prepaid charges, advances, and other		(2,385)	(1,343)
Due from other City departments		93	323
Inventory		(160)	(351)
Accounts payable		5,609	(2,050)
Accrued payroll		1,354	1,548
Other post-employment benefits obligations		(15,549)	(3,739)
Pension obligations		10,562	(7,351)
Accrued vacation and sick leave		2,296	1,520
Accrued workers' compensation		(346)	(1,162)
Due to other City departments		(674)	674
Wholesale balancing account		(3,993)	28
Pollution remediation obligation		(306)	(617)
Damage claims liability		25,956	(742)
Unearned revenues, refunds, and other liabilities		703	(1,916)
Total adjustments		175,485	127,531
Net cash provided by operating activities	$	308,254	312,765
Noncash transactions:			
Accrued capital asset costs	$	27,263	29,951
Land acquired through real property exchange		—	63,600
Interfund payable		—	674
Unrealized (gain) on investments		(392)	(3,567)
Capital contribution		4,180	—

See accompanying notes to financial statements.

(1) Description of Reporting Entity

The San Francisco Water Enterprise (the Enterprise) was established in 1930 under the provisions of the Charter of the City and County of San Francisco (the City). The Enterprise acquired the fully developed, mature water works for San Francisco on March 3, 1930. Since then, the City has operated and maintained the water works as the San Francisco Water Enterprise. The Board of Supervisors of the City has adopted resolutions (the Water Resolutions) providing for the issuance of various water revenue and refunding bond series. The Water Resolutions require the City to keep separate books of records and accounts of the Enterprise. The Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the distribution of water to San Francisco and certain suburban areas. In fiscal year 2021, the Enterprise sold approximately 68,812 million gallons, i.e., about 189 million gallons per day of water, to approximately 2.7 million people within San Francisco and certain suburban areas.

The San Francisco Public Utilities Commission (SFPUC or the Commission), established in 1932, is responsible for providing operational oversight of the public utility enterprises of the City, which include the Enterprise along with the City's power and sewer utilities (i.e., Hetch Hetchy Water and Power and CleanPowerSF, of which the Power Enterprise is a component, and the San Francisco Wastewater 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 Wastewater 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 and are included as 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 U.S. GAAP. Under this method, all assets and liabilities associated with its operations are included on the statement 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 cash 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 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 on 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 buildings, 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 discontinued construction projects 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 for assets that require a period of time to construct 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 is offset against the related debt and is 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 12(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 12(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. The arbitrage rebate liability was $0 at June 30, 2021 and 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

Water service charges are based on water usage as determined by the Enterprise. Effective July 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 amounts for the fiscal years ending June 30, 2021 and 2020 were $30,277 and $29,876, 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 13(d)).

(s) *Other Post-Employment Benefits*

As prescribed under GASB 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 (see Note 10(b)).

(t) *New Accounting Standards 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 the criteria used in determining whether a fiduciary component unit exists and clarifies financial reporting for Internal Revenue Code section 457 deferred compensation plans. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted early the provision 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 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 a 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 the 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.

(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.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The current balances as of June 30, 2021 and 2020 were $122,853 and $97,562, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of Treasury and Government Obligations.

Funds held by the trustee established under the 2002 Amended and Restated Indentures agreements are invested in "Permitted Investments," as defined in the agreement, which includes money market funds and investment agreements. The agreement permits investment in money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and have a rating by S&P of "AAAm-G," "AAAm," or "AAm," and a rating by Moody's of "Aaa," "Aa1," or "Aa2". The credit ratings of the money market funds invested in as of June 30, 2021 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1+" by S&P. The credit ratings of the money market funds invested in as of June 30, 2020 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1+" by S&P. Investment agreements must be with a U.S. bank or trust company that have a rating by Moody's and S&P of "A" or higher, or are guaranteed by any entity with a rating of "A" or higher, at the time the agreement is entered.

(Dollars in thousands, unless otherwise stated)

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.

The following tables present the restricted and unrestricted cash and investments outside City Treasury as of June 30, 2021 and 2020:

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2021 Maturities	June 30, 2021 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: 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	79,973	79,973	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	55	55	–	–	–
Cash and Cash Equivalents	N/A		42,825	42,825	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 122,853	122,853	–	–	–
Cash and Cash Equivalents	N/A		301	301	–	–	–
Total Cash and Investments outside City Treasury			$ 301	301	–	–	–

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2020 Maturities	June 30, 2020 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: 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	84,463	84,463	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	46	46	–	–	–
Cash and Cash Equivalents	N/A		13,053	13,053	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 97,562	97,562	–	–	–
Cash and Cash Equivalents	N/A		353	353	–	–	–
Total Cash and Investments outside City Treasury			$ 353	353	–	–	–

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 an unrealized gain due to changes in fair value on commercial paper of $0.

Additional cash outside of the investment pool included revolving fund and cash in transit. The revolving fund has a balance of $28 as of June 30, 2021 and 2020, respectively, which is held in a commercial bank in non-interest bearing checking accounts covered by Federal Deposit Insurance Corporation depository insurance. These accounts were established as provided by the City's Administrative Code for revolving fund needs. The cash in transit was $273 and $325 as of June 30, 2021 and 2020, respectively.

(Dollars in thousands, unless otherwise stated)

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	$	483,827	451,499
Cash and investments outside City Treasury		301	353
Restricted cash and investments outside City Treasury		57,165	16,638
Non-current assets:			
Restricted cash and investments outside City Treasury		65,688	80,924
Total cash, cash equivalents, and investments	$	606,981	549,414

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

Fiscal years ended June 30	Investment maturities (in months)			
	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%

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, treatment plants, pump stations, certain water mains and pipelines, sewer systems, tunnels, and bridges.

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

		2020	Increases	Decreases		2021
Capital assets not being depreciated and amortized:						
Land	$	105,336	–	(1,088)		104,248
Intangible assets		679	–	–		679
Construction work in progress		492,682	197,669	(157,749)	*	532,602
Total capital assets not being depreciated and amortized		598,697	197,669	(158,837)		637,529
Capital assets being depreciated and amortized:						
Facilities and improvements		6,258,333	154,905	–		6,413,238
Intangible assets		23,497	275	–		23,772
Machinery and equipment		319,000	7,275	(149)		326,126
Total capital assets being depreciated and amortized		6,600,830	162,455	(149)		6,763,136
Less accumulated depreciation and amortization for:						
Facilities and improvements		(1,423,722)	(130,793)	–		(1,554,515)
Intangible assets		(20,087)	(1,601)	–		(21,688)
Machinery and equipment		(225,173)	(11,639)	149		(236,663)
Total accumulated depreciation and amortization		(1,668,982)	(144,033)	149		(1,812,866)
Total capital assets being depreciated and amortized, net		4,931,848	18,422	–		4,950,270
Total capital assets, net	$	5,530,545	216,091	(158,837)		5,587,799

* Decrease in construction work in progress includes $3,810 in capital project write-offs, mainly related to Eastside Recycled Water and San Andreas Spillway projects. The remaining difference of $8,516 is due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

(Dollars in thousands, unless otherwise stated)

		2019	Increases	Decreases	2020
Capital assets not being depreciated and amortized:					
Land	$	30,029	75,375	(68)	105,336
Intangible assets		679	–	–	679
Construction work in progress		462,606	220,427	(190,351) *	492,682
Total capital assets not being depreciated and amortized		493,314	295,802	(190,419)	598,697
Capital assets being depreciated and amortized:					
Facilities and improvements		6,088,534	169,799	–	6,258,333
Intangible assets		23,123	374	–	23,497
Machinery and equipment		311,154	8,559	(713)	319,000
Total capital assets being depreciated and amortized		6,422,811	178,732	(713)	6,600,830
Less accumulated depreciation and amortization for:					
Facilities and improvements		(1,297,056)	(126,666)	–	(1,423,722)
Intangible assets		(17,986)	(2,101)	–	(20,087)
Machinery and equipment		(212,425)	(13,461)	713	(225,173)
Total accumulated depreciation and amortization		(1,527,467)	(142,228)	713	(1,668,982)
Total capital assets being depreciated and amortized, net		4,895,344	36,504	–	4,931,848
Total capital assets, net	$	5,388,658	332,306	(190,419)	5,530,545

* Decrease in construction work in progress includes $5,285 in capital project write-offs, mainly related to Daly City Recycled Water, New Fuel Station, and Row Gaps projects. The remaining difference of $6,334 is related to $11,774 of construction work in progress transferred to land offset by $5,440 direct additions to intangible assets and machinery and equipment.

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	$ 184,606	191,246
Interest included in construction work in progress	19,461	27,164
Total interest incurred	$ 204,067	218,410

(5) Restricted Assets

Pursuant to the Indentures, all revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Water Revenue and Refunding Bonds. Accordingly, the revenues of the Enterprise shall not be used for any other purpose while any of its Water Revenue and Refunding Bonds are outstanding, except as expressly permitted by the Indentures. Further, all revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Water Enterprise Revenue Fund (the Water Revenue Fund), which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statement of net position of the Enterprise as cash and investments. Deposits in the Water Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes pertaining to the financing, maintenance, and operation of the Enterprise in accordance with the following priority:

1. The payment of operation and maintenance expenses for such utility and related facilities;

2. The payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Enterprise may establish or the Board of Supervisors may require with respect to employees of the Enterprise;
3. The payment of principal, interest, reserve, sinking fund, and other mandatory funds created to secure Revenue Bonds and parity State revolving fund loans issued by the Enterprise for the acquisition, construction, or extension of facilities owned, operated, or controlled by the Enterprise;
4. The payment of principal and interest on General Obligation Bonds issued by the City for the Enterprise's purposes;
5. Reconstruction and replacement as determined by the Enterprise or as required by any of the Enterprise's Revenue Bond ordinances duly adopted and approved; and
6. The acquisition of land, real property, or interest in real property for, and the acquisition, construction, enlargement, and improvement of, new and existing buildings, structures, facilities, equipment, appliances, and other property necessary or convenient to the development or improvement of such utility owned, controlled, or operated by the Enterprise; and for any other lawful purpose of the Enterprise, including the transfer of surplus funds pursuant to the Charter.

(Dollars in thousands, unless otherwise stated)

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

		2021	2020
Cash and investments outside City Treasury:			
2010B Water revenue bond fund	$	21,492	21,581
2010D Water revenue bond fund		—	2,935
2010E Water revenue bond fund		16,299	16,831
2010G Water revenue bond fund		17,698	17,691
2011A Water revenue bond fund		—	1
2011B Water revenue bond fund		670	670
2011C Water revenue bond fund		140	802
2011D Water revenue bond fund		—	1,981
2012A Water revenue bond fund		1	2,961
2012B Water revenue bond fund		—	807
2012C1 Water revenue refunding bond fund		—	1,181
2012C2 Water revenue refunding bond fund		—	3,399
2015A Water revenue refunding bond fund		—	1
2016B Water revenue refunding bond fund		—	1
2017A Water revenue bond fund		—	363
2017B Water revenue bond fund		—	4,239
2017D Water revenue refunding bond fund		—	1
2019A Water revenue refunding bond fund		—	47
2019B Water revenue refunding bond fund		—	6
2019C Water revenue refunding bond fund		—	2
2020A Water revenue bond fund		7,370	—
2020B Water revenue bond fund		3,097	—
2020C Water revenue bond fund		3,463	—
2020D Water reveune bond fund		1,513	—
2020F Water revenue refunding bond fund		12	—
2020G Water reveune refunding bond fund		22	—
2020H Water revenue refunding bond fund		7	—
2009C Certificates of participation - 525 Golden Gate		1,638	1,816
2009D Certificates of participation - 525 Golden Gate		6,551	7,147
Commercial Paper - Tax Exempt		29,793	15
Commercial Paper - Taxable		34	31
Habitat reserve endowment fund		13,053	13,053
Total cash and investments outside City Treasury	$	122,853	97,562
Interest and other receivables:			
Water bond construction fund including capacity fee receivables		3,987	3,778
Due from other government for State Revolving Fund		49,546	73,271
Total restricted assets	$	176,386	174,611

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

(6) Short-Term Debt

The Commission and the Board of Supervisors have authorized the issuance of up to $500,000 in commercial paper pursuant to the voter-approved 2002 Proposition E. As of June 30, 2021 and 2020, amounts outstanding under Proposition E were $105,862 and $362,354, respectively. Commercial paper interest rates ranged from 0.1% to 2.2%.

With maturities up to 270 days, the Enterprise intends to maintain the program by remarketing the commercial paper upon maturity over the near-to-medium term, at which time outstanding commercial paper will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the commercial paper interest rates rise to a level that exceeds these benefits, the Enterprise will refinance the commercial paper with the long-term, fixed-rate debt.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, the Enterprise had $394,138 and $137,646 in unused authorization as of June 30, 2021 and 2020, respectively. Significant Events of default as specified in the Reimbursement Agreements, or Revolving Credit Agreement 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 describe herein.

(Dollars in thousands, unless otherwise stated)

(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:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 373,420	–	(11,920)	361,500	12,330
2010D revenue refunding bonds	3.00 – 5.00	2021	30,990	–	(30,990)	–	–
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	–	344,200	–
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2011B revenue bonds	3.50 – 5.00	2041	1,485	–	(730)	755	755
2011C revenue bonds	3.00 – 5.00	2041	1,620	–	(795)	825	825
2011D revenue refunding bonds	4.00 – 5.00	2028	19,135	–	(19,135)	–	–
2012A revenue bonds	4.00 – 5.00	2043	216,540	–	(216,540)	–	–
2012B revenue bonds	4.00 – 5.00	2043	16,520	–	(16,520)	–	–
2012C1 revenue refunding bonds	4.00	2031	8,465	–	(8,465)	–	–
2012C2 revenue refunding bonds	4.00 – 5.00	2032	69,570	–	(69,570)	–	–
2015A revenue refunding bonds	2.00 – 5.00	2036	412,380	–	(14,635)	397,745	15,325
2016A revenue refunding bonds	4.00 – 5.00	2039	763,005	–	(19,955)	743,050	23,315
2016B revenue refunding bonds	1.50 – 5.00	2030	95,980	–	(14,455)	81,525	10,015
2016C revenue bonds	0.87 – 4.19	2046	242,755	–	(5,705)	237,050	5,820
2017A revenue bonds	5.00	2047	121,140	–	(94,140)	27,000	–
2017B revenue bonds	5.00	2047	147,725	–	(114,795)	32,930	–
2017C revenue bonds	5.00	2047	70,675	–	(54,925)	15,750	–
2017D revenue refunding bonds	2.00 – 5.00	2035	348,610	–	(890)	347,720	925
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	–	–	48,890	–
2017F revenue refunding bonds	5.00	2031	8,705	–	–	8,705	–
2017G revenue refunding bonds	2.03 – 2.91	2024	33,280	–	(500)	32,780	820
2019A revenue refunding bonds	1.81 – 3.47	2043	622,580	–	(6,855)	615,725	24,405
2019B revenue refunding bonds	3.15 – 3.52	2041	16,450	–	–	16,450	65
2019C revenue refunding bonds	3.15 – 3.52	2041	17,925	–	–	17,925	75
2020A revenue bonds	4.00 – 5.00	2050	–	150,895	–	150,895	–
2020B revenue bonds	5.00	2050	–	61,330	–	61,330	–
2020C revenue bonds	4.00	2050	–	85,335	–	85,335	–
2020D revenue bonds	3.00	2050	–	49,200	–	49,200	–
2020E revenue refunding bonds	2.83 – 2.95	2047	–	341,435	–	341,435	5,900
2020F revenue refunding bonds	0.26 – 3.15	2047	–	136,880	–	136,880	1,425
2020G revenue refunding bonds	0.26 – 3.10	2043	–	120,585	–	120,585	5,820
2020H revenue refunding bonds	0.26 – 3.15	2047	–	65,495	–	65,495	680
Less issuance discount			(143)	–	10	(133)	–
Add issuance premiums			311,923	73,542	(83,707)	301,758	–
Total revenue bonds payable			4,695,295	1,084,697	(785,217)	4,994,775	108,500
2009C certificates of participation (COPs)	2.00 – 5.00	2022	8,918	–	(2,824)	6,094	2,970
2009C COPs issuance premiums			161	–	(92)	69	–
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	–
State Revolving Funds Loan	1.00	2051	73,271	49,546	(15,410)	107,407	1,667
Other post-employment benefits obligations			163,684	14,036	(28,949)	148,771	–
Net pension liability			178,133	93,066	(54,782)	216,417	–
Accrued vacation and sick leave			11,620	10,109	(7,813)	13,916	6,787
Accrued workers' compensation			9,174	1,912	(2,258)	8,828	1,694
Damage claims liability			10,767	27,643	(1,687)	36,723	14,400
Wholesale balancing account			64,857	–	(3,993)	60,864	21,538
Pollution remediation obligation			1,577	–	(306)	1,271	–
Total			$ 5,309,956	1,281,009	(903,331)	5,687,634	157,556

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2019	Additions	Reductions	2020	Due within one year
Revenue Bonds:							
2009A revenue bonds	4.00 % – 5.25 %	2019	$ 9,635	–	(9,635)	–	–
2009B revenue bonds	4.00 – 5.00	2019	9,635	–	(9,635)	–	–
2010A revenue bonds	2.00 – 5.00	2019	2,530	–	(2,530)	–	–
2010B revenue bonds (Build America)	4.00 – 6.00	2040	384,975	–	(11,555)	373,420	11,920
2010D revenue refunding bonds	3.00 – 5.00	2021	47,770	–	(16,780)	30,990	17,640
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	–	344,200	–
2010F revenue bonds	3.00 – 5.50	2030	23,975	–	(23,975)	–	–
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2011A revenue bonds	4.25 – 5.00	2019	322,480	–	(322,480)	–	–
2011B revenue bonds	3.50 – 5.00	2041	17,870	–	(16,385)	1,485	730
2011C revenue bonds	3.00 – 5.00	2041	19,475	–	(17,855)	1,620	795
2011D revenue refunding bonds	4.00 – 5.00	2028	19,135	–	–	19,135	–
2012A revenue bonds	4.00 – 5.00	2043	459,455	–	(242,915)	216,540	–
2012B revenue bonds	4.00 – 5.00	2043	16,520	–	–	16,520	–
2012C1 revenue refunding bonds	4.00	2031	8,465	–	–	8,465	–
2012C2 revenue refunding bonds	4.00 – 5.00	2032	69,570	–	–	69,570	–
2012D revenue refunding bonds	1.75 – 5.00	2019	12,215	–	(12,215)	–	–
2015A revenue refunding bonds	2.00 – 5.00	2036	426,380	–	(14,000)	412,380	14,635
2016A revenue refunding bonds	4.00 – 5.00	2039	763,005	–	–	763,005	19,955
2016B revenue refunding bonds	1.50 – 5.00	2030	104,900	–	(8,920)	95,980	14,455
2016C revenue bonds	0.87 – 4.19	2046	248,360	–	(5,605)	242,755	5,705
2017A revenue bonds	5.00	2047	121,140	–	–	121,140	–
2017B revenue bonds	5.00	2047	147,725	–	–	147,725	–
2017C revenue bonds	5.00	2047	70,675	–	–	70,675	–
2017D revenue refunding bonds	2.00 – 5.00	2035	349,470	–	(860)	348,610	890
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	–	–	48,890	–
2017F revenue refunding bonds	5.00	2031	8,705	–	–	8,705	–
2017G revenue refunding bonds	2.03 – 2.91	2024	33,780	–	(500)	33,280	500
2019A revenue refunding bonds	1.81 – 3.47	2043	–	622,580	–	622,580	6,855
2019B revenue refunding bonds	3.15 – 3.52	2041	–	16,450	–	16,450	–
2019C revenue refunding bonds	3.15 – 3.52	2041	–	17,925	–	17,925	–
Less issuance discount			(154)	–	11	(143)	–
Add issuance premiums			366,297	–	(54,374)	311,923	–
Total revenue bonds payable			4,808,548	656,955	(770,208)	4,695,295	94,080
1991 capital appreciation bonds	0.00	2019	2,029	71	(2,100)	–	–
2009C certificates of participation (COPs)	2.00 – 5.00	2022	11,606	–	(2,688)	8,918	2,824
2009C COPs issuance premiums			287	–	(126)	161	–
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	–
State Revolving Funds Loan	1.00	2051	–	73,271	–	73,271	–
Other post-employment benefits obligations			150,771	25,253	(12,340)	163,684	–
Net pension liability			175,429	39,194	(36,490)	178,133	–
Accrued vacation and sick leave			10,100	9,716	(8,196)	11,620	6,169
Accrued workers' compensation			10,336	1,065	(2,227)	9,174	1,781
Damage claims liability			11,509	709	(1,451)	10,767	4,740
Wholesale balancing account			64,829	833	(805)	64,857	11,257
Pollution remediation obligation			2,194	–	(617)	1,577	–
Total			$ 5,340,137	807,067	(837,248)	5,309,956	120,851

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

(a) *Capital Appreciation Bonds*

The capital appreciation bonds mature from November 1, 2018 and November 1, 2019. The bonds were insured by Municipal Bond Insurance Association (MBIA) and carried "Aaa" and "AAA" ratings from Moody's and S&P, respectively. In February 2009, the bonds were further reinsured by National Public Finance Guarantees Corp. (NPFGC) and carried “Baa1” and “A” ratings from Moody’s and S&P, respectively. On May 29, 2013, the SFPUC transferred $2,500 to U.S. Bank, trustee of the 1991 Series A San Francisco Water Revenue Bonds (the Bonds), for the purpose of replacing the debt service reserve surety policy that had been satisfying the reserve requirement of the bonds. The surety policy had been provided by NPFGC. With this transfer, the surety policy is effectively terminated. The amount deposited with the U.S. Bank will continue to satisfy the reserve requirement on the bonds. Interest on the capital appreciation bonds is due upon maturity and is recognized as annual interest expense over the life of the bonds using the interest method. The Enterprise has recognized $2,029 of unpaid principal and interest on the capital appreciation bonds as of June 30, 2019 and has reported it as capital appreciation bonds in the accompanying statements of net position. As of June 30, 2021 and 2020, the balance of unpaid principal and interest on the capital appreciation bonds was $0.

(b) Water Revenue Bonds 2009 Series A

On April 16, 2015, the Enterprise issued $429,600 of the 2015 Series A revenue bonds for the purpose of refunding $431,860 of the then outstanding 2006 Series A revenue bonds and $39,030 of the 2009 Series A revenue bonds. The 2015 bonds bear coupon rates of 2.0% and 5.0% and mature serially from 2018 to 2036. The refunded 2009 Series A bonds carried coupon rates of 5.0% and matured serially between 2023 and 2026. Although the refunding resulted in the recognition of a deferred accounting loss of $6,168, the economic gain was $2,559 or 6.6% of the refunded principal. The remaining 2009 Series A bonds not refunded included serial and term bonds with interest rates ranging from 4.0% to 5.3%. The Bonds mature through November 1, 2039.

A portion of the 2015 Series A revenue refunding bonds proceeds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated April 1, 2015, to refund and legally defease a portion of the outstanding 2009 Series A bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease the 2009 Series A bonds maturing on November 1, 2023 to and including November 1, 2026.

A portion of the proceeds of the 2016 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated October 1, 2016, to refund and legally defease a portion of the outstanding 2009 Series A bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease bonds maturing November 1, 2020 through and including November 1, 2022 and November 1, 2026 to and including November 1, 2039. As of June 30, 2021 and 2020, the principal amount of 2009 Series A bonds outstanding was $0.

(c) Water Revenue Bonds 2009 Series B

During fiscal year 2010, the Enterprise issued revenue bonds, 2009 Series B, in the amount of $412,000. The purpose of the bonds is to provide $377,778 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “A1” from S&P and Moody’s, respectively. The bonds include serial and term bonds with interest rates varying from 4.0% to 5.0%. The bonds mature through November 1, 2039. The 2009 Series B bonds have a true interest cost of 4.5%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. Prepayment proceeds in the amount of $24,014 were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2009 Series B bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2009 Series B bonds maturing November 1, 2013 through 2018.

A portion of the 2016 Series A revenue refunding bonds proceeds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated October 1, 2016, to refund and legally defease a portion of the outstanding 2009 Series B bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2009 Series B bonds starting on November 1, 2020 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2009 Series B bonds outstanding was $0.

(d) Water Revenue Bonds 2010 Series AB

In fiscal year 2010, the Enterprise issued revenue bonds, 2010 Series ABC in the combined principal amount of $488,705. The purpose of the bonds is to refund $14,400 of outstanding 2001 Series A revenue bonds, to provide $58,748 in proceeds for the Advanced Meter Infrastructure System (AMI) Project and to provide $364,757 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve fund. The bonds were rated “AA-” and “Aa2” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates ranging from 2.0% to 6.0%.

The 2010 Series A Bonds in the par amount of $56,945 were issued as tax-exempt bonds to provide funds for the SFPUC’s AMI Project and pay financing costs. The 2010 Series A bonds were issued as serial bonds with coupons ranging from 2.0% to 5.0% and have a final maturity of 2030. The Series A bonds have a true interest cost of 3.8%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. Prepayment proceeds in the amount of $11,681 were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series A bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series A bonds maturing November 1, 2013 through 2018.

A portion of the proceeds of the 2016 Series B refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated October 1, 2016, to refund and legally defease a portion of the outstanding 2010 Series A bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow

Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem all of the maturities of the 2010 Series A bonds starting on November 1, 2020 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2010 Series A bonds outstanding was $0.

The 2010 Series B Bonds in the par amount of $417,720 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $364,757 in new money for WSIP capital projects and pay financing costs. The 2010 Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 6.0% and have a final maturity of 2040. The Series B bonds have a true interest cost (net of federal subsidy) of 3.9%. As of June 30, 2021 and 2020, the principal amount outstanding was $361,500 and $373,420, respectively.

(e) Water Revenue Bonds 2010 Series DE

In July 2010, the Enterprise issued revenue bonds 2010 Series DE in the combined principal amount of $446,925. The purpose of the bonds is to advance refund $31,570 of outstanding 2002 Series A revenue bonds and to provide $372,689 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve fund. The bonds were rated “AA-” and “Aa2” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates ranging from 3.0% to 6.0%.

The 2010 Series D Bonds in the par amount of $102,725 were issued as tax-exempt bonds to provide $72,243 in new money for WSIP capital projects and $35,080 to advance refund a portion of outstanding 2002 Series A revenue bonds. The Series D bonds were issued as serial bonds with coupons ranging from 3.0% to 5.0% and have a final maturity of 2021. The Series D bonds have a true interest cost of 2.5%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $12,360 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series D bonds. BAWSCA repayment funds were combined with $165 from the 2010 Series D Capitalized Interest Account. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series D bonds maturing November 1, 2015 through 2017. A portion of the proceeds from 2020 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated October 1, 2020, to refund and legally defease the outstanding 2010 Series D bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2010 Series D bonds starting on November 1, 2021. As of June 30, 2021 and 2020, the principal amount of 2010 Series D bonds outstanding was $0 and $30,990, respectively.

The 2010 Series E Bonds in the par amount of $344,200 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $300,446 in new money proceeds for WSIP capital projects. The Series E bonds were issued as serial and term bonds with coupons ranging from 4.9% to 6.0% and have a final maturity of 2040. The Series E bonds have a true interest cost (net of federal subsidy) of 3.8%. As of June 30, 2021 and 2020, the principal amount of 2010 Series E bonds outstanding was $344,200.

(f) Water Revenue Bonds 2010 Series FG

In December 2010, the Enterprise issued revenue bonds 2010 Series FG in the combined principal amount of $532,430. The purpose of the bonds is to provide $437,980 in new money for WSIP capital projects, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “Aa2” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates ranging from 3.0% to 7.0%.

The $180,960 Series F bonds were issued as tax-exempt bonds to provide $149,728 in new money for WSIP capital projects. The Series F bonds were issued as serial and term bonds with coupons ranging from 3.0% to 5.5% and have a final maturity of 2030. The Series F bonds have a true interest cost of 4.8%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $3,646 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series F bonds. BAWSCA repayment funds were combined with $131 from the 2010 Series F Capitalized Interest Account. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series F bonds maturing November 1, 2017 and 2018.

A portion of the proceeds of the 2016 Series A refunding bonds and 2019 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated October 1, 2016 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2010 Series F bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2010 Series F bonds starting on November 1, 2020 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2010 Series F bonds outstanding was $0.

The $351,470 Series G bonds were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $288,252 in new money for WSIP capital projects. The Series G bonds were issued as term bonds with a coupon of 7.0% and have a final maturity of 2050. The Series G bonds have a true interest cost (net of federal subsidy) of 4.5%. As of June 30, 2021 and 2020, the principal amount of 2010 Series G bonds outstanding was $351,470.

(g) Water Revenue Bonds 2011 Series ABCD

In August 2011, the Enterprise issued revenue bonds, 2011 Series ABCD in the combined principal amount of $720,750. The purpose of the bonds is to provide new money for WSIP capital projects, to finance Hetch Hetchy Water Improvements, and to finance the Local Water Main Replacement Projects, as well as refund $56,670 of outstanding 2001 Series A and 2002 Series A revenue bonds, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “Aa3” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates varying from 3.0% to 5.0%.

The $602,715 Series A bonds were issued as tax-exempt bonds to provide $525,000 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons ranging from 4.3% to 5.0% and have a final maturity of 2041. The Series A bonds have a true interest cost of 4.6%.

A portion of the proceeds of the 2017 Series D and G and 2019 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series A bonds starting on November 1, 2020 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2011 Series A bonds outstanding was $0.

The $28,975 Series B bonds were issued as tax-exempt bonds to provide $27,710 to finance improvements to certain up-country water storage and transmission facilities under the jurisdiction of Hetch Hetchy Water and Power and CleanPowerSF. The Series B bonds were issued as serial and term bonds with coupons ranging from 3.5% to 5.0% and have a final maturity of 2041. The Series B bonds have a true interest cost of 4.5%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $515 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2011 Series B bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2011 Series B bonds maturing November 1, 2017 through 2018.

A portion of the proceeds from the 2017 Series F and 2019 Series B refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series B bonds starting on November 1, 2022 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2011 Series B bonds outstanding was $755 and $1,485, respectively.

The $33,595 Series C bonds were issued as tax-exempt bonds to provide $33,772 to finance certain water main replacement projects within the City. The Series C bonds were issued as serial and term bonds with coupons ranging from 3.0% to 5.0% and have a final maturity of 2041. The Series C bonds have a true interest cost of 4.4%.

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $3,824 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2011 Series C bonds. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities - SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2011 Series C bonds maturing November 1, 2014 through 2018.

A portion of the proceeds of the 2017 Series E and 2019 Series C refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series C bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series C bonds starting on November 1, 2022 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2011 Series C bonds outstanding was $825 and $1,620, respectively.

The $55,465 Series D bonds were issued as tax-exempt bonds to provide $59,381 to refund, on a current basis, a portion of the 2001 Series A bonds as well as refund, on an advance basis, a portion of the 2002 Series A bonds. The Series D bonds were issued as serial bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2028. The Series D bonds have a true interest cost of 3.8%.

A portion of the proceeds of the 2017 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and October 1, 2020, respectively, to refund and legally defease a portion of the outstanding 2011 Series D bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series D bonds starting on November 1, 2022 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2011 Series D bonds outstanding was $0 and $19,135, respectively.

(h) Water Revenue Bonds 2012 Series AB and C (C1 and C2)

In June 2012, the Enterprise issued revenue bonds, 2012 Series ABC in the combined principal amount of $701,880. The purpose of the bonds was to provide $530,000 of new money for WSIP capital projects, $15,750 to reimburse the Enterprise for costs to settle litigation arising out of certain capital projects of benefit to the Enterprise, and to refund $99,180 of outstanding 2001 Series A and 2002 Series A revenue bonds, with the balance applied to financing costs and a cash-funded debt service reserve. The bonds were rated “AA-” and “Aa3” from S&P and Moody’s, respectively. The bonds included serial and term bonds with interest rates varying from 4.0% to 5.0%.

The $591,610 Series A bonds were issued as tax-exempt bonds to provide $530,000 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2043. The Series A bonds have a true interest cost of 4.3%. A portion of the proceeds of the 2017 Series D, 2019 Series A, and 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017, December 1, 2019, and October

1, 2020 respectively, to refund and legally defease a portion of the outstanding 2012 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series A bonds starting on November 1, 2031 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2012 Series A bonds outstanding was $0 and $216,540, respectively.

The $16,520 Series B bonds were issued as tax-exempt bonds to reimburse the Enterprise $15,750 for costs to settle litigation arising out of certain capital projects of benefit to the Enterprise. The Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2043. The Series B bonds have a true interest cost of 4.1%. A portion of the proceeds of the 2020 Series G refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2012 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series B bonds starting on November 1, 2031 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2012 Series B bonds outstanding was $0 and $16,520, respectively.

The $93,750 Series C bonds were issued as tax-exempt bonds to provide $101,147 to refund, on a current basis, a portion of the 2001 Series A bonds as well as refund, on an advance basis, a portion of the 2002 Series A bonds. The Series C bonds were issued as serial bonds with coupons ranging from 4.0% to 5.0% and have a final maturity of 2032. The Series C bonds have a true interest cost of 3.7%. A portion of the proceeds of the 2017 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements dated December 1, 2017 and October 1, 2020, respectively, to refund and legally defease a portion of the outstanding 2012 Series C bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2012 Series C bonds starting on November 1, 2025 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2012 Series C bonds outstanding was $0 and $78,035, respectively.

(i) *Water Revenue Refunding Bonds 2012 Series D*

In August 2012, the Enterprise issued tax-exempt revenue bonds, 2012 Series D in the amount of $24,040 for the purpose of refunding the remaining portion of the outstanding 2002 Series B bonds maturing on and after November 1, 2013. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2012 Series D refunding bonds include serial bonds with interest rates ranging from 1.8% to 5.0% and have a final maturity in 2019. The Series D bonds have a true interest cost of 1.34%. Unamortized 2002 Series B bond issuance costs were $258 at the date of the refunding. The refunding resulted in the recognition of a deferred accounting loss of $582, $108 gross debt service savings over the next seven-year terms, and an economic gain of $1,397 or 5.8% of the refunded principal. As of June 30, 2021 and 2020, the principal amount of 2012 Series D bonds outstanding was $0.

(j) Water Revenue Refunding Bonds 2015 Series A

In April 2015, the Enterprise issued tax-exempt revenue bonds, 2015 Series A in the amount of $429,600 for the purpose of refunding all the outstanding 2006 Series A bonds maturing on and after November 1, 2015 and portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2023. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2015 Series A bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2036. The Series A bonds have a true interest cost of 3.3%. Unamortized 2006 Series A bond issuance costs were $1,392, and there were no unamortized bond issuance costs for 2009 Series A bonds at the date of the refunding. The refunding resulted in the recognition of a deferred accounting loss of $25,365, gross debt service savings of $28,148 over the next 20 two-year terms, and an economic gain of $48,561 or 10.3% of refunded principal. As of June 30, 2021 and 2020, the principal amount of 2015 Series A bonds outstanding was $397,745 and $412,380, respectively.

(k) Water Revenue Refunding Bonds 2016 Series AB

In October 2016, the Enterprise issued tax-exempt revenue bonds, 2016 Series AB in the aggregate amount of $893,820. The 2016 Series A bonds were issued for the purpose of refunding a portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2020, a portion of the outstanding 2009 Series B bonds maturing on and after November 1, 2020, and a portion of the outstanding 2010 Series F bonds maturing on and after November 1, 2021. The 2016 Series B bonds were issued for the purpose of refunding, on a current basis, all the outstanding 2006 Series B and Series C bonds, and a portion of the outstanding 2010 Series A bonds maturing on and after November 1, 2020, the bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2016 Series AB bonds include serial bonds with interest rates varying from 1.5% to 5.0% and have a final maturity in 2039. The Series AB bonds have a true interest cost of 2.9%. Unamortized bond issuance costs at the date of refunding were $145 for 2006 Series B bonds and $54 for 2006 Series C bonds. The refunding resulted in the recognition of a deferred accounting loss of $106,205, gross debt service savings of $135,966, and an economic gain of $107,152 or 11.5% of refunded principal. As of June 30, 2021 and 2020, the principal amount of 2016 Series AB bonds outstanding was $824,575 and $858,985, respectively.

(l) Water Revenue Bonds 2016 Series C

In December 2016, the Enterprise issued taxable bonds, 2016 Series C in the amount of $259,350. The bonds were issued as Green Bonds. The purpose of the bonds was to refund all of the outstanding taxable commercial paper notes in the approximate amount of $237,000, and to provide $19,975 of new money for WSIP capital projects. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2016 Series C bonds include serial bonds with interest rates varying from 0.9% to 4.0% and have a final maturity in 2046, and two term bonds with 4.0% and 4.2% interest rates and final maturities of 2041 and 2046. The Series C bonds have a true interest cost of 3.9%. As of June 30, 2021 and 2020, the principal amount of 2016 Series C bonds outstanding was $237,050 and $242,755, respectively.

(m) Water Revenue Bonds 2017 Series ABC

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 ABC in the aggregate amount of $339,540. The purpose of the 2017 Series ABC Bonds was to refund approximately $120,500 aggregate principal amount of commercial paper notes and to provide

$230,500 new money for WSIP capital projects, other various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2017 Series ABC bonds include serial bonds with coupon rates of 5.0% and have final maturity in 2045, and four term bonds with coupons of 5.0% and final maturities from 2045 to 2047.

The $121,140 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $60,265 of commercial paper notes and to provide $65,500 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. The Series A bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series A bonds starting on November 1, 2030 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2017 Series A bonds outstanding was $27,000 and $121,140, respectively.

The $147,725 2017 Series B bonds were issued as tax-exempt bonds to provide $150,000 in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. The Series B bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series F refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series B bonds starting on November 1, 2030 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2017 Series B bonds outstanding was $32,930 and $147,725, respectively.

The $70,675 2017 Series C bonds were issued as tax-exempt bonds to refund approximately $60,266 of commercial paper notes and to provide $15,000 in new money for Hetch Hetchy Water capital projects. The Series C bonds were issued as serial bonds and a term bond with coupons of 5.0% and have a final maturity of 2047. The Series C bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series H refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series C bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series C bonds starting on November 1, 2030 and thereafter. As of June 30, 2021 and 2020, the principal amount of 2017 Series C bonds outstanding was $15,750 and $70,675, respectively.

(n) Water Revenue Refunding Bonds 2017 Series DEFG

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 Series DEF, and taxable 2017 Series G refunding bonds in the aggregate amount of $442,180. The 2017 Series D (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding

2011 Series A (WSIP) bonds maturing on and after November 1, 2022, a portion of the outstanding 2012 Series A bonds maturing on and after November 1, 2031.

The 2017 Series E bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2022, a portion of the outstanding 2011 Series D bonds maturing on and after November 1, 2022, a portion of 2012 Series C1 bonds maturing on or after November 1, 2029.

The 2017 Series F bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2022.

The taxable 2017 Series G (WSIP, Green) bonds were issued to refund a portion of the outstanding 2011 Series A bonds maturing on and after November 1, 2022.

The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2017 Series DEFG bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2035. The Series DEFG bonds have a true interest cost of 2.9%. The refunding resulted in the recognition of a deferred accounting loss of $34,275, gross debt service savings of $68,942, and an economic gain of $51,698 or 10.7% of refunded principal. As of June 30, 2021 and 2020, the principal amount of 2017 Series DEFG bonds outstanding was $438,095 and $439,485, respectively.

(o) Water Revenue Refunding Bonds 2019 Series ABC

In January 2020, the Enterprise issued taxable revenue bonds, 2019 Series ABC refunding bonds in the aggregate amount of $656,955. The 2019 Series A (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series F (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2020, and a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2035.

The 2019 Series B (Hetch Hetchy Water) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2032.

The 2019 Series C (Local) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2032.

The bonds carried "Aa2" and "AA-" ratings from Moody's and S&P, respectively. The 2019 Series ABC bonds include serial bonds with interest rates varying from 1.8% to 3.5% and have a final maturity in 2043. The Series ABC bonds have a true interest cost of 3.3%. The refunding resulted in the recognition of a deferred accounting loss of $17,329, gross debt service savings of $119,827, and an economic gain of $92,556 or 14.0% of refunded principal. As of June 30, 2021 and 2020, the principal amount of 2019 Series ABC bonds outstanding was $650,100 and $656,955, respectively.

(p) Water Revenue Bonds 2020 Series ABCD

In September 2020, the Enterprise issued tax-exempt revenue bonds, 2020 Series ABCD in the aggregate amount of $346,760. The purpose of the 2020 Series ABCD Bonds was to refund approximately $229,770 aggregate principal amount of commercial paper notes and to provide $164,632 new money for various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried "Aa2" and "AA-" ratings from Moody's and S&P,

respectively. The 2020 Series ABCD bonds include term bonds with coupons of 3.0% to 5.0% and final maturities from 2045 to 2050.

The $150,895 2020 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $180,000 of commercial paper notes for WSIP capital projects. The Series A bonds were issued as term bonds with coupons of 4.0% and 5.0% and a final maturity of 2050. The 2020 Series A bonds have a true interest cost of 3.3%. As of June 30, 2021, the principal amount of 2020 Series A bonds outstanding was $150,895.

The $61,330 Series B bonds were issued as tax-exempt bonds to provide $69,644 in new money for Water Enterprise capital projects (non-WSIP, Regional). The Series B bonds were issued as term bonds with coupons of 5.0% and have a final maturity of 2050. The Series B bonds have a true interest cost of 3.7%. As of June 30, 2021, the principal amount of 2020 Series B bonds outstanding was $61,330.

The $85,335 Series C bonds were issued as tax-exempt bonds to provide $94,948 in new money for Water Enterprise capital projects (non-WSIP, Local). The Series C bonds were issued as term bonds with coupons of 4.0% and have a final maturity of 2050. The Series C bonds have a true interest cost of 3.0%. As of June 30, 2021, the principal amount of 2020 Series C bonds outstanding was $85,335.

The $49,200 Series D bonds were issued as tax-exempt bonds to refund approximately $49,761 of commercial paper notes for Hetch Hetchy Water capital projects. The Series D bonds were issued as term bonds with coupons of 3.0% and a final maturity of 2050. The 2020 Series D bonds have a true interest cost of 2.7%. As of June 30, 2021, the principal amount of 2020 Series D bonds outstanding was $49,200.

(q) Water Revenue Refunding Bonds 2020 Series EFGH

In October 2020, the Enterprise issued taxable revenue bonds, 2020 Series EFGH refunding bonds in the aggregate amount of $664,395. The 2020 Series E (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2038, and a portion of the outstanding 2017 Series A (WSIP) bonds maturing on and after November 1, 2030.

The 2020 Series F (non-WSIP, Regional) bonds were issued for the purpose of refunding a portion of the outstanding 2017 Series B bonds maturing on or after November 1, 2030.

The 2020 Series G (non-WSIP, Local) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D bonds maturing on or after November 1, 2020, a portion of the 2011 Series D bonds maturing on or after November 1, 2022, a portion of 2012 Series B bonds maturing on or after November 1, 2031, and a portion of 2012 Series C bonds maturing on or after November 1, 2025.

The 2020 Series H (Hetch Hetchy Water) bonds issued for the purpose of refunding a portion of the outstanding 2017 Series C bonds maturing on or after November 1, 2030.

The bonds carried "Aa2" and "AA-" ratings from Moody's and S&P, respectively. The 2020 Series EFGH bonds include serial bonds and term bonds with interest rates varying from 0.3% to 3.1% and have a final maturity in 2047. The Series EFGH bonds have a true interest cost of 2.7%. The refunding resulted in the recognition of a deferred accounting loss of $27,010, gross debt service savings of $117,114, and an economic gain of $75,212 or 12.0% of refunded principal. As of June 30, 2021, the principal amount of 2020 Series EFGH bonds outstanding was $664,395.

(Dollars in thousands, unless otherwise stated)

(r) Future Annual Debt Service of Revenue Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2021. The federal interest subsidy amounts represent 35.0%, excluding sequestration, of the interest for the revenue bond 2010 Series B, E, and G.

		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2022	$	108,500	207,724	(21,621)	186,103
2023		125,285	203,067	(21,290)	181,777
2024		135,095	197,481	(20,841)	176,640
2025		140,485	191,563	(20,370)	171,193
2026		151,930	185,085	(19,876)	165,209
2027-2031		855,920	810,584	(90,665)	719,919
2032-2036		1,043,890	590,944	(70,000)	520,944
2037-2041		1,130,175	340,236	(41,112)	299,124
2042-2046		530,145	166,499	(19,364)	147,135
2047-2051		471,725	61,353	(7,098)	54,255
		4,693,150	2,954,536	(332,237)	2,622,299
Less: Current portion		(108,500)			
Less: Unamortized bond discount		(133)			
Add: Unamortized bond premiums		301,758			
Long-term portion as of June 30, 2021	$	4,886,275			

* The SFPUC received IRS notice dated June 29, 2021 that the federal interest subsidies on the 2010 Series B bonds, 2010 Series E bonds, and 2010 Series G bonds are reduced by 5.7%, or a total reduction of $20,081, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

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

(s) Clean Water State Revolving Fund (CWSRF) Loan and Grant

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of $186,220, which includes $15,000 of principal forgiveness, or a grant. It will bear an interest rate of 1.0% for a 30-year term, with loan repayment beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2021 was $107,407. In addition, there was $15,000 of principal forgiveness. As of June 30, 2020, principal outstanding was $73,271.

(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2022	$	1,667	574	2,241
2023		3,222	1,057	4,279
2024		3,254	1,025	4,279
2025		3,287	993	4,280
2026		3,320	960	4,280
2027-2031		17,103	4,294	21,397
2032-2036		17,975	3,422	21,397
2037-2041		18,892	2,505	21,397
2042-2046		19,856	1,541	21,397
2047-2051		18,831	529	19,360
		107,407	16,900	124,307
Less: Current portion		(1,667)		
Long-term portion as of June 30, 2021	$	105,740		

(t) *Proposition A*

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of indebtedness by the Commission in a principal amount not to exceed $1,628,000 to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2021, there was no commercial paper outstanding pursuant to this authorization and $1,499,230 of bonds had been issued in fiscal years 2006, 2010, 2012, 2021 against Prop A. The total authorization against Prop A was $1,499,230 as of June 30, 2021.

(u) *Proposition E*

On November 5, 2002, the San Francisco voters passed Proposition E, which authorizes the Board of Supervisors' approval of the issuance of revenue bonds and/or other forms of indebtedness by the Commission to finance costs for the Commission's capital programs, including WSIP. As of June 30, 2021, the Board of Supervisors authorized the issuance of $4,617,099 in revenue bonds with $3,660,525 issued against this authorization; and in September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project in the amount of $186,220 (which includes a $15,000 grant and $107,407 in reimbursements requested on the loan as of June 30, 2021). Additionally, $105,862 and $362,354 in commercial paper was outstanding pursuant to this authorization as of June 30, 2021 and 2020, respectively.

(v) *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.

(Dollars in thousands, unless otherwise stated)

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. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. There are no events of default stated in the 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 and D 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	$	2,970	230	3,200
2023		3,124	78	3,202
		6,094	308	6,402
Less: Current portion		(2,970)		
Add: Unamortized bond premiums		69		
Long-term portion as of June 30, 2021	$	3,193		

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy *	Interest net of subsidy
Fiscal years ending June 30:					
2022	$	–	5,968	(1,970)	3,998
2023		–	5,968	(1,970)	3,998
2024		3,267	5,864	(1,935)	3,929
2025		3,402	5,652	(1,865)	3,787
2026		3,545	5,431	(1,792)	3,639
2027-2031		20,099	23,497	(7,755)	15,742
2032-2036		24,751	16,291	(5,377)	10,914
2037-2041		30,523	7,357	(2,428)	4,929
2042		6,912	224	(74)	150
Total			76,252	(25,166)	51,086
Long-term portion as of June 30, 2021	$	92,499			

* 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 $1,521, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(w) *Events of Default and Remedies*

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Significant Events of default as specified in the Water Enterprise Indenture (applicable to Water Revenue Bonds, Capital Appreciation Bonds and SRF

(Dollars in thousands, unless otherwise stated)

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, and of all Capital Appreciation bonds then outstanding, in the amount of the Accreted Value thereof, to be due and payable immediately. As of June 30, 2021, there were no such events describe 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 loans provided financing for various capital construction projects, and to refund previously issued bonds. The bonds and State Revolving Fund loans are payable solely from revenues of the Enterprise through the fiscal year ending 2051.

The original amount of revenue bonds and State Revolving Funds loan issued, 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	$ 4,891,480	4,585,440
Principal and interest remaining due at the end of the year	7,771,993	7,388,886
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	107,407	73,271
Principal and interest paid during the year	248,427	269,210
Net revenues for the year ended June 30	339,046	339,947
Funds available for debt service	467,738	581,878

(9) Wholesale Balancing Account

Water Supply Agreement

From 1984-2009, the Enterprise provided water service pursuant to the terms of the 1984 Water Settlement Agreement and Master Water Sales Contract, which established the basis for water rates to be charged to those customers (Wholesale Customers). The Master Water Sales Contract expired on June 30, 2009. The Commission and the Wholesale Customers approved a Water Supply Agreement (WSA) effective July 1, 2009 (the contract was restated and amended by the SFPUC on December 11, 2018). The WSA has a 25-year term from July 1, 2009 with two options for five-year extensions. The existing 184 million gallons per day (mgd) Supply Assurance continues under the WSA and no increase in the Supply Assurance will be considered before December 31, 2028. During the period from 2009 to 2028, the WSA limits the quantity of water delivered to Retail Customers and Wholesale Customers from the watersheds to 265 mgd. Under the WSA, annual operating expenses, including debt service on bonds sold to finance regional system improvements and regional capital projects funded from revenues, will be allocated between Retail Customers and Wholesale Customers on the basis of proportionate annual water use. The original WSA stated the Wholesale Customers' share of net book value of existing regional assets as of June 30, 2009 would be recovered on level annual payment over the 25-year term of the WSA at an interest rate of 5.13%. The 25-year term repayment obligation was settled in February 2013. The Wholesale Customers made an early repayment to the Enterprise of the outstanding balance of $356,139 as discussed further in the "BAWSCA Early Repayment" Section 5.03 of the WSA. The WSA continues much of the rate setting, accounting, and dispute resolution provisions contained in the expired contract, and has emergency and drought-pricing adjustment provisions.

Pursuant to the terms of the WSA, the Enterprise is required to establish water rates applicable to the Wholesale Customers annually. The wholesale water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Article V of the WSA (the Wholesale Revenue Requirement (WRR), previously known as the Suburban Revenue Requirement). During fiscal years ending in 2021 and 2020, the WRR, net of adjustments, charged to such wholesale customers was $275,992 and $256,280, respectively. Such amounts are subject to final review by the Wholesale Customers, along with a trailing wholesale balancing account compliance audit of the WRR calculation.

Pursuant to Article VII, Section 7.02 of the WSA, the Enterprise is required to re-compute the WRR after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenues earned during the year and the “actual” WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if the wholesale revenues exceed the WRR) or owed to the City (if the WRR exceeds the wholesale revenues paid). In accordance with Article VI of the WSA, the amount recorded in the Balancing Account shall earn interest at a rate equal to the average rate received by the City during the year on the invested pooled funds of the City Treasury, and shall be taken into consideration in the determination of subsequent wholesale water rates. The Enterprise owed the Wholesale Customers $60,864 and $64,857 for the years ended June 30, 2021 and 2020, respectively, a decrease of $3,993. Refer to the compliance audit report for the final balancing account available at https://sfpuc.org/about-us/reports/audited-financial-statements-annual-financial-reports.

In addition to advancing funds to acquire the pre-2009 assets as discussed previously, the Enterprise has also previously appropriated funds, advanced through rates charged to Retail Customers, for construction of capital projects that were not yet placed into service as of June 30, 2009. Wholesale Customers’ share of these construction work in progress costs is calculated in accordance with the provisions in the WSA, including a 10-year repayment term and payment of annual principal and interest rate calculated at 4.0% annually. The total obligation of the Wholesale Customers to the Enterprise is estimated at $9,542, and the level annual payment including principal and interest is approximately $1,159. The Wholesale Customers made the first annual payment as of June 30, 2015 and will end on June 30, 2024.

(10) Employee Benefits

(a) Pension Plan

The Enterprise participates in a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees’ Retirement System (SFERS). 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 the SFERS Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. 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.

(Dollars in thousands, unless otherwise stated)

Replacement Benefits Plan – The Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Plan. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

GASB Statements No. 68 and 73 require that the SFERS Plan and RBP 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

The City is an employer of the 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), 0.26% increase from prior year. 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 the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 4.21% as of June 30, 2020, and 4.23% as of June 30, 2019 (measurement dates).

Replacement Benefits Plan – The Enterprise's allocation percentage was determined based on the Enterprise's headcount (both active members and retirees) divided by the City's total headcount for fiscal year 2020. The Enterprise's total pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 0.64% as of the measurement date.

Plan Description – The 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 after retirement. The 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 Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website 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 – Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments (COLA) after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the 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 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 CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the 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 Plan is also fully funded on a market value of assets basis. Certain provisions 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 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 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 and Contribution Policy

SFERS Plan – 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 City 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 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 year ended June 30, 2020 and 2019 (measurement period) were $701,307 and $607,408, respectively. The Enterprise's allocation of employer contributions for fiscal year 2020 and 2019 (measurement period) were $29,647, and $26,440, respectively.

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $3,600 replacement benefits in the year ended June 30, 2021.

Pension Liabilities, Pension Expenses, and 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 Plan and RBP of $5,292,473 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 and RBP 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 Plan as of June 30, 2021 was $215,240. The Enterprise's allocation of the total pension liability for the RBP as of June 30, 2021 was $1,177.

For the year ended June 30, 2021, the City's recognized pension expense was $962,576 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 $43,929. Pension expense increased from the prior year, largely due to the amortization of deferrals.

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:

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021 Schedule of Deferred Outflows and Inflows of Resources

	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 33,367	–	–	–
Differences between expected and actual experience	7,310	674	112	–
Changes in assumptions	11,817	3,728	315	13
Net difference between projected and actual earnings on pension plan investments	4,507	–	–	–
Change in employer's proportion	6,987	54	382	416
Total	$ 63,988	4,456	809	429

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	SFERS Plan	Replacement Benefits Plan
2022	$ 54	109
2023	6,166	193
2024	11,286	12
2025	8,659	66
Total	$ 26,165	380

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 $178,133.

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 $22,296. Pension expense decreased 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 contribution subsequent to measurement date	$	29,647	—
Differences between expected and actual experience		1,319	1,961
Changes in assumptions		25,333	—
Net difference between projected and actual earnings on pension plan investments		—	32,824
Change in employer's proportion		10,785	109
Total	$	67,084	34,894

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	$	11,020
2022		(8,610)
2023		(2,494)
2024		2,627
Total	$	2,543

Actuarial Assumptions

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2020 (measurement year) 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 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%

Key Actuarial Assumptions	Replacement Benefits Plan			
Valuation Date	June 30, 2019 updated to June 30, 2020			
Measurement Date	June 30, 2020			
Actuarial Cost Method	Entry - Age Normal Cost			
Municipal Bond Yield	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 employee classification and years of service			
Discount Rate	2.21% as of June 30, 2020			
Administrative Expenses	0.60% of payroll as of June 30, 2020			
Basic COLA	Old Miscellaneous	Old Police & Fire	Old Police & Fire, Charters	Old Police & Fire, Charters
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 demographic experience study for the period July 1, 2009 through June 30, 2014 and an economic experience study 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

(Dollars in thousands, unless otherwise stated)

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.

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	7.4% 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 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 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 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 COLAs 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 is 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 Return	15.0	3.0
Private Credit	10.0	4.8
Treasuries	6.0	-0.5
Liquid Credit	3.0	2.7
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 2.21% as of June 30, 2020. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 27, 2019 and June 25, 2020. These are the rates used to determine the total pension liability as of June 30, 2020.

The inflation assumption of 2.75% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $230 for 2020 was used for the 2020 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2021, City's membership in the RBP had a total of 683 active members and 105 retirees and beneficiaries currently receiving benefits. The Enterprise has 4 active members and 1 retiree and beneficiary currently receiving benefits.

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 June 30, 2019 (measurement date) and 7.50% as of 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.

(Dollars in thousands, unless otherwise stated)

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.

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 COLAs 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.

(Dollars in thousands, unless otherwise stated)

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 is 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.

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	5.3 %
Treasuries	6.0	0.9
Liquid Credit	3.0	3.6
Private Credit	10.0	5.2
Private Equity	18.0	8.3
Real Assets	17.0	5.4
Hedge Funds/Absolute Return	15.0	3.9
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%
Water	$ 380,571	215,240	78,645

Fiscal Year 2020

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPL @ 7.40%	1% Increase Share of NPL @ 8.40%
Water	$ 336,241	178,133	47,500

The following presents the Enterprise's allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits 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.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021

Employer	1% Decrease @ 1.21%	Measurment Date @ 2.21%	1% Increase @ 3.21%
Water	$ 1,418	1,177	989

(b) Other Post-Employment Benefits

The Enterprise participates in a 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. It 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 postemployment 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.

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 and June 30, 2019. 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 3.89% and 4.18%, respectively.

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

(Dollars in thousands, unless otherwise stated)

[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 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, 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 $9,572, and for fiscal year 2020 was $9,863.

(Dollars in thousands, unless otherwise stated)

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 $148,771.

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 $5,978.

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 9,572	$ -
Differences between expected and actual experience	5,394	21,315
Changes in assumptions	7,531	-
Change in Proportion	15,168	
Net difference between projected and actual earnings on plan investments	97	-
Total	$ 37,762	$ 21,315

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 follow:

Year ended June 30:	
2022	$ 1,266
2023	1,324
2024	1,312
2025	1,351
2026	1,368
Thereafter	254
Total	$ 6,875

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 $163,684.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2020, the City's recognized OPEB expense was $330,673. Amortization of the City's deferred inflow is included as a component of pension expense. The Enterprise's proportionate share of the City's OPEB expense was $6,125.

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 9,863	$ -
Differences between expected and actual experience	6,953	11,517
Changes in assumptions	3,318	-
Change in Proportion	7,449	-
Net difference between projected and actual earnings on plan investments	-	255
Total	$ 27,583	$ 11,772

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 follow:

Year ended June 30:	
2021	$ 909
2022	909
2023	972
2024	960
2025	1,002
Thereafter	1,196
Total	$ 5,948

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:

(Dollars in thousands, unless otherwise stated)

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.

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:

(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	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 flat 3.5% 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 Disable Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disables 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.

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:

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 128,633	$ 148,771	$ 175,020

Fiscal Year 2020

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 141,666	$ 163,684	$ 191,022

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 (TIPS)	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%	

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%.

(Continued)

(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:

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 172,646	$ 148,771	$ 129,281

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		
Treasury Inflation Protected Securities	5.0%	3.6%
Investment Grade Bonds	9.0%	3.9%
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%.

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:

(Dollars in thousands, unless otherwise stated)

1% Decrease 6.40%	Discount Rate 7.40%	1% Increase 8.40%
$ 189,008	$ 163,684	$ 142,994

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.

(11) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF Enterprise, and the Wastewater 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 including COVID-19 Project expenses of $48,374 or 49.4% and $45,533 or 49.3% 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 water from Hetch Hetchy Water. The amounts, totaling $44,149 and $34,585 for the years ended June 30, 2021 and 2020, respectively, have been included in the services provided by other departments in the accompanying financial statements.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. The amounts, totaling $9,790 and $9,909 for the years ended June 30, 2021 and 2020, respectively, have been included in services provided by other departments in the accompanying financial statements.

The Enterprise sold water to the Wastewater 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 charges for services in the accompanying financial statements.

Since fiscal year 2008, the Enterprise has charged City departments for water usage except for fire hydrants, which are used for general public safety. In fiscal years 2021 and 2020, the Enterprise delivered water for fire hydrant purposes totaling $7, based on metered usage and applicable water rates, and the amount has been excluded from operating revenues in the accompanying financial statements.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling $16,239 and $16,634 for the years ended June 30, 2021 and 2020, respectively, have been included in services provided by other departments in the accompanying financial statements.

During the fiscal year ended June 30, 2021, the Enterprise transferred $16,000 to Hetch Hetchy Water to fund various upcountry capital projects, $622 to the Arts Commission for arts enrichment, and $32 to the Office of the City Administrator for the Surety Bond Program. The Enterprise received

(Dollars in thousands, unless otherwise stated)

$20,040 from the City for the Emergency Firefighting Water system, and $985 from the General Fund for low income assistance programs and the Native Plant Garden project.

As of June 30, 2021, the Enterprise has no payables to other City departments. As of June 30, 2020, the Enterprise had payables in the amount of $606 to the Office of the City Attorney for legal services provided, and $68 to the Department of Public Works for sidewalk inspection and repair projects.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Park Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. The 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 $45 and $3,309, respectively; and at June 30, 2020, the Enterprise's allocable shares of expenses and prepayment were $45 and $3,354, respectively.

(12) 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.

	Risk	Coverage Approach
(a)	General liability	Self-Insured
(b)	Workers' compensation	Self-Insured through Citywide 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 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.

(Dollars in thousands, unless otherwise stated)

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

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
2021	$ 10,767	27,643	(1,687)	36,723
2020	11,509	709	(1,451)	10,767

(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.

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

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
2021	$ 9,174	1,912	(2,258)	8,828
2020	10,336	1,065	(2,227)	9,174

(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.

(13) Commitments and Litigation

(a) *Commitments*

As of June 30, 2021 and 2020, the Enterprise has outstanding commitments with third parties of $185,161 and $208,832, respectively, for various capital projects and other purchase agreements for materials and services.

(b) *Grants*

Grants that the Enterprise receives 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 those 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 $1,271 and $1,577 in pollution remediation liability, respectively. This decrease of $306 in pollution remediation liability in fiscal year 2021 is for expenses relating to the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from the Pacific Rod & Gun Club site in the Lake Merced area, and remediation activities for the 17th and Folsom site. As of June 30, 2021, the pollution remediation liability of $1,271 was related to the Pacific Rod & Gun Club site. As of June 30, 2020, the pollution remediation liability of $1,577 consisted of $1,274 for the Pacific Rod & Gun Club site, and $303 for the 17th and Folsom site.

(14) Subsequent Events

(a) Declaration of Emergency

On August 23, 2021 a water main ruptured at 22nd Avenue and Sloat Boulevard, causing flooding to adjacent areas. In accordance with Chapter 6, Article IV, Section 6.60(d) of the Administrative Code of the City, the SFPUC declared an emergency relating to this event. As of issuance date, the Enterprise has spent $387 towards restoration.

(b) SFPUC's Claim to California 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. The SFPUC has submitted surveys to the State Water Board with information on water arrearages accrued during the pandemic and is in the process of submitting an application. Funds of approximately $7,310 for water arrearage relief are expected to reach the SFPUC sometime in early 2022.

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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 Water 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.

Cover photo: Alameda Creek, Alameda Watershed
Back photo: Bay Division Pipeline Tunnel Event, Pulgas Water Temple, water flow
Photos by: Robin Scheswohl

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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