Delivering high-quality water everyday.

Water Enterprise

Financial Statements June 30, 2020 and 2019 (With Independent Auditors' Report Thereon)

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

SAN FRANCISCO WATER ENTERPRISE

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco 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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements as listed in the table 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 audits. We conducted our audits 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, 2020 and 2019, 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, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021 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 22, 2021

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, 2020 and 2019. 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 191 million gallons of water per day in the year ended June 30, 2020. Approximately two-thirds of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining one-third 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, non-capital, 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 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. This proclamation did not suspend or have a material effect on the operations of the Enterprise.

Financial Analysis

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.
- 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 Highlights for Fiscal Year 2019

- Total assets exceeded total liabilities by $381,783.
- Net position increased by $52,614 or 10.7% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $125,425 or 2.4% to $5,388,658.
- Current and other assets decreased by $71,821 or 10.6% mainly due to debt principal and interest repayments and Water System Improvement Program (WSIP) related capital projects spending.

(Dollars in thousands, unless otherwise stated)

- Operating revenues increased by $16,752 or 3.2% to $542,391.
- Operating expenses decreased by $13,053 or 3.5% to $357,094.

Financial Position

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

Table 1
Comparative Condensed Net Position
June 30, 2020, 2019, and 2018

	2020	2019	2018	2020-2019 Change	2019-2018 Change
Total assets:					
Current and other assets	$ 701,206	604,463	676,284	96,743	(71,821)
Capital assets, net of accumulated depreciation and amortization	5,530,545	5,388,658	5,263,233	141,887	125,425
Total assets	6,231,751	5,993,121	5,939,517	238,630	53,604
Deferred outflows of resources:					
Unamortized loss on refunding of debt	144,189	139,061	150,255	5,128	(11,194)
Pensions	67,084	55,465	62,062	11,619	(6,597)
Other post-employment benefits	27,583	13,142	9,122	14,441	4,020
Total deferred outflows of resources	238,856	207,668	221,439	31,188	(13,771)
Liabilities:					
Current liabilities:					
Revenue and capital appreciation bonds	94,080	100,899	76,665	(6,819)	24,234
Certificates of participation	2,824	2,688	2,556	136	132
Commercial paper	362,354	161,336	40,312	201,018	121,024
Other liabilities	134,563	132,251	137,576	2,312	(5,325)
Subtotal current liabilities	593,821	397,174	257,109	196,647	140,065
Long-term liabilities:					
Revenue and capital appreciation bonds	4,601,215	4,709,678	4,839,101	(108,463)	(129,423)
Certificates of participation	98,754	101,704	104,550	(2,950)	(2,846)
State revolving fund loans	73,271	–	–	73,271	–
Other liabilities	415,865	402,782	455,341	13,083	(52,559)
Subtotal long-term liabilities	5,189,105	5,214,164	5,398,992	(25,059)	(184,828)
Total liabilities:					
Revenue and capital appreciation bonds	4,695,295	4,810,577	4,915,766	(115,282)	(105,189)
Certificates of participation	101,578	104,392	107,106	(2,814)	(2,714)
Commercial paper	362,354	161,336	40,312	201,018	121,024
State revolving fund loans	73,271	–	–	73,271	–
Other liabilities	550,428	535,033	592,917	15,395	(57,884)
Total liabilities	5,782,926	5,611,338	5,656,101	171,588	(44,763)
Deferred inflows of resources:					
Related to pensions	34,894	33,330	15,063	1,564	18,267
Other post-employment benefits	11,772	13,983	268	(2,211)	13,715
Total deferred inflows of resources	46,666	47,313	15,331	(647)	31,982
Net position:					
Net investment in capital assets	527,856	563,457	504,476	(35,601)	58,981
Restricted for debt service	15,916	16,193	22,933	(277)	(6,740)
Restricted for capital projects	43,122	–	32,978	43,122	(32,978)
Unrestricted	54,121	(37,512)	(70,863)	91,633	33,351
Total net position	$ 641,015	542,138	489,524	98,877	52,614

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.

Net Position, Fiscal Year 2019

For the year ended June 30, 2019, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $542,138. Total net position increased from prior year by $52,614 or 10.7% (see Table 1). The increase in net position was the result of an increase of $39,833 in assets and deferred outflows of resources, coupled with a decrease of $12,781 in liabilities and deferred inflows of resources.

Current and other assets primarily is 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, 2019, the Enterprise owed the wholesale customers $64,829, 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(a), Water Supply Agreement, for additional details.

During the fiscal year 2019, current and other assets decreased by $71,821 or 10.6%. The decreases included $74,244 in restricted and unrestricted cash and investments mainly due to debt principal and interest repayments and capital projects spending, $693 in restricted interest receivables mainly due to lower cash balances in capital projects funds, $214 in state grants collections relating to high efficiency toilet installation projects, $135 in inventory from more issuances than purchases during the fiscal year. These decreases were offset by increases of $1,355 in interest receivable from higher interest rates, $1,050 in prepaid charges, advances and other receivables mainly due to increases in prepaid charges for rents, software licenses and other costs, $714 in charges for services receivable due to an increase in billing rates, and $346 mainly due from the Department of Public Works for Mission Bay South, Hunters View and Transbay Folsom custom work projects.

Capital assets, net of accumulated depreciation and amortization, increased by $125,425 or 2.4% from construction and capital improvement activities. The largest portion of the Enterprise's net position of $563,457 or 105.4% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which increased by $58,981 or 11.7% from prior year's $504,476; as explained by a $125,425 increase in capital assets in buildings, structures, and improvements and construction in progress, offset by a $66,444 increase in liabilities related to capital assets mainly due to issuance of commercial paper. Deferred outflows of resources decreased by $13,771 due to an $11,194 decrease from amortization of bond refunding loss, and $6,597 decrease from pensions based on actuarial report, offset by a $4,020 increase in other post-employment benefits obligations (OPEB) based on actuarial report.

(Dollars in thousands, unless otherwise stated)

Total liabilities decreased by $44,763 or 0.8% which is explained by decreases of $107,903 in principal of revenue bonds, capital appreciation bonds and certificates of participation mainly due to principal repayments, $33,574 in net pension liability based on actuarial report, $16,897 in restricted and unrestricted payables mainly from lower WSIP project activities, $15,565 in other post-employment benefits obligations from actuarial assumptions, $1,893 in general liability based on actuarial report, $621 in workers' compensation based on actuarial estimates, $481 in interest payable, $303 in accrued payroll, vacation and sick leave, $117 in pollution remediation liability mainly for the Lake Merced and 17th and Folsom sites (see Note 13(d) for details), and $96 payment to the Department of Public Works for road structure support projects. These decreases were offset by increases of $121,024 in commercial paper from additional issuances, $8,963 in the Wholesale Balancing Account (see Note 9(a) for details), and $2,700 in unearned revenues mainly from BAWSCA bond surcharge.

Deferred inflows of resources increased by $31,982 due to a $18,267 increase relating to pension, and a $13,715 increase in OPEB obligations based on actuarial report.

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, 2020, 2019, and 2018

	2020	2019	2018	2020-2019 Change	2019-2018 Change
Revenues:					
Charges for services	$ 550,753	509,703	495,138	41,050	14,565
Rents and concessions	12,124	13,010	12,906	(886)	104
Other operating revenues	20,474	19,678	17,595	796	2,083
Interest and investment income	10,517	15,650	6,448	(5,133)	9,202
Other non-operating revenues	94,734	32,399	39,064	62,335	(6,665)
Total revenues	688,602	590,440	571,151	98,162	19,289
Expenses:					
Operating expenses	398,117	357,094	370,147	41,023	(13,053)
Interest expenses	191,246	177,998	164,001	13,248	13,997
Amortization of premium, discount, refunding loss, and issuance costs	(13,752)	(17,788)	(13,540)	4,036	(4,248)
Non-operating expenses	529	1,388	1,920	(859)	(532)
Total expenses	576,140	518,692	522,528	57,448	(3,836)
Change in net position before transfers	112,462	71,748	48,623	40,714	23,125
Transfers from the City and County of San Francisco	1,220	1,200	382	20	818
Transfers to the City and County of San Francisco	(14,805)	(20,334)	(31,368)	5,529	11,034
Net transfers	(13,585)	(19,134)	(30,986)	5,549	11,852
Change in net position	98,877	52,614	17,637	46,263	34,977
Net position at beginning of year					
Beginning of year, as previously reported	542,138	489,524	501,267	52,614	(11,743)
Cumulative effect of accounting change	–	–	(29,380) *	–	29,380
Net position at beginning of year as restated	542,138	489,524	471,887	52,614	17,637
Net position at end of year	$ 641,015	542,138	489,524	98,877	52,614

* Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

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.

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.

Results of Operations, Fiscal Year 2019

The Enterprise's total revenues of $590,440 for the year represented an increase of $19,289 or 3.4% from prior year (see Table 2). Increases included $14,565 from charges for services, $9,202 for interest and investment income, $2,083 from other operating revenues, and $104 from rents and concessions. These increases were offset by a decrease of $6,665 from other non-operating revenues.

Charges for services were $509,703, an increase of $14,565 or 2.9% mainly due to an adopted rate increase of 9.0% for retail customers beginning July 1, 2018, offset by a decrease of 2.8% in consumption. Rents and concessions were $13,010, an increase of $104 or 0.8% mainly from Consumer Price Index increases. Other operating revenues were $19,678, an increase of $2,083 or 11.8% mainly due to a 9.0% adopted rate increase. Interest and investment income was $15,650, an increase of $9,202 or 142.7% mainly due to higher interest rates for pooled cash with the City Treasury and unrealized gains on investments. Other non-operating revenues were $32,399, a decrease of $6,665 or 17.1% mainly from a prior year settlement received of $8,250 for the Pacific Rod and Gun Club offset by $1,500 proceeds received in the current year for sale of land on Burnett Avenue in San Francisco.

The Enterprise's total expenses were $518,692, a decrease of $3,836 or 0.7%. Operating expenses were $357,094, a decrease of $13,053 or 3.5% due to decreases of $16,701 in personnel services primarily due to pension and OPEB obligations based on actuarial reports, $2,515 in materials and supplies mainly from prior year obsolete inventory write-offs, and $416 in contractual services mainly from decreased construction contracts. These decreases were offset by increases of $2,891 in services provided by other departments mainly due to increased water assessment fees paid to Hetch Hetchy Water and City Attorney legal services, $2,064 in depreciation due to additional capital assets placed into service, and $1,624 in general and administrative and other mainly due to lower capitalization of capital projects. Interest expenses increased by $13,997 due to prior year issuance of 2017 Series ABC and DEFG bonds, and reduced interest capitalization for capital projects. Amortization of bond premium, discount, refunding loss, and issuance costs increased by $4,248 mainly due to the issuance of bonds in prior year. Non-operating expenses decreased by $532 from reduced community-based organization programs.

(Dollars in thousands, unless otherwise stated)

Transfers in of $1,200 were from the General Fund for low income assistance programs. Transfers out of $20,334 included $20,000 to Hetch Hetchy Water to fund various upcountry capital projects, $302 to the Arts Commission for arts enrichment, 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, 2020, 2019, and 2018

	2020	2019	2018	2020-2019 Change	2019-2018 Change
Facilities, improvements, machinery, and equipment	$ 4,928,438	4,890,207	3,825,832	38,231	1,064,375
Intangible assets	4,089	5,816	7,321	(1,727)	(1,505)
Land	105,336	30,029	30,029	75,307	—
Construction work in progress	492,682	462,606	1,400,051	30,076	(937,445)
Total	$ 5,530,545	5,388,658	5,263,233	141,887	125,425

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.

(Dollars in thousands, unless otherwise stated)

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

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://sfwater.org/index.aspx?page=115.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2019

The Enterprise has net capital assets of $5,388,658 invested in a broad range of utility capital assets as of June 30, 2019 (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 $125,425 from the prior year. Construction work in progress decreased by $937,445 primarily due to capital assets placed into service. Intangible assets decreased by $1,505 due to amortization of $2,171 primarily relating to the SFPUC On-Line Invoicing System, Automated Water Meter Program upgrades and SFBid online contracting system, offset by increases of $666 mainly from Water Quality Sampling and Maximo asset management software. Land was unchanged from prior year. Facilities, improvements, machinery, and equipment increased by $1,064,375 mainly attributable to capital assets placed into service such as Calaveras Dam, WSIP Security Upgrades, and West Sunset Well Station.

Major additions to construction work in progress during the year ended June 30, 2019 include the following:

Calaveras Dam Replacement	$	68,453
Recycled Water Project		25,913
Sunol Long Term Improvements		18,325
Regional Groundwater Storage & Recovery		14,677
Water Main Replacement - Van Ness Avenue/Market/Lombard Streets		9,826
Various New Water Utility Services		7,116
San Francisco Groundwater Supply		6,204
Sunol Valley Water Treatment Plant - Powdered Activated Carbon System		5,710
Various Water Utility Services Renewals		5,245
Water Main Replacement - Putnam Street/Peralta/Cortland Avenues		5,041
Other project additions individually below $5,000		77,097
Total	$	243,607

(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, 2019 include the following:

Calaveras Dam Construction	$ 496,165
Calaveras Dam Spillway & Basin	369,551
Calaveras Dam Outlet System	126,044
Calaveras Dam Fish Passage	62,228
WSIP Security Systems Upgrades	17,852
West Sunset Well Station	14,098
Golden Gate Park Central Well Station	13,000
South Sunset Well Station	9,505
Sunol Valley Water Treatment Plant - Powdered Activated Carbon System	7,613
Various New Water Utility Services	7,116
Water Main Replacement - Putnam Street/Peralta/Cortland Avenues	6,914
Auxiliary Water Supply System - Columbus Avenue Pipeline	5,956
Sunset Reservoir Chemical Building	5,890
Various Water Utility Service Renewals	5,245
Water Main Replacement - Pacheco Street/10th/Castenada Avenues	5,046
Other items individually below $5,000	31,465
Total	$ 1,183,688

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

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(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2020, the Enterprise had $5,232,498 total debt outstanding, an increase of $156,193 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, 2020, 2019, and 2018

	2020	2019	2018	2020-2019 Change	2019-2018 Change
Revenue bonds	$ 4,695,295	4,808,548	4,909,041	(113,253)	(100,493)
Capital appreciation bonds	—	2,029	6,725	(2,029)	(4,696)
Commercial paper	362,354	161,336	40,312	201,018	121,024
Certificates of participation	101,578	104,392	107,106	(2,814)	(2,714)
State revolving fund loans	73,271	—	—	73,271	—
Total	$ 5,232,498	5,076,305	5,063,184	156,193	13,121

The increase of $73,271 State revolving fund loans was for the SF Westside Recycled Water project. The decrease of $113,253 in revenue bonds was due to decreases of $616,975 from bond refunding, $98,870 for bond repayment, $27,640 in amortization of premium, and $26,734 from refunding of premium; offset by increases of $656,955 from issuance of 2019 Series ABC revenue bonds, and $11 from amortization of discount. The decrease of $2,814 in certificates of participation was as a result of $2,688 from repayment and $126 from amortization of premium. The decrease of $2,029 in capital appreciation bonds was due to $2,100 from repayment, offset by $71 from accretions. The Enterprise had $335,793 in tax-exempt and $26,561 in taxable commercial paper as of June 30, 2020, and $135,308 in tax-exempt and $26,028 in taxable commercial paper outstanding as of June 30, 2019. The increase of $201,018 was due to the additional issuance of $200,485 in tax-exempt and $533 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, 2020, and "Aa3" and "AA-" from Moody's and Standard & Poor's (S&P) at June 30, 2019, 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 2020 and 2019, 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, 2020, the Board of Supervisors has authorized the issuance of $4,269,958 in revenue bonds under Proposition E, with $3,464,660 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, 2020, $1,348,335 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 1.0% to 7.0% as of June 30, 2020 and 2019. The Enterprise's short-term debt has interest rates ranging from 0.2% to 2.8% during fiscal years 2020 and 2019.

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://sfwater.org/modules/showdocument.aspx?documentid=7743.

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://sfwater.org/index.aspx?page=344.

SAN FRANCISCO WATER ENTERPRISE

Statements of Net Position
June 30, 2020 and 2019
(In thousands)

	2020	2019
Assets		
Current assets:		
Cash and investments with City Treasury	$ 451,499	405,558
Cash and investments outside City Treasury	353	254
Receivables:		
Charges for services (net of allowance for doubtful accounts of $2,500 as of June 30, 2020 and $1,733 as of June 30, 2019)	59,946	55,151
Due from other City departments	250	640
Due from other governments	23	111
Interest	1,251	2,644
Restricted due from other governments	73,271	—
Restricted interest and other receivable (net of allowance for doubtful accounts of $13 as of June 30, 2020 and $5 as of June 30, 2019)	3,774	3,795
Total current receivables	138,515	62,341
Prepaid charges, advances, and other receivables, current portion	3,705	2,309
Inventory	5,777	5,426
Restricted cash and investments outside City Treasury, current portion	16,638	122,512
Total current assets	616,487	598,400
Non-current assets:		
Restricted cash and investments with City Treasury	—	2,224
Restricted cash and investments outside City Treasury, less current portion	80,924	—
Restricted interest and other receivable (net of allowance for doubtful accounts of $8 as of June 30, 2020 and $9 as of June 30, 2019)	4	3
Charges for services, less current portion (net of allowance for doubtful accounts of $669 as of June 30, 2020 and $662 as of June 30, 2019)	204	189
Capital assets, not being depreciated and amortized	598,697	493,314
Capital assets, net of accumulated depreciation and amortization	4,931,848	4,895,344
Prepaid charges, advances, and other receivables, less current portion	3,587	3,647
Total non-current assets	5,615,264	5,394,721
Total assets	6,231,751	5,993,121
Deferred outflows of resources		
Unamortized loss on refunding of debt	144,189	139,061
Pensions	67,084	55,465
Other post-employment benefits	27,583	13,142
Total deferred outflows of resources	238,856	207,668
Liabilities		
Current liabilities:		
Accounts payable	10,574	12,624
Accrued payroll	8,491	6,943
Accrued vacation and sick leave, current portion	6,169	5,706
Accrued workers' compensation, current portion	1,781	1,949
Due to other City departments	674	—
Damage claims liability, current portion	4,740	3,872
Unearned revenues, refunds, and other	18,174	20,095
Bond and loan interest payable	42,752	38,288
Revenue bonds, current portion	94,080	98,870
Capital appreciation bonds, current portion	—	2,029
Certificates of participation, current portion	2,824	2,688
Commercial paper	362,354	161,336
Wholesale balancing account, current portion	11,257	10,859
Current liabilities payable from restricted assets	29,951	31,915
Total current liabilities	593,821	397,174
Long-term liabilities:		
Other post-employment benefits obligations	163,684	150,771
Net pension liability	178,133	175,429
Accrued vacation and sick leave, less current portion	5,451	4,394
Accrued workers' compensation, less current portion	7,393	8,387
Damage claims liability, less current portion	6,027	7,637
Revenue bonds, less current portion	4,601,215	4,709,678
Certificates of participation, less current portion	98,754	101,704
State revolving fund loans, less current portion	73,271	—
Wholesale balancing account, less current portion	53,600	53,970
Pollution remediation obligation	1,577	2,194
Total long-term liabilities	5,189,105	5,214,164
Total liabilities	5,782,926	5,611,338
Deferred inflows of resources		
Related to pensions	34,894	33,330
Other post-employment benefits	11,772	13,983
Total deferred inflows of resources	46,666	47,313
Net position		
Net investment in capital assets	527,856	563,457
Restricted for debt service	15,916	16,193
Restricted for capital projects	43,122	—
Unrestricted	54,121	(37,512)
Total net position	$ 641,015	542,138

See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2020 and 2019
(In thousands)

	2020	2019
Operating revenues:		
Charges for services	$ 550,753	509,703
Rents and concessions	12,124	13,010
Capacity fees	2,169	2,368
Other revenues	18,305	17,310
Total operating revenues	583,351	542,391
Operating expenses:		
Personnel services	119,943	111,594
Contractual services	14,523	13,715
Materials and supplies	14,050	13,421
Depreciation and amortization	142,228	120,815
Services provided by other departments	61,128	59,751
General and administrative and other	46,245	37,798
Total operating expenses	398,117	357,094
Operating income	185,234	185,297
Non-operating revenues (expenses):		
Federal and state grants	209	200
Interest and investment income	10,517	15,650
Interest expenses	(191,246)	(177,998)
Amortization of premium, discount, refunding loss, and issuance costs	13,752	17,788
Net gain from sale of assets	63,963	2,277
Other non-operating revenues	30,562	29,922
Other non-operating expenses	(529)	(1,388)
Net non-operating expenses	(72,772)	(113,549)
Change in net position before transfers	112,462	71,748
Transfers from the City and County of San Francisco	1,220	1,200
Transfers to the City and County of San Francisco	(14,805)	(20,334)
Net transfers	(13,585)	(19,134)
Change in net position	98,877	52,614
Net position at beginning of year	542,138	489,524
Net position at end of year	$ 641,015	542,138

See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from customers, including cash deposits	$ 565,100	540,479
Cash received from tenants for rent	11,921	12,837
Cash paid to employees for services	(127,216)	(124,905)
Cash paid to suppliers for goods and services	(133,064)	(126,412)
Cash paid for judgments and claims	(3,976)	(5,527)
Net cash provided by operating activities	312,765	296,472
Cash flows from non-capital financing activities:		
Cash received from grants	255	456
Cash received from settlements	914	—
Cash received from miscellaneous revenues	5,771	5,955
Cash paid for rebates and program incentives	(529)	(1,388)
Transfers from the City and County of San Francisco	1,220	1,200
Transfers to the City and County of San Francisco	(14,805)	(20,334)
Net cash (used in) non-capital financing activities	(7,174)	(14,111)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	397	2,277
Proceeds from bond issuance, net of premium, discount, refunding loss, and issuance costs	613,002	—
Proceeds from commercial paper borrowings	201,018	121,024
Principal paid on long-term debt	(720,633)	(79,221)
Interest paid on long-term debt	(211,864)	(230,587)
Interest paid on commercial paper	(2,010)	(1,018)
Issuance cost paid on long-term debt	(1,913)	(4)
Acquisition and construction of capital assets	(200,600)	(208,064)
Federal interest income subsidy from Build America Bonds	23,894	23,977
Net cash (used in) capital and related financing activities	(298,709)	(371,616)
Cash flows from investing activities:		
Interest income received	10,001	10,829
Proceeds from sale of investments outside City Treasury	347,361	484,965
Purchase of investments outside City Treasury	(297,633)	(514,907)
Net cash provided by (used in) investing activities	59,729	(19,113)
Increase (decrease) in cash and cash equivalents	66,611	(108,368)
Cash and cash equivalents:		
Beginning of year	479,236	587,604
End of year	545,847	479,236
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments with City Treasury:		
Unrestricted	451,499	405,558
Restricted	—	2,224
Less: Unrealized gain on investments with City Treasury	(3,567)	(1,584)
Cash and investments outside City Treasury:		
Unrestricted	353	254
Restricted	97,562	122,512
Less: Restricted (with maturity more than 90 days - see table in Note 3)	—	(49,728)
Cash and cash equivalents at end of year on statements of cash flows	$ 545,847	479,236

(Continued)

SAN FRANCISCO WATER ENTERPRISE
Statements of Cash Flows
Years ended June 30, 2020 and 2019
(In thousands)

		2020	2019
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	185,234	185,297
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		142,228	120,815
Provision for uncollectible accounts		781	147
Write-off of capital assets and other non-cash items		5,285	1,286
Changes in operating assets and liabilities:			
Receivables:			
Charges for services		(5,585)	(898)
Prepaid charges, advances, and other		(1,343)	(1,021)
Due from other City departments		323	(370)
Inventory		(351)	135
Accounts payable		(2,050)	(2,930)
Accrued payroll		1,548	283
Other post-employment benefits obligations		(3,739)	(5,870)
Pension obligations		(7,351)	(8,710)
Accrued vacation and sick leave		1,520	(586)
Accrued workers' compensation		(1,162)	(621)
Due to other City departments		674	(96)
Wholesale balancing account		28	8,963
Pollution remediation obligation		(617)	(117)
Damage claims liability		(742)	(1,893)
Unearned revenues, refunds, and other liabilities		(1,916)	2,658
Total adjustments		127,531	111,175
Net cash provided by operating activities	$	312,765	296,472
Noncash transactions:			
Accrued capital asset costs	$	29,951	31,915
Land acquired through real property exchange		63,600	—
Interfund payable		674	—
Unrealized (gain) on investments		(3,567)	(1,584)

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 2020, the Enterprise sold approximately 69,934 million gallons, i.e., about 191 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 (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 Comprehensive Annual 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, 2020 and 2019, 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 acquisition 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, 2020 and 2019.

(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, 2020 and 2019 were $29,876 and $29,032, 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 2020

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.

(u) GASB Statements Implemented in Fiscal Year 2019

1) In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The new standard is effective for periods beginning after June 15, 2018. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

2) In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The new standard is effective for periods beginning after June 15, 2018. The Enterprise adopted the provisions of this Statement. Refer to Notes 6 and 7 for details.

(v) Future Implementation of New Accounting Standards

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 will implement the provisions of Statement No. 84 in fiscal year 2021.

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 will implement the provisions of Statement No. 90 in fiscal year 2021.

3) 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.

4) 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.

5) 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.

6) 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.

7) 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.

8) 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.

9) 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.

10) In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. GASB Statement No. 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The new standard is effective for periods beginning after June 15, 2021. The Enterprise will implement the provisions of Statement No. 97 in fiscal year 2022.

(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, 2020 and 2019 were $97,562 and $122,512, 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, 2020 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, 2019 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, 2020 and 2019:

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	–	–	–

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2019 Maturities	June 30, 2019 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)
Commercial Paper	A-1/P-1	October 31, 2019	$ 49,728	49,728	–	–	–
Commercial Paper	A-1+/P-1	September 10, 2019	352	352	–	–	–
Commercial Paper	A-1/P-1	July 1, 2019	12,332	12,332	–	–	–
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	60,061	60,061	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	38	38	–	–	–
Cash and Cash Equivalents	N/A		1	1	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 122,512	122,512	–	–	–
Cash and Cash Equivalents	N/A		254	254	–	–	–
Total Cash and Investments outside City Treasury			$ 254	254	–	–	–

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.

(Dollars in thousands, unless otherwise stated)

The restricted cash and investments outside City Treasury as of June 30, 2020 and 2019 included an unrealized gain due to changes in fair value on commercial paper of $0 and $123, respectively.

Additional cash outside of the investment pool included revolving fund and cash in transit. The revolving fund has a balance of $28 and $28 at June 30, 2020 and 2019, 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 $325 and $226 at June 30, 2020 and 2019, respectively.

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

		2020	2019
Current assets:			
Cash and investments with City Treasury	$	451,499	405,558
Cash and investments outside City Treasury		353	254
Restricted cash and investments outside City Treasury		16,638	122,512
Non-current assets:			
Restricted cash and investments with City Treasury		—	2,224
Restricted cash and investments outside City Treasury		80,924	—
Total cash, cash equivalents, and investments	$	549,414	530,548

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

	Investment maturities (in months)			
Fiscal years ended June 30	Under 1	1 to less than 6	6 to less than 12	12 to 60
2020	30.1%	32.4%	15.6%	21.9%
2019	17.4%	22.2%	16.3%	44.1%

(Dollars in thousands, unless otherwise stated)

(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, 2020 and 2019 consist of the following:

	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.

	2018	Increases	Decreases	2019
Capital assets not being depreciated and amortized:				
Land	$ 30,029	–	–	30,029
Intangible assets	679	–	–	679
Construction work in progress	1,400,051	243,607	(1,181,052) *	462,606
Total capital assets not being depreciated and amortized	1,430,759	243,607	(1,181,052)	493,314
Capital assets being depreciated and amortized:				
Facilities and improvements	4,929,069	1,159,465	–	6,088,534
Intangible assets	22,457	666	–	23,123
Machinery and equipment	288,037	23,557	(440)	311,154
Total capital assets being depreciated and amortized	5,239,563	1,183,688	(440)	6,422,811
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,190,341)	(106,715)	–	(1,297,056)
Intangible assets	(15,815)	(2,171)	–	(17,986)
Machinery and equipment	(200,933)	(11,929)	437	(212,425)
Total accumulated depreciation and amortization	(1,407,089)	(120,815)	437	(1,527,467)
Total capital assets being depreciated and amortized, net	3,832,474	1,062,873	(3)	4,895,344
Total capital assets, net	$ 5,263,233	1,306,480	(1,181,055)	5,388,658

* Decrease in construction work in progress includes $1,286 in capital project write-offs, mainly related to Bay Division Pipeline Upgrade, and Local Water Conveyance/Distribution projects.

(Dollars in thousands, unless otherwise stated)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements,* requires that interest expense incurred during construction of assets be capitalized. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Interest expensed	$ 191,246	177,998
Interest included in construction work in progress	27,164	53,431
Total interest incurred	$ 218,410	231,429

(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 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, 2020 and 2019:

	2020	2019
Cash and investments with City Treasury:		
Water revenue bond construction fund	$ —	2,224
Cash and investments outside City Treasury:		
1991A Capital Appreciation Bond	—	2,576
2010B Water revenue bond fund	21,581	21,464
2010D Water revenue bond fund	2,935	2,900
2010E Water revenue bond fund	16,831	16,684
2010G Water revenue bond fund	17,691	22,652
2011A Water revenue bond fund	1	1
2011B Water revenue bond fund	670	1,022
2011C Water revenue bond fund	802	1,185
2011D Water revenue bond fund	1,981	1,957
2012A Water revenue bond fund	2,961	2,927
2012B Water revenue bond fund	807	798
2012C1 Water revenue refunding bond fund	1,181	1,167
2012C2 Water revenue refunding bond fund	3,399	3,359
2012D Water revenue refunding bond fund	—	2,462
2015A Water revenue refunding bond fund	1	1
2016A Water revenue refunding bond fund	—	1
2016B Water revenue refunding bond fund	1	—
2017A Water revenue bond fund	363	6,357
2017B Water revenue bond fund	4,239	11,503
2017C Water revenue bond fund	—	1,891
2017D Water revenue refunding bond fund	1	1
2019A Water revenue refunding bond fund	47	—
2019B Water revenue refunding bond fund	6	—
2019C Water revenue refunding bond fund	2	—
2009C Certificates of participation - 525 Golden Gate	1,816	1,796
2009D Certificates of participation - 525 Golden Gate	7,147	7,084
Commercial Paper - Tax Exempt	15	11
Commercial Paper - Taxable	31	27
Habitat reserve endowment fund	13,053	12,686
Total cash and investments outside City Treasury	97,562	122,512
Interest and other receivables:		
Water bond construction fund including capacity fee receivables	3,778	3,798
Due from other government for State Revolving Fund	73,271	—
Total restricted assets	$ 174,611	128,534

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, 2020 and 2019, amounts outstanding under Proposition E were $362,354 and $161,336, respectively. Commercial paper interest rates ranged from 0.2% to 2.8%.

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 $137,646 and $338,664 in unused authorization as of June 30, 2020 and 2019, 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, 2020, 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, 2020 and 2019 are as follows:

	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

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2018	Additions	Reductions	2019	Due within one year
Revenue Bonds:							
2009A revenue bonds	4.00 % – 5.25 %	2019	$ 16,885	–	(7,250)	9,635	9,635
2009B revenue bonds	4.00 – 5.00	2019	14,910	–	(5,275)	9,635	9,635
2010A revenue bonds	2.00 – 5.00	2019	3,035	–	(505)	2,530	2,530
2010B revenue bonds (Build America)	4.00 – 6.00	2040	396,190	–	(11,215)	384,975	11,555
2010D revenue refunding bonds	3.00 – 5.00	2021	63,735	–	(15,965)	47,770	16,780
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	–	344,200	–
2010F revenue bonds	3.00 – 5.50	2030	27,100	–	(3,125)	23,975	5,175
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2011A revenue bonds	4.25 – 5.00	2041	322,480	–	–	322,480	–
2011B revenue bonds	3.50 – 5.00	2041	18,315	–	(445)	17,870	700
2011C revenue bonds	3.00 – 5.00	2041	19,475	–	–	19,475	760
2011D revenue refunding bonds	4.00 – 5.00	2028	19,135	–	–	19,135	–
2012A revenue bonds	4.00 – 5.00	2043	459,455	–	–	459,455	–
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	24,040	–	(11,825)	12,215	12,215
2015A revenue refunding bonds	2.00 – 5.00	2036	429,600	–	(3,220)	426,380	14,000
2016A revenue refunding bonds	4.00 – 5.00	2039	763,005	–	–	763,005	–
2016B revenue refunding bonds	1.50 – 5.00	2030	110,880	–	(5,980)	104,900	8,920
2016C revenue bonds	0.87 – 4.19	2046	253,885	–	(5,525)	248,360	5,605
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	350,305	–	(835)	349,470	860
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	34,280	–	(500)	33,780	500
Less issuance discount			(166)	–	12	(154)	–
Add issuance premiums			395,137	–	(28,840)	366,297	–
Total revenue bonds payable			4,909,041	–	(100,493)	4,808,548	98,870
1991 capital appreciation bonds	0.00	2019	6,725	304	(5,000)	2,029	2,029
2009C certificates of participation (COPs)	2.00 – 5.00	2022	14,162	–	(2,556)	11,606	2,688
2009C COPs issuance premiums			445	–	(158)	287	–
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	–
Other post-employment benefits obligations			166,336	9,125	(24,690)	150,771	–
Net pension liability			209,003	25,430	(59,004)	175,429	–
Accrued vacation and sick leave			10,686	10,372	(10,958)	10,100	5,706
Accrued workers' compensation			10,957	2,707	(3,328)	10,336	1,949
Damage claims liability			13,402	4,768	(6,661)	11,509	3,872
Wholesale balancing account			55,866	8,963	–	64,829	10,859
Pollution remediation obligation			2,311	–	(117)	2,194	–
Total			$ 5,491,433	61,669	(212,965)	5,340,137	125,973

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, 2020, the balance of unpaid principal and interest on the capital appreciation bonds is $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 proceeds of the 2015 Series A revenue refunding bonds 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, 2020 and 2019, the principal amount of 2009 Series A bonds outstanding was $0 and $9,635, respectively.

(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 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 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, 2020 and 2019, the principal amount of 2009 Series B bonds outstanding was $0 and $9,635, respectively.

(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, 2020 and 2019, the principal amount of 2010 Series A bonds outstanding was $0 and $2,530, respectively.

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, 2020 and 2019, the principal amount outstanding was $373,420 and $384,975, 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. As of June 30, 2020 and 2019, the principal amount of 2010 Series D bonds outstanding was $30,990 and $47,770, 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, 2020 and 2019, 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, 2020 and 2019, the principal amount of 2010 Series F bonds outstanding was $0 and $23,975 respectively.

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, 2020 and 2019, 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, 2020 and 2019, the principal amount of 2011 Series A bonds outstanding was $0 and $322,480, respectively.

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, 2020 and 2019, the principal amount of 2011 Series B bonds outstanding was $1,485 and $17,870, 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, 2020 and 2019, the principal amount of 2011 Series C bonds outstanding was $1,620 and $19,475, 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 refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated December 1, 2017, 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, 2020 and 2019, the principal amount of 2011 Series D bonds outstanding was $19,135.

(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 and 2019 Series A 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 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, 2020 and 2019, the principal amount of 2012 Series A bonds outstanding was $216,540 and $459,455, 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%. As of June 30, 2020 and 2019, the principal amount of 2012 Series B bonds outstanding was $16,520.

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 refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated December 1, 2017, 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, 2029 and thereafter. As of June 30, 2020 and 2019, the principal amount of 2012 Series C bonds outstanding was $78,035.

(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, 2020 and 2019, the principal amount of 2012 Series D bonds outstanding was $0 and $12,215, respectively.

(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, 2020 and 2019, the principal amount of 2015 Series A bonds outstanding was $412,380 and $426,380, 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, 2020 and 2019, the principal amount of 2016 Series AB bonds outstanding was $858,985 and $867,905, 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, 2020 and 2019, the principal amount of 2016 Series C bonds outstanding was $242,755 and $248,360, 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%. As of June 30, 2020 and 2019, the principal amount of 2017 Series A bonds outstanding was $121,140.

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%. As of June 30, 2020 and 2019, the principal amount of 2017 Series B bonds outstanding was $147,725.

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%. As of June 30, 2020 and 2019, the principal amount of 2017 Series C bonds outstanding was $70,675.

(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, 2020 and 2019, the principal amount of 2017 Series DEFG bonds outstanding was $439,485 and $440,845, 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, 2020, the principal amount of 2019 Series ABC bonds outstanding was $656,955.

(Dollars in thousands, unless otherwise stated)

(p) *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, 2020. 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:					
2021	$	94,080	213,741	(21,828)	191,913
2022		108,025	202,998	(21,621)	181,377
2023		125,050	198,100	(21,290)	176,810
2024		130,760	192,265	(20,841)	171,424
2025		136,375	186,121	(20,370)	165,751
2026-2030		799,970	819,469	(93,682)	725,787
2031-2035		982,880	599,913	(74,984)	524,929
2036-2040		1,151,675	343,194	(47,369)	295,825
2041-2045		621,445	127,697	(22,003)	105,694
2046-2050		207,155	35,793	(9,778)	26,015
2051		26,100	907	(299)	608
		4,383,515	2,920,198	(354,065)	2,566,133
Less: Current portion		(94,080)			
Less: Unamortized bond discount		(143)			
Add: Unamortized bond premiums		311,923			
Long-term portion as of June 30, 2020	$	4,601,215			

* The SFPUC received IRS notice dated August 27, 2020 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 $21,401, 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).

(q) *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% 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, 2020 and 2019 was $73,271 and $0, respectively.

(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2021	$	—	—	—
2022		2,106	733	2,839
2023		2,127	712	2,839
2024		2,149	690	2,839
2025		2,170	669	2,839
2026-2030		11,181	3,014	14,195
2031-2035		11,751	2,444	14,195
2036-2040		12,351	1,845	14,196
2041-2045		12,981	1,215	14,196
2046-2050		13,643	553	14,196
2051		2,812	27	2,839
Long-term portion as of June 30, 2020	$	73,271	11,902	85,173

(r) *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, 2020, there was no commercial paper outstanding pursuant to this authorization and $1,348,335 of bonds had been issued in fiscal years 2006, 2010, and 2012 against Prop A. The total authorization against Prop A was $1,348,335 as of June 30, 2020.

(s) *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, 2020, the Board of Supervisors has authorized the issuance of $4,269,958 in revenue bonds with $3,464,660 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 $73,271 in reimbursements requested on the loan as of June 30, 2020). Additionally, $362,354 and $161,336 in commercial paper was outstanding pursuant to this authorization as of June 30, 2020 and 2019, respectively.

(t) *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, 2020 are as follows:

Certificates of Participation 2009 Series C (Tax-Exempt)		Principal	Interest	Total
Fiscal years ending June 30:				
2021	$	2,824	375	3,199
2022		2,970	230	3,200
2023		3,124	78	3,202
		8,918	683	9,601
Less: Current portion		(2,824)		
Add: Unamortized bond premiums		161		
Long-term portion as of June 30, 2020	$	6,255		

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy *	Interest net of subsidy
Fiscal years ending June 30:					
2021	$	–	5,968	(1,970)	3,998
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
2026-2030		19,285	24,753	(8,169)	16,584
2031-2035		23,737	17,863	(5,896)	11,967
2036-2040		29,271	9,297	(3,068)	6,229
2041-2042		13,537	887	(293)	594
Total			82,220	(27,136)	55,084
Long-term portion as of June 30, 2020	$	92,499			

* The SFPUC received IRS notice dated August 27, 2020 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of $1,640, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(u) *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

(Dollars in thousands, unless otherwise stated)

Enterprise Indenture (applicable to Water Revenue Bonds, Capital Appreciation 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, 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, 2020, 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 2020 and 2019, applicable net revenues and funds available for debt service are as follows:

	2020	2019
Bonds issued with revenue pledge	$ 4,585,440	4,746,890
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	73,271	—
Principal and interest remaining due at the end of the year	7,388,886	7,727,793
Principal and interest paid during the year	269,210	261,638
Net revenues for the year ended June 30	339,947	311,619
Funds available for debt service	581,878	532,981

(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 2020 and 2019, the WRR, net of adjustments, charged to such wholesale customers was $256,280 and $253,235, 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 $64,857 and $64,829 for the years ended June 30, 2020 and 2019, respectively, an increase of $28. Refer to the compliance audit report for the final balancing account available at https://sfwater.org/index.aspx?page=344.

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 Plan, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the 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)

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

San Francisco Employees' Retirement System - Cost Sharing

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
Fiscal year 2019	
Valuation Date (VD)	June 30, 2017 updated to June 30, 2018
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

The City is an employer of the plan with a proportionate share of 94.13% as of June 30, 2019 (measurement date), and 94.10% as of June 30, 2018 (measurement date). The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2019 and 2018. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. The Enterprise's allocation of the City's proportionate share was 4.23% as of June 30, 2019, and 4.35% as of June 30, 2018 (measurement dates).

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 (COLAs) 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 https://mysfers.org or by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual COLAs 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 Consumer Price Index 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 – Contributions are made to the basic plan 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 2020 and 2019. 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, 2018 actuarial report, the required employer contribution rate for fiscal year 2020 was 20.69% to 25.19%. Based on the July 1, 2017 actuarial report, the required employer contribution rate for fiscal year 2019 was 18.81% to 23.31%

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, 2019 and 2018 (measurement period) were $607,408 and $582,568, respectively. The Enterprise's allocation of employer contributions for fiscal year 2019 and 2018 (measurement period) were $26,440, and $25,922, respectively.

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

(Dollars in thousands, unless otherwise stated)

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:

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

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2019

The City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4,030,207 as of June 30, 2019. 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, 2018 (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, 2017 rolled forward to June 30, 2018 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, 2019 was $175,429.

For the year ended June 30, 2019, the City's recognized pension expense was $488,255 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 $17,730. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

As of June 30, 2019, the Enterprise's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2019 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$	26,440	–
Differences between expected and actual experience		1,423	4,965
Changes in assumptions		27,353	–
Net difference between projected and actual earnings on pension plan investments		–	28,198
Change in employer's proportion		249	167
Total	$	55,465	33,330

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
2020	$	11,196
2021		4,923
2022		(14,428)
2023		(5,996)
Total	$	(4,305)

Actuarial Assumptions

Fiscal Year 2020

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

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions

Valuation Date	June 30, 2018 updated to June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry - Age Normal Cost
Expected Rate of Return	7.4% 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.

Fiscal Year 2019

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2018 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2017 actuarial valuation. Refer to the July 1, 2017 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website https://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions

Valuation Date	June 30, 2017 updated to June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry - Age Normal Cost Method
Expected Rate of Return	7.50%
Municipal Bond Yield	3.58% as of June 30, 2017
	3.87% as of June 30, 2018
	Bond Buyer 20 - Bond GO Index, June 29, 2017 and June 28, 2018
Inflation	3.00%
Salary Increases	3.50% plus merit component based on employee classification and years of service
Discount Rate	7.50% as of June 30, 2017
	7.50% as of June 30, 2018
Administrative Expenses	0.60% of payroll as of June 30, 2017
	0.60% of payroll as of June 30, 2018

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, 2017	2.00%	2.70%	3.30%	4.40%
June 30, 2018	2.00%	2.50%	3.10%	4.20%

Mortality rates for active members and healthy annuitants were based upon 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 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.

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

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

Fiscal Year 2019

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 7.50% as of June 30, 2018 (measurement date) and 7.50% as of June 30, 2017 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2018 was 7.50%. 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, 2017 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. 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 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, 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 System for certain members, Cheiron developed an assumption as of June 30, 2018 for the probability and amount of Supplemental COLA for each future year. We have assumed that a full Supplemental COLA will be paid to all Post 97 Retirees effective July 1, 2018. 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	Assumption	Before 11/6/96 or After Prop C
2019	0.75 %	0.00 %
2022	0.75	0.29
2025	0.75	0.35
2028	0.75	0.36
2031+	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 System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2097 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.87% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2018 was 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. 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 %	5.4 %
Private Equity	18.0	6.6
Real Assets	17.0	4.5
Hedge Funds/Absolute Returns	15.0	3.7
Private Credit	10.0	4.6
Treasuries	6.0	0.5
Liquid Credit	3.0	3.3
Total	100.0	

(Dollars in thousands, unless otherwise stated)

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 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 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

Fiscal Year 2019

Employer	1% Decrease Share of NPL @ 6.50%	Share of NPL @ 7.50%	1% Increase Share of NPL @ 8.50%
Water	$ 328,561	175,429	48,802

(b) Other Post-Employment Benefits

The Enterprise participates in the City's single employer defined benefit 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

	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

	Fiscal year 2019
Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

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, 2019 and June 30, 2018. 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, 2019 and 2018 measurement dates were 4.18% and 4.19%, respectively.

(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[3]		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.
[3] Effective with Proposition B, passed on June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

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

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

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

Contributions

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

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

(Dollars in thousands, unless otherwise stated)

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

For the fiscal years ending June 30, 2020 and 2019, funding was based on "pay-as-you-go" plus a contribution of $39,518 and $32,786 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $196,445 for a total contribution of $235,963 for the fiscal year ending June 30, 2020, and $185,839 for a total contribution of $218,625 for the fiscal year ending June 30, 2019. The Enterprise's proportionate share of the City's contributions for fiscal year 2020 was $9,863, and for fiscal year 2019 was $9,154.

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

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.

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

(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:		
2021	$	909
2022		909
2023		972
2024		960
2025		1,002
Thereafter		1,196
Total	$	5,948

Fiscal Year 2019

As of June 30, 2019, the City reported net OPEB liabilities related to the Plan of $3,600,967. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2019 was $150,771.

For the year ended June 30, 2019, the City's recognized OPEB expense was $320,332. 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 $3,284.

As of June 30, 2019, 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	$ 9,154	$ -
Differences between expected and actual experience	-	13,843
Changes in assumptions	3,988	-
Net difference between projected and actual earnings on plan investments	-	140
Total	$ 13,142	$ 13,983

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:		
2020	$	(1,693)
2021		(1,693)
2022		(1,693)
2023		(1,629)
2024		(1,643)
Thereafter		(1,644)
Total	$	(9,995)

(Continued)

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2020

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

Key Actuarial Assumptions

Valuation Date	June 30, 2018 updated to June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.35% in 2021 and trends down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.00% in 2021 and trends down to ultimate rate of 3.93% in 2076 10-County average trend starts at 5.82% in 2021 and trends down to ultimate rate of 3.93% in 2076 Vision and expenses trend remains 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.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2019

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2018 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
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 6.50% and trends down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.50% and trends down to ultimate rate of 3.93% in 2076 10-County average trend starts at 5.90% 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

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(Dollars in thousands, unless otherwise stated)

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

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

Fiscal Year 2020

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

Fiscal Year 2019

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 131,045	$ 150,771	$ 175,236

Discount Rate

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%.

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

Fiscal Year 2019

The discount rate used to measure the Total OPEB Liability as of June 30, 2018 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 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Equities	41.0%	7.3%
Developed Market Equity (non-U.S.)	20.0%	7.1%
Emerging Market Equity	16.0%	9.4%
Credit		
High Yield Bonds	3.0%	5.4%
Bank Loans	3.0%	5.0%
Emerging Market Bonds	3.0%	4.9%
Rate Securities		
Treasury Inflation Protected Securities	5.0%	3.3%
Investment Grade Bonds	9.0%	3.6%
Total	100.0%	

The asset allocation targets summarized above have a 20-year return estimate of 7.5%, which was weighted against a 10-year model estimating a 6.3% 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%
$ 173,339	$ 150,771	$ 132,306

(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 $45,533 or 49.3% and $42,407 or 49.6% were allocated to the Enterprise for the years ended June 30, 2020 and 2019, 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 $34,585 and $33,578 for the years ended June 30, 2020 and 2019, 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 $9,909 and $9,480 for the years ended June 30, 2020 and 2019, 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 $1,474 and $1,266 for the years ended June 30, 2020 and 2019, 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 2020 and 2019, 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 $16,634 and $16,577 for the years ended June 30, 2020 and 2019, respectively, have been included in services provided by other departments in the accompanying financial statements.

During the fiscal year ended June 30, 2020, the Enterprise transferred $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 Transpiration Agency for water conservation projects, and $32 to the Office of the City Administrator for the Surety Bond Program. The Enterprise received $1,220 from the General Fund for low income assistance programs and improvements to Miraloma Park.

As of June 30, 2020, the Enterprise has 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. As of June 30, 2019, the Enterprise had $0 in payables to other City departments.

(Dollars in thousands, unless otherwise stated)

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, 2020, the Enterprise's allocable shares of expenses and prepayment were $45 and $3,354, respectively; and at June 30, 2019 were $46 and $3,399, 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.

	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)	Crime	Purchased Insurance
(g)	Electronic data processing	Purchased Insurance and Self-Insured
(h)	Surety bonds	Purchased and Contractually Transferred
(i)	Errors and omissions	Combination of Self-Insured and Contractual Risk Transfer
(j)	Professional liability	Combination of Self-Insured and Contractual Risk Transfer
(k)	Builders' risk	Contractually Transferred

(a) General Liability

Through coordination with the Controller 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 booked as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Comprehensive Annual 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, 2020 and 2019 are as follows:

(Dollars in thousands, unless otherwise stated)

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2020	$	11,509	709	(1,451)	10,767
2019		13,402	4,768	(6,661)	11,509

(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, 2020 and 2019 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2020	$	10,336	1,065	(2,227)	9,174
2019		10,957	2,707	(3,328)	10,336

(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) 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.

(g) Electronic Data Processing

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

(h) 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.

(i) Errors and Omissions

Errors and omissions 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.

(j) Professional Liability

Professional liability is 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, 2020 and 2019, the Enterprise has outstanding commitments with third parties of $208,832 and $237,663, 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, 2020 and 2019, the Enterprise recorded $1,577 and $2,194 in pollution remediation liability, respectively. This decrease of $617 in pollution remediation liability in fiscal year 2020 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 17^{th} and Folsom 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 17^{th} and Folsom site. As of June 30, 2019, the pollution remediation liability of $2,194 consisted of $1,291 for the Pacific Rod & Gun Club site, and $903 for the 17^{th} and Folsom site.

(14) Subsequent Events

(a) Water Revenue Bonds, Series 2020 ABCD Issuance

On September 23, 2020, the SFPUC issued its San Francisco Water Revenue Bonds, 2020 Sub-Series A (WSIP, Tax-exempt) (Green Bonds), Sub-Series B (Regional Water, Tax-exempt), Sub-Series C (Local Water, Tax-exempt), and Sub-Series D (Hetch Hetchy Water, Tax-exempt) together with an aggregate principal of $346,760 to (i) refund approximately $229,770 aggregate principal amount of commercial paper notes issued pursuant to the Water Enterprise's commercial paper program to finance or refinance a portion of the design, acquisition and construction of various capital projects in furtherance of the SFPUC's Water System Improvement Program ("WSIP") and the Hetchy Water Program and (ii) $164,632 new money to finance a portion of the design, acquisition and construction of various capital projects of benefit to the SFPUC's Water Enterprise.

(b) Declaration of Emergency

On October 19, 2020, the SFPUC declared a departmental emergency related to the replacement and repair of fences that were damaged by the SCU Lightning Complex Fire. The emergency repair will require immediate contracting resources/facilities to begin work as soon as possible. Estimated costs are approximately $4,500.

(c) Water Refunding Revenue Bonds, Series 2020 EFGH Issuance

On October 21, 2020, the SFPUC issued its San Francisco Water Revenue Bonds, 2020 Sub-Series E (Taxable Refunding – WSIP, Green Bonds), Sub-Series F (Taxable Refunding – Non-WSIP), Sub-Series G (Taxable Refunding – Local Water), and Sub-Series H (Taxable Refunding – Hetch Hetchy Water) in an aggregate principal amount of $664,395 to advance refund all or a portion of various series of the SFPUC's Outstanding Bonds.

San Francisco Public Utilities Commission
A 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.

San Andreas Pipeline No. 2:

Welder worker welding the inside joints of the pipeline in one of the four locations in San Bruno.

Photo by: Robin Scheswohl

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Si necesita una traducción o asistencia en español llame al: (415) 554-3289.

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