



SERVING OUR COMMUNITIES

ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018



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

San Francisco Public Utilities Commission

(as of date of publication)

Ann Moller Caen, VICE PRESIDENT

Francesca Vietor, COMMISSIONER

Anson Moran, COMMISSIONER

Ike Kwon, COMMISSIONER

WATER

Our customers throughout the Bay Area enjoy high-quality, great tasting tap water every day. This water comes from a variety of sources, including snowmelt from the Tuolumne River watershed, Bay Area watersheds, and San Francisco's aquifer. On average, 196 million gallons of water are distributed every day*.

**Based on FY2017-2018 data from Regional Water System meters*

POWER

We generate up to 11 MW of solar, biomass and biowaste energy, and 385 MW of hydroelectric energy every day, providing clean power to thousands of residential, commercial, and municipal customers. We own and maintain 160 miles of transmission lines and over 25,000 streetlights.

SEWER

Our sewer system treats both wastewater and stormwater. We own and maintain over 1,000 miles of sewer pipelines and three treatment facilities in San Francisco. On average, 70 million gallons of wastewater are treated per day during dry weather. That amount increases to as much as 575 million gallons on a rainy day.

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Dear Customers and Stakeholders,

It is an honor to lead such an extraordinary team of field crews, operators, analysts, and engineers dedicated to serving the public. Every day, over 2,300 employees at the San Francisco Public Utilities Commission (SFPUC) work hard across the Bay Area to deliver high-quality and reliable water, power, and sewer services to our families, friends, and neighbors. We are there 24/7, rain or shine, to ensure that the complex systems we operate are resilient and reliable for our communities that depend on it.

We reached a new milestone in the Water System Improvement Program (WSIP) this year by completing the 220-foot-high Calaveras Dam replacement in Sunol. The new seismically fortified earth-and-rock-fill dam in Sunol will secure 31 billion gallons of water for our customers. In the event of an earthquake or drought, we will be better equipped to deliver the same high-quality water reliably to 2.7 million residents in the Bay Area.

For over 100 years, the Hetch Hetchy Water & Power System (HHWPS) has generated power for vital City services. San Francisco schools, police and fire stations, and buses rely on our power services to keep the community safe and thriving. We have continued to expand our clean power programs this year, encouraging greenhouse-gas free electricity adoption to mitigate the impacts of climate change on future generations.

Through the Sewer System Improvement Program (SSIP), we have begun work to modernize the City's largest treatment facility, the Southeast Treatment Plant, which treats 80% of the City's wastewater. These upgrades will address long-standing issues of seismic vulnerability and ensure our ability to protect public health and our environment.

Our investments in our systems fortify our lifeline so we can deliver high-quality water to your tap, provide clean power to homes and businesses, and safely treat wastewater across the City. Strong infrastructure keeps our services running around the clock, every day of the year. The dedicated people behind operating, maintaining, and improving this infrastructure ensure the reliability of our services.

We do this while making affordability a priority. Three pennies pay for one gallon of combined water and wastewater services. In fiscal year 2017 – 2018, we continued to maintain a stable financial position by controlling our operating costs. We make sound fiscal stewardship of our ratepayer dollars one of our highest priorities.

On behalf of the San Francisco Public Utilities Commission, I am pleased to present the Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2018.



Harlan L. Kelly, Jr.
General Manager

A handwritten signature in black ink that reads "Harlan L. Kelly, Jr." The signature is written in a cursive, flowing style.

1¢

average cost per gallon delivered

Almost
100,000
tests of our drinking water
this year

8,900
water-saving devices
distributed

RELIABLE & RESILIENT

Water is an essential resource we depend on every single day, from our early morning rush to our dinner dash and middle-of-the-night water run. Communities throughout our service areas know they can rely on us to deliver every day. That's why we're always ready, 24/7, ensuring that our complex system runs smoothly and reliably, and our communities stay safe and healthy.

This year, the **Water System Improvement Program (WSIP)** reached 96% completion. The comprehensive program includes over 80 major water projects to strengthen the reliability of service.

The SFPUC is working hard to ensure a resilient water supply by developing new water supplies and diversifying its water supply portfolio. Our proactive approach gives us greater flexibility to meet the diverse needs of our customers and communities. By diversifying our water supply sources, our communities are less vulnerable to service interruptions. The **Regional Groundwater Storage and Recovery Project** and **San Francisco Groundwater Supply Project** provide new, sustainable, local sources of water. The Regional Groundwater Storage and Recovery Project will provide a regional groundwater supply during a drought. Through the San Francisco Groundwater Supply Project, over the next several years we will blend up to 4 million gallons of groundwater with our surface water supplies to serve San Francisco each day.

Join thousands of friends and neighbors, get a water-wise evaluation today and start saving. Schedule an appointment today at sfwater.org/waterwise.

Using recycled water for irrigation helps save drinking water supplies. We continue our partnership at Harding Park, Fleming, and Sharp Park Golf Courses to provide recycled water for irrigation. On the westside of San Francisco, we began constructing the **Westside Recycled Water Project** to produce and deliver recycled water to irrigate Golden Gate Park, the Presidio, and Lincoln Park Golf Course.

We have paved the way for water to be reused onsite in buildings through the **Non-potable Water Program**. New large buildings in San Francisco must now collect and treat water generated onsite for non-potable uses. Treatment and reuse will offset the use of precious drinking water for toilet flushing or irrigation. This year, we received 15 applications from projects proposing to install and operate onsite non-potable water systems, estimated to save 9 million gallons of water each year.

Water conservation is a way of life for Californians. This year, in San Francisco, we conducted over 4,700 **Water-Wise Evaluations** where we shared water-saving tips, helped residents and businesses detect costly leaks on their property, and provided over 8,900 water-efficient devices. These devices have helped save water while saving our customers money.

CLEANER CHOICE

We work around the clock to keep you safe during your commute and from the monsters hiding under your bed. We are there when you need to read just one more chapter or raid the fridge for a midnight snack. Powering your home with clean energy keeps the future brighter for all of us.

This year, we celebrated 100 years of powering San Francisco with 100% greenhouse-gas free hydroelectric power. Schools, police and fire stations, and buses that keep our communities safe and thriving are all powered by our **Hetch Hetchy Water and Power System (HHWPS)**. That's right, the same system that provides you with high-quality water is also harnessed to generate clean hydroelectric power.

In addition to Hetch Hetchy Power, thousands of San Franciscans have powered up with our **CleanPowerSF** program, which provides clean energy for your home or business. The not-for-profit program gives you the option to reduce your carbon footprint while supporting local jobs and clean energy projects. CleanPowerSF is currently

serving about 111,000 customer accounts with an additional 280,000 accounts enrolling in the next year.

To keep you safe in San Francisco, we have switched out 18,500 streetlight fixtures to light-emitting diodes (LEDs) — environmentally-friendly and energy-efficient fixtures — through the **LED Streetlight Conversion Project**. The conversion reduces the lights' energy needs by 50%, while brightening the street for your evening walks or bike rides. Because the power comes from the same system that our water does, the new LED streetlights produce zero emissions and are some of the most energy-efficient lights in California.

Join our clean energy revolution by choosing 100% renewable energy from CleanPowerSF, a cost-competitive, clean energy alternative at cleanpowersf.org.

111,000
customers enrolled in
CleanPowerSF

100%
greenhouse-gas free
electricity for City facilities
and services

25,000
streetlights powered
by SFPUC

1.5¢

average cost per gallon of
wastewater treated

1,500

volunteers adopted storm
drains in San Francisco

40

billion gallons treated
annually

SAFE & SUSTAINABLE

Like our diverse and unique communities, our San Francisco sewer system is one-of-a-kind. Through the same system, we manage anything that goes down your drains and stormwater that falls from the sky — up to 575 million gallons per day on a rainy day. Nearly 1,000 miles of sewer pipelines reliably carry the wastewater or stormwater for treatment before safely releasing it into the bay or ocean. This complex system operates around the clock to protect the health of our communities and our environment.

After years of extensive planning and community engagement, we are now well into the **Sewer System Improvement Program (SSIP)**, a modernization program to strengthen the reliability and resiliency of our essential sewer system. We are taking steps now to ensure our system is up-to-date in the face of a changing climate and can continue to protect public health and the environment now and for generations to come.

Improvements to the largest treatment facility in San Francisco responsible for treating 80% of our wastewater, the **Southeast Treatment Plant (SEP)**, are part of the SSIP. Parts of the facility are being upgraded to enhance our ability to provide

dependable service, even in the event of an earthquake. At the SEP, the **Biosolids Digester Facilities Project** will replace and relocate outdated digesters to reduce odors and transform the plant into a modern resource-recovery facility.

Not only are we looking at treatment plant upgrades to protect the City, we're also taking advantage of the natural processes in our own communities. **Green Infrastructure Projects** help us capture and divert stormwater to lessen the burden on our hardworking sewer system, beautify neighborhoods, and enhance biodiversity across the City. By 2050, one billion gallons of stormwater will be diverted from our sewer system annually by green infrastructure installed in our communities.

That's not all. In addition to our operations team, over 1,500 dedicated **Adopt A Drain SF** volunteers have helped us keep storm drains in our communities clear of leaves and debris to minimize risk of flooding. These drain heroes are provided tools and training to help keep storm drains clear, protecting our system, the environment, and the community.

Join thousands of San Franciscans, adopt a drain in your neighborhood to help your community get rain ready! Learn more at sfwater.org/adoptadrainsf.

THOUGHTFUL & THRIVING

We strive to be good neighbors. As the first utility in the nation to adopt **Environmental Justice** and **Community Benefits** policies, we partner with service area residents and local leaders to build strong, sustainable, and vibrant communities. We are especially committed to working with the communities impacted by our operations and services. From simply being there when you call, to developing comprehensive programs, we are dedicated to our communities.

As one of the City's largest employers, we foster a diverse and skilled workforce right in our own communities to manage our operations. This year, we provided over 1,149 students and early career professionals with internships, apprenticeships, and work experience opportunities.

Through **Project Pull**, high school and college students were paired with City staff to learn job skills and receive exposure to technical careers. Through **SSIP CityWorks**, students from San Francisco's Bayview, Hunter's Point, Visitacion Valley, Sunnydale, and Potrero Hill neighborhoods spent six weeks working on SSIP projects. In addition, the **Project Learning Partnership Grant Program** enabled 24 community-based youth programs to

provide meaningful learning opportunities related to our operations, careers in public service, and environmental stewardship.

During **National Engineering and Scientists in Schools Week**, engineers, scientists, and other professionals from SFPUC and our partners, volunteered their time in K-12 classrooms to introduce students to science, technology, engineering, and math (STEM) careers. With our partners, we provided hands-on interactive activities with students in 44 classrooms at 11 schools throughout Tuolumne County where Hetch Hetchy Reservoir is located.

From classrooms across the region to our workforce development programs and our own neighborhoods, we helped to enhance neighborhoods by increasing greenery at 88 homes throughout the City through the **Front Yard Ambassadors Program** and **Sidewalk Gardens Program**. These programs establish native, drought-tolerant plants or vibrant gardens in front yards or sidewalks. Improved pedestrian experience, neighborhood pride, education on drought-tolerant plants, and relationship building amongst community members are just a few benefits of these programs.

Receive the latest agency news by signing up for our newsletters and following us on social media. Sign up at sfwater.org/newsletter.



1,149
internships and
apprenticeships

127
Drink Tap stations serving
schools and the public

88
gardens installed in
neighborhoods

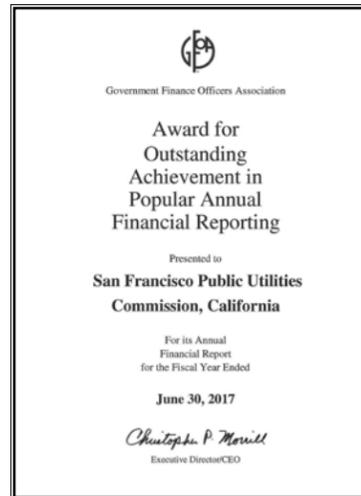
KEEPING OUR RATES AFFORDABLE

Single-Family Residential FY 2017-2018

Average Monthly Water and Sewer Bill.....	\$107.66
Cost per Person/Day.....	\$1.53
Total Cost per Gallon, Water and Sewer.....	\$0.027
Total Combined Bill as % of San Francisco Median Household Income.....	1.43%

Calculation is based on the average monthly water usage of 5.30 ccf (hundred cubic feet).

FINANCIAL PERFORMANCE



Since 2010, this report has won the prestigious “Award for Outstanding Achievement in Popular Annual Financial Reporting” from the Government Finance Officers Association.

This award recognizes our commitment to increase public awareness by providing an overview of our financial condition. While the financial information is drawn from the audited financial statements in the SFPUC’s **Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR)**, using the full accrual basis of accounting and providing complete financial information and disclosures in conformance with generally accepted accounting principles (GAAP), this report is not audited and not intended to comply with GAAP as note disclosures have been excluded from this report. Our CAFR, which provides complete financial information and disclosures in conformance with GAAP, is available online at sfwater.org/finance.

Credit Ratings

Fiscal Year	2018	2017	2016
Water			
Standard & Poor’s.....	AA-	AA-	AA-
Moody’s Investors Service	Aa3	Aa3	Aa3
Average Borrowing Rate*	3.50	3.96	4.22
Power			
Fitch	AA-	AA-	AA-
Standard & Poor’s.....	A+	A+	A+
Average Borrowing Rate*	3.22	3.15	2.80
Sewer			
Standard & Poor’s.....	AA	AA	AA
Moody’s Investors Service	Aa3	Aa3	Aa3
Average Borrowing Rate*	3.27	3.04	3.04

*Average Borrowing Rate: Weighted average interest rate on outstanding debt as of 6/30/18.

The **Statement of Net Position** is a useful indicator of financial position. Our Statements of Net Position continued to reflect a strong and healthy financial condition over the last several fiscal years. Investments in capital assets constituted 92% of our net position and represented the amount by which the carrying value of capital assets exceeds capital-related debt, which comprises the outstanding balances of any bonds, commercial paper, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Continuing the trend of increases in total assets for the past five years, total assets increased by \$593 million from fiscal year 2017, a 7% increase primarily due to capital assets for construction and capital improvement activities. Liabilities increased by \$471 million in fiscal year 2018 due to debt issuance to fund capital projects and the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which is based on the SFPUC’s percentage of citywide “pay-as-you-go” contributions.

There are five components in the Statement of Net Position, which is intended to present what the entity owns (assets), owes (liabilities) and its residual or net position.

1. Assets are resources with present service capacity that the government presently owns or controls.
2. Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period—for example, prepaid items and deferred charges.
3. Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid, such as debts owed, and represent claims against assets.
4. Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period—for example, deferred revenue and advance collections.
5. Net position is the residual of all other elements presented in a Statement of Net Position, i.e., the residual interest in the items owned or controlled after deducting debts. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or worsening.

Definitions

- **Capital Assets:** Include depreciable, amortizable, non-amortizable and non-depreciable facilities and buildings, improvement, machinery and equipment, intangible assets, land and rights-of-way as well as construction work in progress, net of depreciation and amortization.
- **Current and Other Assets:** Assets easily converted to cash or consumed within one year: cash, investments, receivables, and prepaid expenses.
- **Long-term Debt Outstanding:** Payments due on debt that are more than 12 months in the future.

- **Other Liabilities:** Payments due on obligations owed by SFPUC within the next 12 months.
- **Restricted Assets:** Cash and investments set aside for a specific purpose.
- **Unrestricted Assets:** Agency-owned assets that can be used for any purpose.
- **Capital Contributions:** Funds that are used for capital and expansion projects.
- **Change in Net Position:** The total of net income (loss), net transfers, and cumulative effect of accounting change.
- **Depreciation and Amortization Expense:** If an asset is expected to produce a benefit in future periods, some of these costs must be deferred rather than treated as a current expense.
- **Income (Loss):** The difference between total revenue less total expenses.
- **Non-operating Revenues and Expenses:** Revenues and expenses that are incidental to SFPUC’s main purpose and derived from activities not directly related to SFPUC’s operations such as: taxes and penalties, interest earnings and costs associated with debt.
- **Operating Expenses:** Expenses incurred in the provision of water, sewer, and power services.
- **Operating Revenues:** Revenues for the sale of water, sewer, and power services to customers, services, inspections, and programs provided by SFPUC.

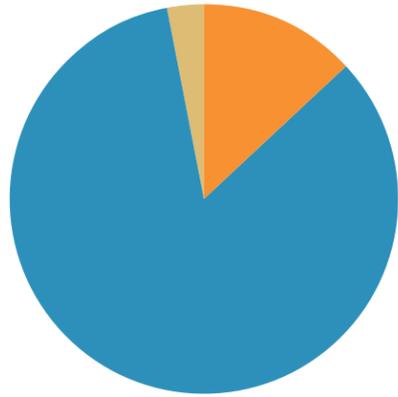
The **Statements of Revenues, Expenses, and Changes in Net Position** reflected continued revenue growth. SFPUC strives to achieve strong financial performance and effectively controls its operating costs to not exceed revenues. Total revenues increased by \$106 million due to adopted increases in water and wastewater rates, and new revenue sources from the CleanPowerSF Program. Total expenses decreased by \$73 million, as compared to prior year. This was primarily due to decrease of \$93 million in personnel services due to pension; offset by increases of \$8 million in interest expenses, net of premium, discount, refunding loss, and issuance costs, \$7 million in contractual services mainly due to purchased electricity, \$3 million in materials and supplies and \$2 million in depreciation and amortization expense due to completion of capital projects.

FIVE-YEAR COMPARATIVE CONSOLIDATED NET POSITION

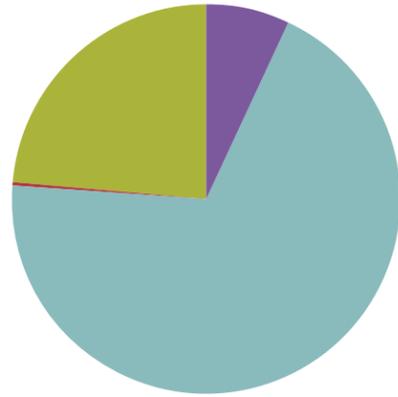
(Dollars In Millions)

- Current assets
- Capital assets
- Deferred outflows of resources
- Current liabilities
- Long-term liabilities
- Deferred inflows of resources
- Net position

2018

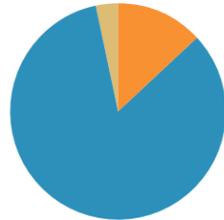


\$9,837 Assets, and Deferred outflows of resources

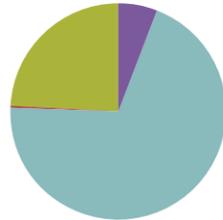


\$9,837 Liabilities, Deferred inflows of resources, and Net position

2017

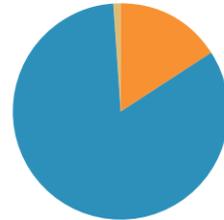


\$9,279 Assets, and Deferred outflows of resources

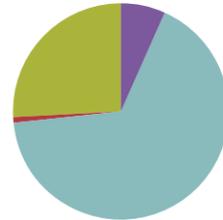


\$9,279 Liabilities, Deferred inflows of resources, and Net position

2016

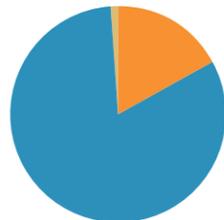


\$8,873 Assets, and Deferred outflows of resources

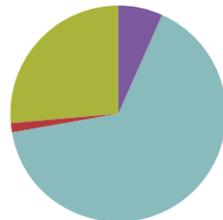


\$8,873 Liabilities, Deferred inflows of resources, and Net position

2015

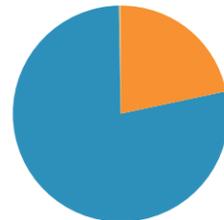


\$8,509 Assets, and Deferred outflows of resources

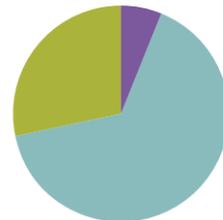


\$8,509 Liabilities, Deferred inflows of resources, and Net position

2014



\$8,319 Assets, and Deferred outflows of resources



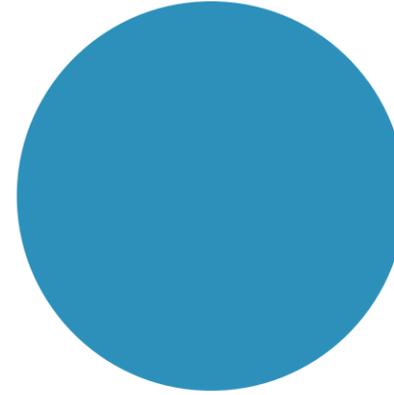
\$8,319 Liabilities, Deferred inflows of resources, and Net position

FIVE-YEAR STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

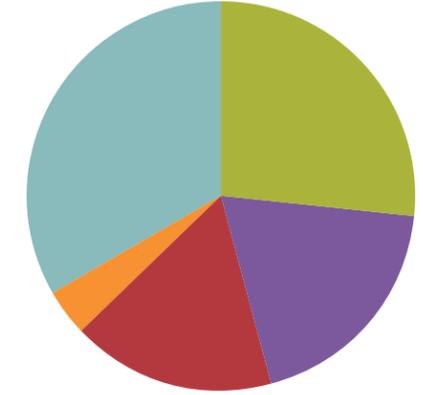
(Dollars In Millions)

- Revenues (including Transfers in)
- Expenses:**
- Personnel services
- Depreciation and amortization
- Capital project bond interest
- Contractual services
- Materials, supplies and others (including Transfers out)

2018

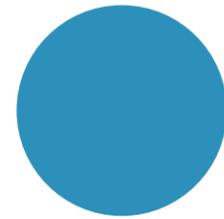


\$1,130 Revenues

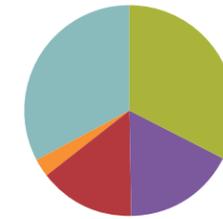


\$1,014 Expenses

2017

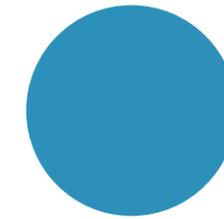


\$1,054 Revenues

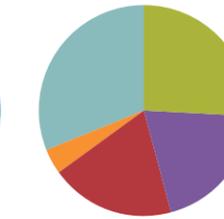


\$1,119 Expenses

2016

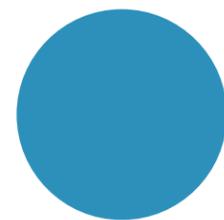


\$940 Revenues

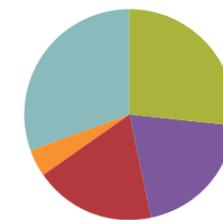


\$874 Expenses

2015

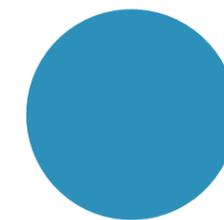


\$955 Revenues

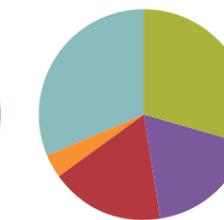


\$818 Expenses

2014



\$836 Revenues



\$852 Expenses



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

如果您需要中文協助, 請致電: (415) 554-3289.

Si necesita asistencia en español llame
(415) 554-3289.

Kung kailangan ninyo ng tulong o salin sa wikang
Filipino, tumawag lamang po sa (415) 554-3289.

SFPUC Communications Division
Date of Publication: February 2019

Financial Services
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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.