Public Utilities Commission of the
City and County of San Francisco

Water Enterprise

Annual Disclosure Report

For Fiscal Year Ending
June 30, 2024

San Francisco
Water
Power
Sewer

Services of the San Francisco Public Utilities Commission

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

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March 27,2025

VIA: MSRB EMMA

To Whom it May Concern:

Attached hereto is the Fiscal Year 2024 Annual Disclosure Report ("Report") for the Public Utilities Commission of the City and County of San Francisco ("SFPUC"), Water Enterprise. This filing relates to the following associated base CUSIP number(s):

SFPUC Water Enterprise: 79765R and 79771F

This Report is being provided by the SFPUC in connection with our undertaking entered into in accordance with Rule 15c2-12, promulgated by the U.S. Securities and Exchange Commission. The information provided in this Report speaks only as of its date, March 27, 2025. The delivery of this Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement. Other than as set forth in continuing disclosure undertakings SFPUC has entered into, SFPUC has not agreed to notify the secondary market of subsequent changes to the information in this Report.

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

Any statements regarding the referenced securities, other than official statements made by SFPUC and filed on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board ("MSRB"), are not authorized by the SFPUC. The SFPUC shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

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

Sincerely,

/s/ Dennis J. Herrera

Dennis Herrera
General Manager

Enclosure

CC: Nancy L. Hom, SFPUC Assistant General Manager, Business Services and Chief Financial Officer
José Cisneros, Treasurer
Greg Wagner, Controller
David Chiu, City Attorney
Anna Van Degna, Director, Office of Public Finance
Angela Calvillo, Clerk of the Board of Supervisors

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Kate H. Stacy , President
Joshua Arce, Vice President
Avni Jamdar, Commissioner
Stephen E. Leveroni, Commissioner

SAN FRANCISCO PUBLIC UTILITIES COMMISSION OFFICIALS

Dennis J. Herrera, General Manager
Ronald P. Flynn, Deputy General Manager and Chief Operating Officer
Steven R. Ritchie, Assistant General Manager, Water Enterprise
Nancy L. Hom, Assistant General Manager, Business Services and Chief Financial Officer
Masood Ordikhani, Assistant General Manager, External Affairs
Barbara Hale, Assistant General Manager, Power Enterprise
Stephen Robinson, Assistant General Manager, Infrastructure Division
Joel Prather, Assistant General Manager, Wastewater Enterprise

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Daniel Lurie

BOARD OF SUPERVISORS

Rafael Mandelman, President

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Myrna Melgar
Danny Sauter
Stephen Sherrill
Shamann Walton

CITY ATTORNEY

David Chiu

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Greg Wagner, Controller
Carmen Chu, City Administrator

Current as of March 27, 2025

The San Francisco Public Utilities Commission ("SFPUC") hereby provides this Annual Disclosure Report for the fiscal year ending June 30, 2024 in connection with obligations undertaken pursuant to Continuing Disclosure Certificates for revenue bonds issued by SFPUC's Water Enterprise, as provided in the table below. Audited Financial Statements for the years ending June 30, 2024 and June 30, 2023 are attached and submitted separately and may be viewed on EMMA or downloaded from the SFPUC website at: https://www.sfpuc.gov/about-us/reports/debt-management-and-disclosure-reports.

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

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2024)
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series B[(2)]	Water system improvements under Proposition E	June 17, 2010	SV2	$417,720	$323,145
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series E[(2)]	Water system improvements under Proposition E	August 4, 2010	TK5	344,200	318,290
Water Revenue Bonds – Build America Bonds (BABs), 2010 Series G[(2)]	Water system improvements under Proposition E	December 22, 2010	TL3	351,470	351,470
Water Revenue Bonds, 2015 Series A	Refund previously outstanding 2006A Bonds and a portion of 2009A Bonds	April 16, 2015	E96	429,600	274,135
Water Revenue Bonds, 2016 Series A	Refund portions of previously outstanding 2009A, 2009B, and 2010F Bonds	October 20, 2016	J67	763,005	573,500
Water Revenue Bonds, 2016 Series B	Refund previously outstanding 2006B and 2006C Bonds, and a portion of 2010A Bonds	October 20, 2016	L49	130,815	45,805
Water Revenue Bonds, 2016 Series C (Green Bonds)	Refunds previously outstanding Commercial Paper Notes, and Water System Improvement Program	December 14, 2016	Q51	259,350	219,170
Water Revenue Bonds, 2017 Series A (Green Bonds)	Refunds previously outstanding Commercial Paper Notes, and Water System	December 13, 2017	T41	121,140	22,230

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2024)
	Improvement Program				
Water Revenue Bonds, 2017 Series B	Water main replacement projects under Proposition E	December 13, 2017	W54	147,725	27,110
Water Revenue Bonds, 2017 Series C	Refunds previously outstanding Commercial Paper Notes, and Hetch Hetchy Water Capital Improvements	December 13, 2017	Z69	70,675	12,970
Water Revenue Bonds, 2017 Series D (Green Bonds)	Refund portions of previously outstanding 2011A and 2012A Bonds.	December 28, 2017	2S7	350,305	257,295
Water Revenue Bonds, 2017 Series E	Refund portions of 2011C, 2011D, and 2012C Bonds	December 28, 2017	3D9	48,890	47,330
Water Revenue Bonds, 2017 Series F	Refund a portion of previously outstanding 2011B Bonds	December 28, 2017	3P2	8,705	7,270
Water Revenue Bonds, 2017 Series G (Green Bonds)	Refund a portion of previously outstanding 2011A Bonds	December 28, 2017	3W7	34,280	5,225
Water Revenue Bonds, 2019 Series A (Green Bonds)	Refund a portion of previously outstanding 2010F, 2011A, and 2012A Bonds	January 9, 2020	5B1	622,580	393,080
Water Revenue Bonds, 2019 Series B	Refund a portion of previously outstanding 2011B	January 9, 2020	5D7	16,450	16,245
Water Revenue Bonds, 2019 Series C	Refund a portion of previously outstanding 2011C	January 9, 2020	5F2	17,925	17,695

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2024)
Water Revenue Bonds, 2020 Series A, (Green Bonds)	Retired previously outstanding commercial paper for Water System Improvement Program	September 23, 2020	5H8	150,895	150,895
Water Revenue Bonds, 2020 Series B	For Non-WSIP Regional Capital Improvements	September 23, 2020	5L9	61,330	61,330
Water Revenue Bonds, 2020 Series C	For Non-WSIP Local Capital Improvements	September 23, 2020	5N5	85,335	85,335
Water Revenue Bonds, 2020 Series D	Retired previously outstanding commercial paper for Hetch Hetchy Water Capital Improvements	September 23, 2020	5Q8	49,200	49,200
Water Revenue Bonds, 2020 Series E, (Green Bonds)	Refunded and partially refunded 2010D, 2012A, 2017A Bonds	October 21, 2020	79771F AB3	341,435	183,635
Water Revenue Bonds, 2020 Series F	Partially Refunded 2017B Bonds	October 21, 2020	79771F AT4	136,880	134,025
Water Revenue Bonds, 2020 Series G	Refunded and partially refunded 2010D, 2011D, 2012B, 2012C Bonds	October 21, 2020	79771F BK2	120,585	64,660
Water Revenue Bonds, 2020 Series H	Partially Refunded 2017C Bonds	October 21, 2020	79771F CB1	65,495	64,130
Water Revenue Bonds, 2023 Series A	Retired previously outstanding commercial paper for Regional and Local Capital Improvements	July 27, 2023	79771F CV7	349,495	349,495
Water Revenue Bonds, 2023 Series B	Retired previously outstanding commercial paper for the Hetch Hetchy Water Program	July 27, 2023	79771F DP9	64,540	64,540

Series of Bonds	Purpose	Date	Final CUSIP (79765R)	Original Par	Par Outstanding (June 30, 2024)
Water Revenue Bonds, 2023 Series C	Refunded and partially refunded 2015A, 2016A, 2017D, 2019A, 2019C, 2020E, and 2020G Bonds	August 10, 2023	79771F EK9	486,875	486,875
Water Revenue Bonds 2023, Series D	Refund 2020G Bonds	August 10, 2023	79771F EU7	27,980	27,980
TOTAL(3)				**$6,074,880**	**$4,634,065**

Loan Agreement	Purpose	Date	Agreement Amount	Disbursements Received (June 30, 2024)	Principal Outstanding (June 30, 2024)
Clean Water State Revolving Fund Loan and Grant D17-01001	San Francisco Westside Recycled Water Project	September 14, 2017	$186,220(4)	$145,390(4)	$154,178(5)
Clean Water State Revolving Fund Loan D21-02030	Mountain Tunnel Improvement Project	April 28, 2022	238,219	0	105,792(5)

* All outstanding bonds held in trust by U.S. Bank Trust Company, National Association, as successor to U.S. Bank National Association (the "Trustee").

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

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

(3) Total excludes Commercial Paper. The Water Enterprise maintains a $500 million Interim funding program, which is subordinate to the outstanding revenue bonds. As of June 30, 2024, the SFPUC had approximately $190 million principal amount of Water Commercial Paper Notes outstanding. The Commercial Paper Notes are secured by respective bank credit facilities, as follows: (a) a $100 million letter of credit from SMBC, which expires on May 16, 2025; (b) a $200 million letter of credit from Sumitomo Mitsui, which expires on June 15, 2027 (c) a $100 million letter of credit from Barclay's Bank PLC, which expires on July 19, 2024, and(d) a $100 million Revolving Credit Agreement from U.S. Bank National Association, which expires on July 19, 2024; There was no outstanding amount on the Revolving Credit Agreement as of June 30, 2024. See "Subsequent Events" section for more information regarding the Water Enterprise Interim Funding Program.

(4) Represents the maximum possible loan amount; a portion of this loan is anticipated to be a grant ($15 million)

(5) Principal outstanding includes disbursements requested but not received as of June 30, 2024. The SFPUC received $62,749 in reimbursements for the Clean Water State Revolving Fund Loan D21-02030 for the Mountain Tunnel Improvement Project in February 2025.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2024

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

	2020	2021	2022	2023	2024	2024 % of Total
Retail customers						
Multi-Family Residential	23.3	22.7	21.9	21.8	21.7	12.4%
Single-Family Residential	14.4	14.6	13.1	12.5	12.2	7.0%
Commercial[(1)]	15.1	10.6	11.8	12.4	12.2	7.0%
Industrial	0.2	0.1	0.1	0.1	0.1	0.0%
Municipal [(2)]	3.4	2.8	2.8	2.5	2.7	1.6%
Suburban Retail[(3)]	3.0	2.8	2.7	2.7	2.9	1.7%
Retail water sales	**59.4**	**53.6**	**52.4**	**52.0**	**51.8**	**29.7%**
Wholesale customers						
California Water Service[(4)]	29.0	29.6	29.0	26.4	25.9	14.9%
City of Hayward	14.2	14.5	14.0	12.9	13.1	7.5%
City of Palo Alto	9.7	9.8	9.6	8.6	8.9	5.1%
City of Sunnyvale	9.4	9.7	8.9	8.1	9.5	5.4%
Alameda County Water District	7.7	9.5	9.4	9.7	9.9	5.7%
City of Redwood City	8.8	8.6	7.9	7.2	7.7	4.4%
City of Mountain View	7.6	7.9	7.4	6.7	7.4	4.2%
City of Milpitas	6.1	5.4	4.8	4.5	5.3	3.0%
Estero Municipal Improvement District	4.3	4.3	3.9	3.5	3.7	2.1%
City of San José	4.2	4.2	4.1	3.8	3.9	2.2%
All Other Wholesale Customers[(5)]	31.0	31.5	29.5	26.4	27.3	15.8%
Wholesale water sales	**132.0**	**135.0**	**128.45**	**117.8**	**122.6**	**70.3%**
Total water sales[(5) †]	**190.9**	**188.6**	**180.8**	**169.8**	**174.4**	**100.0%**
% Change from prior year	**3.9%**	**-1.6%**	**-4.1%**	**-6.1%**	**3.0%**	

† Totals may not add due to independent rounding.

(1) Includes docks and ships under Commercial.

(2) The Municipal category includes the San Bruno Jail, a City department located outside San Francisco, and master metered Treasure Island water sales. Current Treasure Island usage represents purchases by the Treasure Island Development Authority and various commercial, residential, and governmental leases. As new development is completed on Treasure Island, customers open individual accounts under the appropriate commercial or residential line items and the master-metered amount will be reduced accordingly.

(3) SFO is included as a Suburban Retail Customer because SFO receives water directly from the Water Enterprise.

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

(5) Unaccounted for in-city water was 6.3 mgd in Fiscal Year 2019-20, 4.8 mgd in Fiscal Year 2020-21, 5.9 mgd in Fiscal Year 2021-22, and 6.3 mgd in Fiscal Year 2022-23 as determined by comparing SFPUC Customer Service

sales data with delivery data from City Distribution Division. Unaccounted for water includes water delivery system leaks and water not billed or tracked in the system (i.e., water used for firefighting, flushing water system pipes). Unaccounted for water has averaged approximately 7.7% of retail sales per year over the last 3 years. For Fiscal Year 2023-24, 7.4 mgd represents an unaccounted for water loss of approximately 9.1% of retail sales.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2024 and SFPUC Financial Services

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

Effective Date	Retail Rates	Wholesale Rates *
July 1, 2014	12.0%(12)	19.6
July 1, 2015	12.0(1)	28.0
July 1, 2016	10.0(1)	9.3
July 1, 2017	7.0(1)	0.0
July 1, 2018	7.8(2)	0.0
July 1, 2019	8.3(2)	0.0
July 1, 2020	7.8(2)	0.0
July 1, 2021	7.9(2)	0.0
July 1, 2022	0.0(3)	15.9
July 1, 2023	5.0(4)	9.7

* Pursuant to the 25-year Water Supply Agreement ("WSA"), wholesale rates are adopted annually based on an estimate of the Wholesale Revenue Requirement.
(1) Four-year rate increases for retail customers effective July 1, 2014 through June 30, 2018.
(2) Four-year rate increases for retail customers effective July 1, 2018 through June 30, 2022.
(3) No retail rate increase adopted for Fiscal Year 2022-23.
(4) Three-year retail rate increases for retail customers effective July 1, 2023 through June 30, 2026.

Source: SFPUC Financial Services

SFPUC WATER ENTERPRISE
ACCOUNTS AND BILLINGS BY USER TYPE
FOR FISCAL YEAR ENDING JUNE 30, 2024

User Type	Active Accounts	Billings ($000's)	Billings as % of Total
Multi-Family Residential	44,280	$125,973	19.95%
Single Family Residential	111,445	84,394	13.36%
Subtotal Residential	155,725	$210,367	33.31%
Commercial[1]	20,690	$75,775	12.0%
Municipal Customers	2,100	16,982	2.69%
Industrial	71	546	0.09%
Subtotal Non-Residential	22,861	$93,303	14.77%
Suburban Retail	297	$13,728	2.17%
Wholesale	78	$314,131	49.74%
Total	**178,961**	**$631,529**	**100.0%**

(1) Includes docks, ships, builders and contractors under Commercial.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2024

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

	2020	2021	2022	2023	2024
OPERATING & INVESTMENT REVENUE					
Charges for Services[2]					
Retail Water Sales	$280,609	$270,514	$297,226	$298,156	$313,408
Wholesale Water Sales	270,144	278,981	240,925	361,750	334,214
Subtotal – Water Sales	$550,753	$549,495	$538,151	$659,906	$647,622
Rental Income[3]	12,124	12,911	13,765	13,282	8,556
Other Revenues [4]	18,305	17,069	22,134	19,843	21,903
Capacity Fees[5]	2,169	1,326	2,163	1,256	863
Investing Activities[6]	10,517	340	(10,896)	11,156	25,097
Total Revenues	$593,868	$581,141	$565,317	$705,443	$704,041
OPERATING & MAINTENANCE EXPENSE					
Personnel Services[7]	$119,943	$132,528	$83,385	$135,709	$159,779
Contractual Services[8]	14,523	15,501	13,457	16,919	20,128
Materials and Supplies[9]	14,050	13,175	15,719	20,046	23,195
Depreciation [10]	142,228	144,033	147,904	155,714	155,172
Services of Other Departments[11]	61,128	70,235	73,307	79,910	77,638
General/Administrative & Other[12]	46,245	73,218	67,862	30,539	66,406
Total Operating Expenses	$398,117	$448,690	$401,634	$438,837	$502,318
OPERATING AND INVESTMENT INCOME	$195,751	$132,451	$163,683	$266,606	$201,723
COVERAGE CALCULATION					
Operating and Investment Income	$195,751	$132,451	$163,683	$266,606	$201,723
+Adjustment to Investing Activities[13]	(516)	3,846	13,050	(2,015)	(7,956)
+Depreciation & Non-Cash Expenses	148,294	150,257	151,114	164,817	157,335
+Changes in Working Capital[14]	(20,763)	24,707	(42,906)	(124,668)	(22,917)
+Appropriated Fund Balance[15]	17,181	27,785	21,977	67,949	9,800
= "Net Revenue"[16],[17]	$339,947	$339,046	$306,918	$372,689	$337,985
+Other Available Funds[18]	241,931	128,692	103,506	194,075	217,600
Funds Available for Debt Service	$581,878	$467,738	$410,424	$566,764	$555,585
Bond Debt Service[17]	$269,210	$248,427	$279,352	$307,062	$306,369
DEBT SERVICE COVERAGE[19]					
Including "Other Available Funds"[18]	2.16x	1.88x	1.47x	1.85x	1.81x
Current Basis[17],[20]	1.26x	1.36x	1.10x	1.21x	1.10x

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

(2) Decrease between Fiscal Years 2022-23 and 2023-24 mainly due to a decrease in balancing account adjustment for Wholesale Customers in prior year, offset by adopted rates increases of 9.7% for wholesale customers and 5% for retail customers beginning July 1, 2023.

(3) Decrease between Fiscal Years 2022-23 and 2023-24 mainly due wholesale balancing account adjustment and in-lieu groundwater credits given, offset by an adopted rate increase of 9.7% of wholesale customers beginning July 1, 2023.

(4) Decrease between Fiscal Years 2022-23 and 2023-24 due to transfer to operating fund for Customer Assistance Program discount program expansion.

(5) Increase between Fiscal Years 2022-23 and 2023-24 mainly due to increased consumption for certain City departments and a 5% rate increase in Fiscal Year 2023-24.Also, non-operating revenues were added in Fiscal Year 2021-22 per indenture.

(6) Decrease between Fiscal Years 2022-23 and 2023-24 due to additional allowance for doubtful accounts adjustments and decrease in number of permits issued.

(7) Increase between Fiscal Years 2022-23 and 2023-24 due to increased interest rates for earnings for cash with Fiscal Agent and City Treasury, and accrual reversal of prior year unrealized loss for investments in City Treasury.

(8) Increase between Fiscal Years 2022-23 and 2023-24 due to increase in full-time equivalent and average pay, and pension expenses based on actuarial reports.

(9) Increase between Fiscal Years 2022-23 and 2023-24 due to increased construction contracts.

(10) Increase between Fiscal Years 2022-23 and 2023-24 mainly due to water treatment supplies.

(11) Decrease between Fiscal Years 2022-23 and 2023-24 due to pending depreciation schedules.

(12) Decrease between Fiscal Years 2022-23 and 2023-24 mainly due to decreased water assessment fees paid to Hetchy Water.

(13) Increase between Fiscal Years 2022-23 and 2023-24 due to accrual reversal of prior year claim, increase in legal fees and litigation expenses.

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

(15) Changes in working capital represents adjustments to reconcile operating income to net cash provided by operating activities from the Statements of Cash Flows in the audited financial statements. Fiscal Year 2023-24 adjustments primarily driven by adjustments relating to receivables, accounts payable pension obligations, OPEB, the balancing account for Wholesale Customers, damage claims liability and other liabilities.

(16) Net revenues for the year ended June 30, 2024 include appropriated available funds. Such amount offsets Operating and Maintenance Expenses in Current Basis calculations.

(17) "Net Revenue" is presented on a cash basis. Refundable Credits actually received by the SFPUC are reflected as reductions in Bond Debt Service and are excluded from Net Revenue. Prior to January 9, 2020, due to federal sequestration, the Indenture required that Refundable Credits not be reflected as reductions in Bond Debt Service but rather permitted an adjustment to Net Revenue; however, an amendment to the Indenture that allows for Refundable Credits actually received by the SFPUC to be reflected as reductions in Bond Debt Service and excluded from Net Revenue went into effect on January 9, 2020.

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

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

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

Source: SFPUC; compiled from SFPUC's audited financial statements for Fiscal Years 2023-24 and 2022-23.

SFPUC WATER ENTERPRISE
WATER SYSTEM IMPROVEMENT PROGRAM (WSIP)
BUDGET AND SPENDING SUMMARY AS OF JUNE 30, 2024
(IN MILLIONS)

	Total Approved(1)	Expended/ Encumbered	Unencumbered Remaining Balance
Regional Projects	$3,803.1	$3,724.6	$78.5
Local Projects(2)	612.7	558.7	54.0
Financing Costs(3)	372.0	372.0	0
Total†	**$4,787.8**	**$4,655.3**	**$132.5**

†Totals may not add due to independent rounding.

(1) Based on April 2022 Approved WSIP Budget, approved by the Commission plus any additional budget changes approved by the Commission as part of additional contingencies on construction contracts.

(2) Local projects include $281 million in WSIP funding to Water Supply Projects. The WSIP Local Water Supply projects underwent a September 2013 re-baseline. Only the original WSIP portion of the re-baselined costs is reported here. The remaining budget is funded under the Water Enterprise Capital Improvement Program and is managed outside the purview of the WSIP.

(3) Financing Project appropriated to date

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

Source: SFPUC Financial Services

SFPUC WATER ENTERPRISE
STATUS OF WSIP PROJECTS
AS OF JUNE 30, 2024
(IN MILLIONS)

	Number of Projects		Value of Projects(1)	
Active Phase	**Local Program(2)**	**Regional Program**	**Local Program**	**Regional Program**
Planning	0	0	$ 0	$ 0
Design	0	0	0	0
Bid & Award	0	0	0	0
Construction	0	2	0	214
Close-Out	0	1	0	96
Completed	35	48	331	3,485
Not Applicable(3)	0	1	0	12
Total†	**35**	**52**	**$331**	**$3,808**

†Totals may not add due to independent rounding.

(1) Project value based on the April 2022 Approved WSIP Budget plus any additional budget and schedule changes approved by the Commission as part of additional contingencies on construction contracts. Project value for various phases includes proportional allocation of approved program management budget. Projects active in multiple phases are counted in the phase with the greatest amount of project activities.

(2) Does not include Local Water Supply Projects managed as part of the Water Enterprise Capital Improvement Program.

(3) "Not Applicable" category is for projects that do not include construction, including the Watershed Environmental Improvement Program and the Long-Term Mitigation Endowment.

Source: SFPUC, Q4 FY2023-24 WSIP Quarterly Report, SFPUC Financial Services

SUBSEQUENT EVENTS

1. Water Interim Funding Program Expansion

On November 19, 2024, the San Francisco Board of Supervisors approved Ordinance 269-24 authorizing (i) an increase of the aggregate principal amount of the Wastewater Enterprise's Interim Funding Program from an aggregate principal amount of $250,000 to a not-to-exceed aggregate principal amount of $750,000 to finance on a short-term interim basis various capital projects benefitting the Water Enterprise. The Effective Date of the approved Ordinance is December 26, 2024.

2. Water Interim Funding Program – Credit Providers

On February 18, 2025, the SFPUC entered into its first amendment for a credit facility for the Interim Funding Program of the Water Enterprise in the form of $100,000 Reimbursement Agreement and Fee Agreement with Sumitomo Mitsui Bank (Series A-1) extending the commitment expiration to February 15, 2030.

On February 18, 2025, the SFPUC entered into a $150,000 Reimbursement Agreement and related Fee Agreement for a credit facility for the Interim Funding Program of the Water Enterprise with PNC Bank with a commitment expiration date of February 17, 2028.

On March 4, 2025, the SFPUC entered into a $100,000 Revolving Credit and Term Loan Agreement with Wells Fargo Bank (Series R-2) with a commitment expiration date of March 3, 2028.

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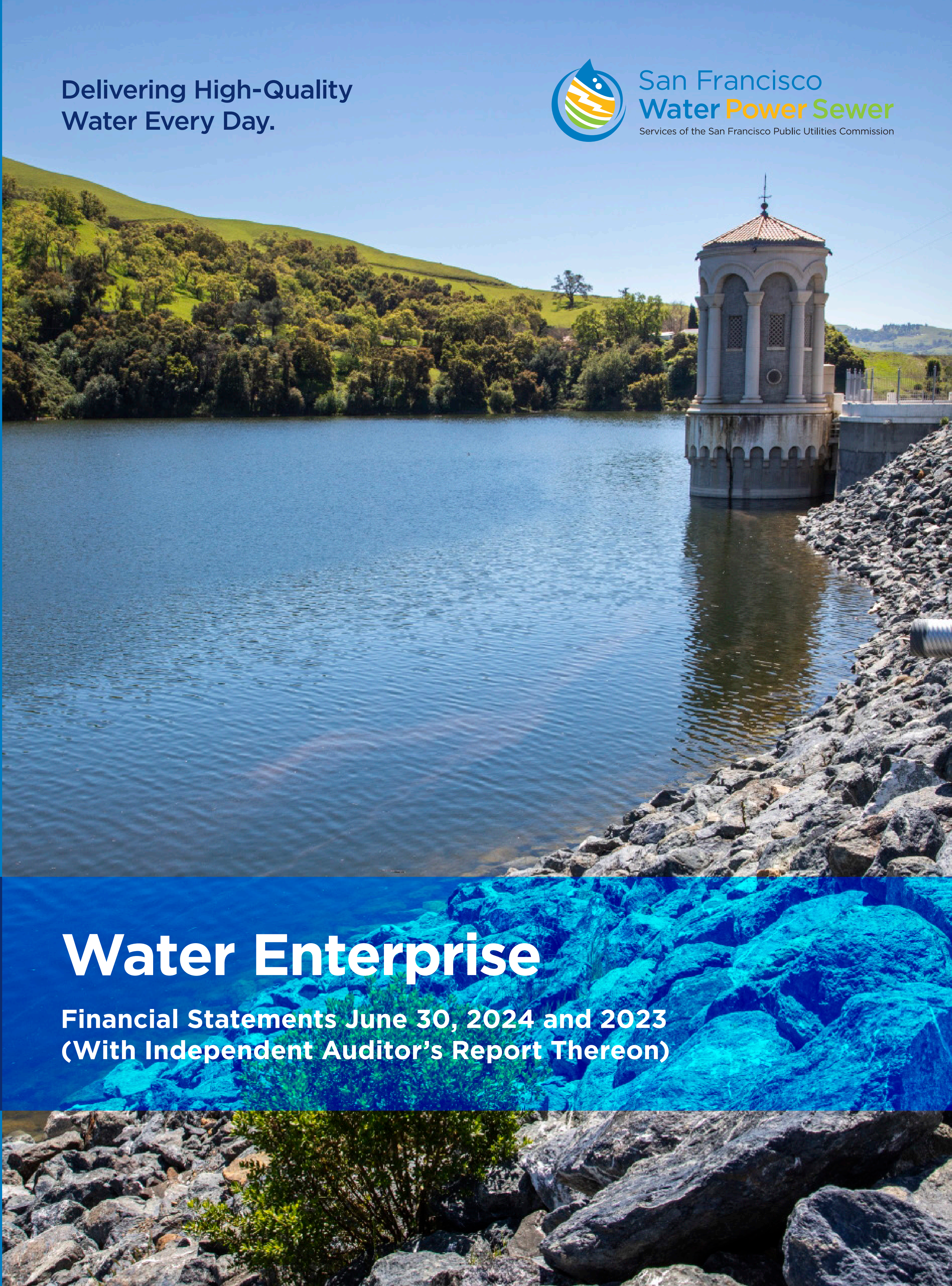
San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission



Water Enterprise

Financial Statements June 30, 2024 and 2023 (With Independent Auditor's Report Thereon)

SAN FRANCISCO WATER ENTERPRISE

Table of Contents

MGO. | Certified Public Accountants

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Francisco Water Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Enterprise and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Enterprise's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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 November 12, 2024 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2024

This section presents management's analysis of the San Francisco Water Enterprise's (the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2024 and 2023. 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
- 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 174 million gallons of water per day in the year ended June 30, 2024. Approximately 70% of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining 30% and are primarily San Francisco consumers, including residential, commercial, industrial, and governmental users. Wholesale customers include cities, water districts, one private utility, and one non-profit university. Service to these customers is provided pursuant to the 25-year Amended and Restated Water Supply Agreement (WSA), commenced on July 1, 2009, which established the basis for determining the costs of wholesale service.

Overview of the Financial Statements

The Enterprise's financial statements include the following:

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

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

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2024

- Total assets exceeded total liabilities by $641,038.
- Net position increased by $57,575 or 8.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $125,515 or 2.2% to $5,778,467.
- Current and other assets increased by $174,613 or 25.3% mainly due to increases of reimbursements receivable relating to the Mountain Tunnel Improvement project for Clean Water State Revolving Funds (SRF) Loans and restricted cash from the issuances of the 2023 Series AB and 2023 Series CD bonds.
- Operating revenues decreased by $14,201 or 2.1% to $676,890.
- Operating expenses increased by $69,103 or 15.0% to $529,356.

Financial Highlights for Fiscal Year 2023

- Total assets exceeded total liabilities by $565,858.
- Net position increased by $58,646 or 9.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $30,969 or 0.6% to $5,652,952.
- Current and other assets decreased by $99,872 or 12.6% mainly due to bond principal and interest payments, capital project expenses, and payments for salaries.
- Operating revenues increased by $117,974 or 20.6% to $691,091.
- Operating expenses increased by $58,489 or 14.6% to $460,253.

(Dollars in thousands, unless otherwise stated)

Financial Position

The following table summarizes the Enterprise's net position.

Table 1
Comparative Condensed Net Position
June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Total assets:					
Current and other assets	$ 865,690	691,077	790,949	174,613	(99,872)
Capital assets, net of accumulated depreciation and amortization	5,778,467	5,652,952	5,621,983	125,515	30,969
Total assets	6,644,157	6,344,029	6,412,932	300,128	(68,903)
Deferred outflows of resources:					
Unamortized loss on refunding of debt	89,186	124,635	139,481	(35,449)	(14,846)
Pensions	93,526	70,101	52,852	23,425	17,249
Other postemployment benefits	29,974	28,616	32,445	1,358	(3,829)
Total deferred outflows of resources	212,686	223,352	224,778	(10,666)	(1,426)
Liabilities:					
Current liabilities:					
Revenue bonds	138,140	135,095	125,285	3,045	9,810
Certificates of participation	3,402	3,267	3,138	135	129
Commercial paper	190,000	—	206,297	190,000	(206,297)
State revolving fund loans	—	—	3,283	—	(3,283)
Other liabilities	148,337	148,547	182,349	(210)	(33,802)
Subtotal current liabilities	479,879	286,909	520,352	192,970	(233,443)
Long-term liabilities:					
Revenue bonds	4,826,497	4,575,751	4,735,650	250,746	(159,899)
Certificates of participation	85,830	89,232	92,499	(3,402)	(3,267)
Commercial paper	—	371,459	—	(371,459)	371,459
State revolving fund loans	259,970	163,627	118,478	96,343	45,149
Arbitrage rebate payable	869	—	—	869	—
Other liabilities	350,074	291,193	218,669	58,881	72,524
Subtotal long-term liabilities	5,523,240	5,491,262	5,165,296	31,978	325,966
Total liabilities:					
Revenue bonds	4,964,637	4,710,846	4,860,935	253,791	(150,089)
Certificates of participation	89,232	92,499	95,637	(3,267)	(3,138)
Commercial paper	190,000	371,459	206,297	(181,459)	165,162
State revolving fund loans	259,970	163,627	121,761	96,343	41,866
Arbitrage rebate payable	869	—	—	869	—
Other liabilities	498,411	439,740	401,018	58,671	38,722
Total liabilities	6,003,119	5,778,171	5,685,648	224,948	92,523
Deferred inflows of resources:					
Unamortized gain on refunding of debt	31,854	—	—	31,854	—
Pensions	13,305	28,504	248,704	(15,199)	(220,200)
Leases	36,583	41,558	44,583	(4,975)	(3,025)
Other postemployment benefits	22,334	27,075	25,348	(4,741)	1,727
Total deferred inflows of resources	104,076	97,137	318,635	6,939	(221,498)
Net position:					
Net investment in capital assets	350,430	460,213	512,313	(109,783)	(52,100)
Restricted for debt service	44,724	14,625	14,671	30,099	(46)
Restricted for capital projects	200,632	56,822	17,085	143,810	39,737
Restricted for other purposes	—	—	100,407	—	(100,407)
Unrestricted	153,862	160,413	(11,049)	(6,551)	171,462
Total net position	$ 749,648	692,073	633,427	57,575	58,646

Net Position, Fiscal Year 2024

For the period ended June 30, 2024, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $749,648. Total net position increased from prior year by $57,575 or 8.3% (see Table 1). Increases of $289,462 in assets and deferred outflows of resources, and increases of $231,887 in liabilities and deferred inflows of resources are described below.

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

During the fiscal year 2024, current and other assets increased by $174,613 or 25.3%. The increases included $93,433 for reimbursements receivable from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Westside Recycled Water and the Mountain Tunnel Improvement projects, $53,237 in restricted and unrestricted cash and investments mainly due to the issuances of Series 2023 Series AB and 2023 Series CD bonds, $16,069 in Wholesale Balancing Account receivable (see Note 11 for details), $15,531 in charges for services receivable due to more billings than collections and adopted rate increases of 9.7% for wholesale customers and 5.0% for retail customers, $1,264 in interest receivable mainly due to higher interest rates, $505 in notes receivable from the sale of the Balboa Reservoir due to interest accruals, $366 due from other governments for a Federal Emergency Management Agency disaster cost recovery relating to the 2020 Wildfires Santa Clara Fence project, and $275 in restricted interest and other receivables mainly due to increases in capacity fees. These increases were offset by decreases of $4,567 in leases receivable due to payments received, $1,121 in prepaid expenses of multiple software licensing and membership fees, $366 in inventory due to more issuances than purchases during the fiscal year, and $13 for custom work projects due from the Department of Public Works (DPW).

Capital assets, net of accumulated depreciation and amortization, increased by $125,515 or 2.2% mainly from the San Joaquin Pipeline Valve and Safe Entry Improvement and Mountain Tunnel Improvement projects. The largest portion of the Enterprise's net position of $350,430 or 46.7% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $109,783 or 23.9% from prior year's $460,213. The change was explained by an increase of $235,298 in liabilities mainly from the issuances of 2023 Series AB and 2023 Series CD bonds, and additional State Revolving Funds Loans relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, offset by an increase of $125,515 in capital assets mainly from additional assets placed into service.

Deferred outflows of resources decreased by $10,666 due to a decrease of $35,449 in unamortized loss on refunding of debt mainly from defeasance of refunding loss by the 2023 Series CD revenue refunding bonds, offset by increases of $23,425 from pensions and $1,358 in OPEB benefits based on actuarial estimates.

Total liabilities increased by $224,948 which was due to increases of $253,791 in outstanding revenue bonds mainly from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, $96,343 in SRF Loans payable due to additional loans relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, $37,300 in pensions based on actuarial estimates, $9,700 in OPEB liabilities based on actuarial estimates, $6,442 in interest payable mainly from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, $3,148 in damage claims based on actuarial reports, $2,055 in accrued payroll, vacation and sick leave based on unused leave and a 4.75% cost-of-living adjustment, $1,715 in restricted and unrestricted payables due to higher year end expense accruals for operating activities as compared to prior year, $1,267 in accrued workers' compensation based on actuarial estimates, $1,073 in unearned revenues mainly for the water utility California state arrearages relief grant received, and $869 in arbitrage rebate payable mainly for the 2023 Series A bonds. These increases were offset by decreases of $181,459 in commercial paper from refunding by the 2023 Series AB revenue bonds, $3,267 in certificates of participation from repayment and amortization of premium, $2,440 payment to San Francisco Municipal Transportation Agency (MTA) for a settlement payable relating to the Van Ness Corridor Transit Improvement project, $1,189 in leases liability due to payments in the current year, and $400 in subscription liability from payments in the current year.

Deferred inflows of resources increased by $6,939 due to an increase of $31,854 in unamortized gain on refunding of debt from the issuance of 2023 Series CD revenue refunding bonds, offset by decreases of $15,199 related to pensions based on actuarial estimates, $4,975 in leases due to fewer leases, and $4,741 in OPEB benefits based on actuarial estimates.

Net Position, Fiscal Year 2023

For the period ended June 30, 2023, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $692,073. Total net position increased from prior year by $58,646 or 9.3% (see Table 1). The increase in net position was the result of a decrease of $128,975 in liabilities and deferred inflows of resources offset by a decrease of $70,329 in assets and deferred outflows of resources.

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

During the fiscal year 2023, current and other assets decreased by $99,872 or 12.6%. The decreases included $100,407 in restricted net pension asset based on actuarial estimates, $45,106 in restricted and unrestricted cash and investments mainly due to debt principal and interest payments, capital projects spending, payments for salaries and goods and services, $6,625 in prepaid expenses of multiple software licensing and membership fees, $2,535 in lease receivable due to lease payments received, $632 in restricted interest and other receivables mainly due to capacity fees, and $63 mainly for custom work projects due from the Department of Public Works (DPW). These decreases were offset by increases of $28,594 for a reimbursement receivable from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, $11,007 in notes receivable from the sale of the Balboa Reservoir, $10,052 in Wholesale Balancing Account receivable (see Note 11 for details), $2,249 in interest receivable mainly due to higher interest rates, $2,205 in charges for services receivable mainly due to a 15.9% rate increase for wholesale customers beginning July 1, 2022, and $1,389 in inventory due to more purchases than issuances during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by $30,969 or 0.6% mainly due to Mountain Tunnel Improvement and SF Westside Recycled Water projects. The largest portion of the Enterprise's net position of $460,213 or 66.5% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $52,100 or 10.2% from prior year's $512,313 The change was explained by an increase of $83,069 in liabilities related to capital assets mainly from State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, offset by a $30,969 increase in capital assets mainly from increased buildings, structures and improvements.

(Dollars in thousands, unless otherwise stated)

Deferred outflows of resources decreased by $1,426 due to decreases of $14,846 from amortization for unamortized loss on refunding and $3,829 in OPEB obligations based on actuarial estimates, offset by an increase of $17,249 from pensions based on actuarial estimates.

Total liabilities increased by $92,523, which was due to increases of $165,162 in commercial paper from additional principal issuances, $115,343 in pensions based on actuarial reports, $41,866 in SRF loan payable due to additional loans related to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, $15,329 in restricted and unrestricted payables due to higher year end expense accruals for capital projects as compared to prior year, $4,486 in OPEB obligations based on actuarial estimates, $2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project, $1,168 in accrued payroll, vacation and sick leave due to cost of living adjustments and unused leave, $1,147 in lease liability from additional leases, and $762 in workers' compensation based on actuarial estimates. These increases were offset by decreases of $150,089 in outstanding revenue bonds from $125,284 in bond repayment, $24,813 in bond premium amortization, offset by $8 in bond discount amortization, $79,150 in the Wholesale Balancing Account liability (see Note 11 for details), $16,444 in general liability based on actuarial report, $5,160 in unearned revenues mainly from lower custom work deposits and reduced Bay Area Water Supply and Conservation Agency (BAWSCA) Bond Surcharges, $3,138 in certificates of participation from $3,124 in principal repayment and $14 in amortization of premium, $848 in subscription liabilities from the implementation of GASB Statement No. 96 – *SBITAs,* and $351 in interest payable from lower outstanding revenue bonds.

Deferred inflows of resources decreased by $221,498 due to decreases of $220,200 related to pensions based on actuarial estimates and $3,025 in leases based on Controller's Office GASB 87 lease calculations, offset by an increase of $1,727 in OPEB obligations based on actuarial estimates.

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
June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	$ 650,233	661,241	539,526	(11,008)	121,715
Rents and concessions	8,556	13,282	13,765	(4,726)	(483)
Other operating revenues	18,101	16,568	19,826	1,533	(3,258)
Interest and investment income (loss)	25,097	11,156	(10,896)	13,941	22,052
Other non-operating revenues	42,071	40,679	41,871	1,392	(1,192)
Total revenues	744,058	742,926	604,092	1,132	138,834
Expenses:					
Operating expenses	529,356	460,253	401,764	69,103	58,489
Interest expenses	222,055	214,913	213,681	7,142	1,232
Amortization of premium, discount, refunding loss, and issuance costs	(13,825)	(9,971)	(9,875)	(3,854)	(96)
Non-operating expenses	1,760	1,775	828	(15)	947
Total expenses	739,346	666,970	606,398	72,376	60,572
Change in net position before capital contributions and transfers	4,712	75,956	(2,306)	(71,244)	78,262
Capital contributions	53,599	2,717	—	50,882	2,717
Transfers from the City and County of San Francisco	505	5	15,035	500	(15,030)
Transfers to the City and County of San Francisco	(1,241)	(20,032)	(30,666)	18,791	10,634
Capital contributions and net transfers	52,863	(17,310)	(15,631)	70,173	(1,679)
Change in net position	57,575	58,646	(17,937)	(1,071)	76,583
Net position at beginning of year	692,073	633,427	651,364	58,646	(17,937)
Net position at end of year	$ 749,648	692,073	633,427	57,575	58,646

Results of Operations, Fiscal Year 2024

The Enterprise's total revenues of $744,058 for the year represented an increase of $1,132 or 0.2% from prior year (see Table 2). Increases included $13,941 from interest and investment income, $1,533 in other operating revenues, and $1,392 in other non-operating revenues. These increases were offset by decreases of $11,008 in charges for services and $4,726 in rents and concessions.

Charges for services were $650,233, a decrease of $11,008 or 1.7%, mainly due to a higher Wholesale Balancing Account adjustment to increase revenues in prior year, offset by adopted rate increases of 9.7% for wholesale customers and 5% for retail customers beginning July 1, 2023. Rents and concessions were $8,556, a decrease of $4,726 or 35.6%, mainly due to funding allocation for low-income customer assistance programs. Other operating revenues were $18,101, an increase of $1,533 or 9.3%, mainly due to increased consumption by other City departments and an adopted rate increase of 5% beginning July 1, 2023. Interest and investment income were $25,097, an increase of $13,941 or 125.0%, mainly due to higher unrealized gains in the current year compared to prior year and higher interest rates. Other non-operating revenues were $42,071, an increase of $1,392 or 3.4%, mainly due to grants for COVID-19 pandemic related water utility arrearages relief and disaster cost recovery for the 2020 Wildfires Santa Clara Fence project.

The Enterprise's total expenses were $739,346, an increase of $72,376 or 10.9%. Operating expenses were $529,356, an increase of $69,103 or 15.0%, resulting from increases of $30,435 in general and administrative expenses mainly due to an increase in judgment and claims expenses based on actuarial estimates, $24,070 in personnel services mainly due to pension expenses based on actuarial estimates, $11,054 in other operating expenses mainly due SF Recycled Water and Mountain Tunnel Improvement projects spending, $3,209 in contractual services mainly for construction expenses, and $3,149 in materials and supplies mainly for water treatment supplies. These increases were offset by decreases of $2,272 for services provided by other departments mainly from lower water assessment fees paid to Hetch Hetchy Water, and $542 in depreciation. Interest expenses increased by $7,142 compared to prior year, mainly due to the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds. Amortization of bond premium, discount, refunding loss/gain and issuance costs increased by $3,854 due to the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds. Non-operating expenses decreased by $15 mainly due to higher rebates provided to customers in the prior year.

Capital contributions of $53,599 were received from developers for assets relating mainly to the Treasure Island, Yerba Buena Island, and Pier 70 Development project. Transfer in of $505 from the General Fund included $500 for research on environmental impacts in Hunter's Point Shipyard and $5 for the Mayor's Office's minimum compensation ordinance. Transfer out of $1,241 included $1,167 to the Arts Commission for the arts enrichment fund, $42 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program.

Results of Operations, Fiscal Year 2023

The Enterprise's total revenues of $742,926 for the year represented an increase of $138,834 or 23.0% from prior year (see Table 2). Increases included $121,715 from charges for services, and $22,052 in interest and investment income. These increases were offset by decreases of $3,258 in other operating revenues, $1,192 in other non-operating revenues, and $483 in rents and concessions.

Charges for services were $661,241, an increase of $121,715 or 22.6% mainly due to an adopted rate increase of 15.9% for wholesale customers and a 5% drought surcharge for retail customers beginning July

(Dollars in thousands, unless otherwise stated)

1, 2022. Rents and concessions were $13,282, a decrease of $483 or 3.5% mainly due to lease terminations. Other operating revenues were $16,568, a decrease of $3,258 or 16.4% mainly due to decreased consumption by other City departments and fewer capacity fee applications. Interest and investment income was $11,156, an increase of $22,052 or 202.4% due to prior year unrealized losses and higher interest earned on pooled cash. Other non-operating revenues were $40,679, a decrease of $1,192 or 2.8% due to an accrued settlement and water utility arrearages relief grant received in prior year.

The Enterprise's total expenses were $666,970, an increase of $60,572 or 10.0%. Operating expenses were $460,253, an increase of $58,489 or 14.6%, as a result of increases of $52,324 in personnel services mainly due to pensions based on actuarial estimates, $6,937 in depreciation from additional capital assets placed into service, $6,603 in services provided by other departments mainly for higher water assessments fees paid to Hetch Hetchy Water, $4,357 in contractual services mainly for custom work and professional and specialized service charges, and increase of $4,327 in materials and supplies mainly for water treatment supplies. These increases were offset by a decrease of $16,059 in general administrative and other expenses mainly from judgment and claims. Interest expenses increased by $1,232, compared to prior year, mainly due to increased commercial paper interest. Amortization of bond premium, discount, refunding loss and issuance costs increased by $96 mainly due to amortization of bond refunding loss. Non-operating expenses increased by $947 mainly for youth employment and employment projects.

Transfer in of $5 from the General Fund was for the Mayor's Office's minimum compensation ordinance. Transfer out of $20,032 included $20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. Capital contribution of $2,717 was received from a developer for assets relating to the Potrero HOPE SF and Sunnydale HOPE SF projects.

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, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Facilities, improvements, machinery, and equipment	$ 5,052,639	5,005,667	5,056,747	46,972	(51,080)
Intangible assets	2,657	2,331	3,152	326	(821)
Land and rights-of-way	113,322	113,322	113,441	–	(119)
Construction work in progress	606,804	526,994	444,254	79,810	82,740
Right-to-use lease and subscription assets	3,045	4,638	4,389	(1,593)	249
Total	$ 5,778,467	5,652,952	5,621,983	125,515	30,969

Capital Assets, Fiscal Year 2024

The Enterprise has net capital assets of $5,778,467 invested in a broad range of utility capital assets as of June 30, 2024 (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 $125,515 from the prior year. Facilities, improvements, machinery, and equipment increased by $46,972 mainly due to additions relating to various Water Main Replacement projects. Intangible assets increased by $326 mainly due to Maximo improvements and Software as a Service Applications additions. Land and rights-of-way was unchanged. Construction work in progress increased by $79,810 mainly from the San Joaquin Pipeline Valve and Safe Entry Improvements and Mountain Tunnel Improvement projects. Right-to-use lease and subscription assets decreased by $1,593 due to fewer leases and subscription assets.

(Dollars in thousands, unless otherwise stated)

As of June 30, 2024 and 2023, the Enterprise had capital commitments of $225,678 and $187,936, respectively.

Major additions to construction work in progress during the year ended June 30, 2024 include the following:

San Joaquin Pipeline Valve and Safe Entry Improvements	$	21,253
Mountain Tunnel Improvements		18,114
New City Distribution Division Headquarters		10,999
2023 March Winter Storm Joint Project		10,622
Lead Component Service Program		10,419
Water Main Replacement - WD-2847 Laidley/Castro to Harper/Bemis/Miguel/Various Side		8,038
College Hill Reservoir Outlet and Pipeline		7,960
New services for water installation		7,195
Water Main Replacement - WD-2859 Taraval Segment B		6,482
Regional Groundwater Storage and Recovery		6,426
Skyline Ridge Trail		6,336
Water Main Replacement - WD-2801 Mariposa to Cesar Chavez/York/Hampshire Streets		6,289
Water Main Replacement - WD-2843 Diamond/27th/28th/Duncan Streets		5,675
Westside Recycled Water Project		5,444
San Andreas Reservoir Road Improvements		5,358
Other project additions individually below $5,000		84,360
Total	$	220,970

Major land, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2024 include the following:

Water Main Replacement - WD-2859 Taraval Segment B	$	15,052
Water Main Replacement - WD-2843 Diamond/27th/28th/Duncan Streets		11,814
Water Main Replacement - WD-2847 Laidley/Castro to Harper/Bemis/Miguel/Various Side		10,882
Renewed Water Service Lines		10,419
Harry Tracy Water Treatment Plant Filters No. 1-6 Stainless Steel Underdrains		10,356
Water Main Replacement - WD-2806 Vicente Street/19th to 25th Avenue		9,315
Water Main Replacement - WD-2718 Prospect/Fair/Coso Avenues/Coleridge Street		9,173
Contributed Capital - Yerba Buena Island 1.34 mg Prestressed Concrete Water Storage		8,770
Contributed Capital - Pier 70 Phase 1 Auxiliary Water Supply System Pipe Network		8,648
New Water Service Facilities		7,195
Auxiliary Water Supply System - Pipeline at Clarendon Avenue		6,871
Contributed Capital - Pier 70 Phase 1 Low Pressure Water Pipe Network		6,789
2023 March Emergency Major Road Repair - Cherry Lake Road		6,679
Potable Emergency Firefighting Water System - Pipeline at 19th Avenue		6,489
Other items individually below $5,000		72,425
Total	$	200,877

See Note 4 for additional information about Capital Assets.

(Dollars in thousands, unless otherwise stated)

Water System Improvement Program (WSIP)

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

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2024. 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, 2024, 35 local projects were completed. For regional projects, 48 projects were completed, the Alameda Creek Recapture and Regional Groundwater Storage projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is June 2032. Additional details regarding the WSIP are available at https://sfpuc.gov/construction-contracts/water-infrastructure-improvements.

Capital Assets, Fiscal Year 2023

The Enterprise has net capital assets of $5,652,952 invested in a broad range of utility capital assets as of June 30, 2023 (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 $30,969 from the prior year. Facilities, improvements, machinery, and equipment decreased by $51,080 mainly due to depreciation. Intangible assets decreased by $821 mainly due to amortization. Land decreased by $119 from the sale of Balboa Reservoir. Construction work in progress increased by $82,740 mainly from the Mountain Tunnel Improvement and SF Westside Recycled Water projects. Right-to-use lease and subscription assets increased by $249 due to the implementation of GASB Statement No. 96 – *SBITAs*.

Major additions to construction work in progress during the year ended June 30, 2023 include the following:

Mountain Tunnel Improvements	$	22,623
SF Westside Recycled Water Project		9,400
New Water Utility Service Facilities		7,594
Water Main Replacement and Auxiliary Water Supply System Pipeline - 19th Ave		7,183
College Hill Reservoir Outlet and Pipeline		7,087
Sunol Valley Water Treatment Plant Ozonation		6,987
Water Main Replacement - WD-2718 Prospect/Cortland/Fair Ave		5,987
Harry Tracy Water Treatment Plant - Filters No. 1 to 6 Underdrain Replacement		5,939
Water Main Replacement - WD-2859 Taraval Segment B		5,649
San Joaquin Pipeline Valve and Safe Entry Improvements		5,486
Water Main Replacement - WD-2843 Diamond/27th/28th Streets		5,372
Water Main Replacement - WD-2806 Vicente Street/19th to 25th Ave		5,189
Regional Groundwater Storage and Recovery		5,152
Other project additions individually below $5,000		80,743
Total	$	180,391

(Dollars in thousands, unless otherwise stated)

Major land, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2023 include the following:

Auxiliary Water Supply System Pumping Station No. 2 Improvement - Structural System	$	14,683
Water Main Replacement - WD-2811 17th/Clayton/Ord Streets		11,240
New Water Utility Service Facilities		7,594
Water Main Replacement - 19th Ave		7,018
Auxiliary Water Supply System Pumping Station No. 2 Improvement - Diesel Engine Generator		6,235
Other items individually below $5,000		54,730
Total	$	101,500

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

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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, 2023. 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, 2023, 35 local projects were completed. For regional projects, 48 projects were completed, the Alameda Creek Recapture and Regional Groundwater Storage projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is February 2027. Additional details regarding the WSIP are available at https://sfpuc.gov/construction-contracts/water-infrastructure-improvements.

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2024, the Enterprise had $5,503,839 total debt outstanding, an increase of $165,408 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, 2024, 2023, and 2022

		2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenue bonds	$	4,964,637	4,710,846	4,860,935	253,791	(150,089)
Commercial paper		190,000	371,459	206,297	(181,459)	165,162
Certificates of participation		89,232	92,499	95,637	(3,267)	(3,138)
State revolving fund loans		259,970	163,627	121,761	96,343	41,866
Total	$	5,503,839	5,338,431	5,284,630	165,408	53,801

The increase of $253,791 in revenue bonds was due to increases of $928,890 in bond principal and $136,522 in bond premium from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, and $8 from the amortization of discount. These increases were offset by decreases of $619,115 in bond principal from refunding of various bonds by the 2023 Series CD revenue refund bonds, $135,075 in bond principal from repayment, $29,008 in premium from amortization, and $28,431 in bond premium from refunding. The Enterprise had $190,000 in tax-exempt commercial paper as of June 30, 2024, and $343,767 in tax-exempt and $27,692 in taxable commercial paper as of June 30, 2023. The $181,459 decrease of commercial paper resulted from a $372,609 decrease due to refunding by the 2023 Series AB revenue bonds, offset by a $190,995 increase in tax-exempt and $155 increase in taxable commercial paper from new issuances. The decrease of $3,267 in certificates of participation was from repayment. The $96,343 increase in SRF loans was from $97,477 in additional reimbursement requests submitted mainly for the Mountain Tunnel Improvement project offset by $1,134 in reversals of accrued interest capitalized to principal relating to the SF Westside Recycled Water project.

Credit Ratings and Bond Insurance – The Enterprise carried underlying ratings of "Aa2" and "AA-" from Moody's and S&P Global Ratings (S&P) on June 30, 2024, and "Aa2" and "AA-" from Moody's and S&P on June 30, 2023, 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, and for the SFPUC's debt service coverage policy, at least equal to 1.35 times annual debt service for said fiscal year. During fiscal years 2024 and 2023, 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 and the SFPUC's debt service coverage policy (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, 2024, the Board of Supervisors has authorized the issuance of $6,157,510 in revenue bonds under Proposition E, with $4,317,653 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, 2024, $1,499,230 of the $1,628,000 Proposition A authorized bonds were issued. The Enterprise is also authorized to issue up to $500,000 in commercial paper.

Cost of Debt Capital – The Enterprise's outstanding long-term debt has coupon interest rates ranging from 0.7% to 7.0% as of June 30, 2024, and 0.3% to 7.0% as of June 30, 2023. The Enterprise's short-term debt has interest rates ranging from 2.2% to 5.2% during fiscal year 2024, and 1.2% to 5.3% during fiscal year 2023.

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 spring 2023. In May 2023, the Commission subsequently adopted three years of retail rate increases from July 1, 2023 through June 30, 2026.

Other miscellaneous fees for service and charges were last approved in April 2024 to be effective July 1, 2024, and generally increase annually by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, or the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine.

All current SFPUC Rates Schedules and Fees are available at https://sfpuc.gov/accounts-services/water-power-and-sewer-rates.

Wholesale Customers

The Water Supply Agreement (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, and was most recently amended and restated in January 2023. Compared to the prior contract with the wholesale customers, the WSA 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 or at the time of budget appropriation and spending for revenue-funded capital projects, rather than the life of the asset. The WSA requires the rate be calculated and set annually and includes a reconciliation between prior year revenues and expenses. Refer to Note 11 of the notes to financial statements for further discussion on the balancing account of the wholesale customers.

(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments

Effective Date:	Retail		Wholesale [5]
July 1, 2016	10.0	[1]	9.3
July 1, 2017	7.0	[1]	-
July 1, 2018	9.0	[2]	-
July 1, 2019	8.0	[2]	-
July 1, 2020	7.0	[2]	-
July 1, 2021	7.0	[2]	-
July 1, 2022	-	[3]	15.9
July 1, 2023	5.0	[4]	9.7
July 1, 2024	5.0	[4]	8.8
July 1, 2025	5.0	[4]	-

[1] Four-year retail rate increases adopted and effective July 1, 2014.
[2] Four-year retail rate increases adopted and effective July 1, 2018.
[3] No retail rate increase adopted and effective July 1, 2022.
[4] Three-year rate increases adopted and effective July 1, 2023.
[5] Wholesale rates adopted annually.

Request for Information

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

SAN FRANCISCO WATER ENTERPRISE

Statements of Net Position

June 30, 2024 and 2023

(In thousands)

	2024	2023
Assets		
Current assets:		
Cash and investments with City Treasury	$ 380,201	402,885
Cash and investments outside City Treasury	193	192
Receivables:		
Charges for services, current portion (net of allowance for doubtful accounts of $10,777 as of June 30, 2024 and $8,615 as of June 30, 2023)	79,483	63,943
Wholesale balancing account receivable, current portion	26,121	5,571
Due from other City departments	102	115
Due from other governments	366	—
Interest	3,861	2,621
Interest - Leases	935	911
Restricted due from other governments	129,580	36,147
Leases receivable, current portion	3,246	3,521
Restricted interest and other receivable (net of allowance for doubtful accounts of $131 as of June 30, 2024 and $30 as of June 30, 2023)	3,789	3,510
Total current receivables	247,483	116,339
Prepaid charges, advances, and other receivables, current portion	4,958	5,909
Inventory	7,825	8,191
Restricted cash and investments outside City Treasury, current portion	40,065	10,863
Total current assets	680,725	544,379
Non-current assets:		
Wholesale balancing account receivable, less current portion	—	4,481
Restricted cash and investments with City Treasury	71,015	21,000
Restricted cash and investments outside City Treasury, less current portion	63,185	66,482
Leases receivable, less current portion	35,817	40,109
Restricted interest and other receivable (net of allowance for doubtful accounts of $0 as of June 30, 2024 and $8 as of June 30, 2023)	—	4
Charges for services, less current portion (net of allowance for doubtful accounts of $664 as of June 30, 2024 and $656 as of June 30, 2023)	200	209
Note receivable - Balboa Reservoir	11,512	11,007
Right-to-use lease asset, net of accumulated amortization	2,734	3,943
Right-to-use subscription asset, net of accumulated amortization	311	695
Capital assets, not being depreciated and amortized	720,805	640,995
Capital assets, net of accumulated depreciation and amortization	5,054,617	5,007,319
Prepaid charges, advances, and other receivables, less current portion	3,236	3,406
Total non-current assets	5,963,432	5,799,650
Total assets	6,644,157	6,344,029
Deferred outflows of resources		
Unamortized loss on refunding of debt	89,186	124,635
Pensions	93,526	70,101
Other postemployment benefits	29,974	28,616
Total deferred outflows of resources	$ 212,686	223,352

SAN FRANCISCO WATER ENTERPRISE

Statements of Net Position
June 30, 2024 and 2023
(In thousands)

		2024	2023
Liabilities			
Current liabilities:			
Accounts payable	$	25,353	22,671
Accrued payroll		13,444	11,807
Accrued vacation and sick leave, current portion		7,585	7,057
Accrued workers' compensation, current portion		2,188	1,914
Due to other City departments		—	2,440
Damage claims liability, current portion		5,716	11,125
Unearned revenues, refunds, and other		15,050	13,977
Bond, loan, lease, and subscription interest payable, current portion		37,924	35,104
Lease liability, current portion		1,028	1,189
Subscription liability, current portion		153	400
Revenue bonds, current portion		138,140	135,095
Certificates of participation, current portion		3,402	3,267
Commercial paper, current portion		190,000	—
Current liabilities payable from restricted assets		39,896	40,863
Total current liabilities		479,879	286,909
Long-term liabilities:			
Arbitrage rebate payable		869	—
Net other postemployment benefits liability		158,301	148,601
Net pension liability		152,643	115,343
Lease liability, less current portion		1,793	2,821
Subscription liability, less current portion		155	308
Accrued vacation and sick leave, less current portion		6,418	6,528
Accrued workers' compensation, less current portion		8,814	7,821
Damage claims liability, less current portion		17,057	8,500
Bond, loan, lease, and subscription interest payable, less current portion		3,622	—
Revenue bonds, less current portion		4,826,497	4,575,751
Certificates of participation, less current portion		85,830	89,232
Commercial paper, less current portion		—	371,459
State revolving fund loans		259,970	163,627
Pollution remediation obligation		1,271	1,271
Total long-term liabilities		5,523,240	5,491,262
Total liabilities		6,003,119	5,778,171
Deferred inflows of resources			
Unamortized gain on refunding of debt		31,854	—
Pensions		13,305	28,504
Leases		36,583	41,558
Other postemployment benefits		22,334	27,075
Total deferred inflows of resources		104,076	97,137
Net position			
Net investment in capital assets		350,430	460,213
Restricted for debt service		44,724	14,625
Restricted for capital projects		200,632	56,822
Unrestricted		153,862	160,413
Total net position	$	749,648	692,073

See accompanying notes to financial statements

SAN FRANCISCO WATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2024 and 2023
(In thousands)

	2024	2023
Operating revenues:		
Charges for services	$ 650,233	661,241
Rents and concessions	8,556	13,282
Capacity fees	863	1,256
Other revenues	17,238	15,312
Total operating revenues	676,890	691,091
Operating expenses:		
Personnel services	159,779	135,709
Contractual services	20,128	16,919
Materials and supplies	23,195	20,046
Depreciation and amortization	155,172	155,714
Services provided by other departments	77,638	79,910
General and administrative and other	93,444	51,955
Total operating expenses	529,356	460,253
Operating income	147,534	230,838
Non-operating revenues (expenses):		
Federal and state grants	12,414	—
Interest and investment income	25,097	11,156
Interest expenses	(222,055)	(214,913)
Amortization of premium, discount, refunding loss, and issuance costs	13,825	9,971
Net gain from sale of assets	2,060	12,660
Other non-operating revenues	27,597	28,019
Other non-operating expenses	(1,760)	(1,775)
Net non-operating expenses	(142,822)	(154,882)
Change in net position before capital contributions and transfers	4,712	75,956
Capital contributions	53,599	2,717
Transfers from the City and County of San Francisco	505	5
Transfers to the City and County of San Francisco	(1,241)	(20,032)
Capital contributions and net transfers	52,863	(17,310)
Change in net position	57,575	58,646
Net position at beginning of year	692,073	633,427
Net position at end of year	$ 749,648	692,073

See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Cash flows from operating activities:		
Cash received from customers, including cash deposits	$ 636,706	582,603
Cash received from tenants for rent	8,343	13,098
Cash received from miscellaneous revenues	4,776	4,832
Cash paid to employees for services	(151,655)	(142,866)
Cash paid to suppliers for goods and services	(194,099)	(174,938)
Cash paid for judgments and claims	(18,216)	(6,927)
Net cash provided by operating activities	285,855	275,802
Cash flows from non-capital financing activities:		
Cash received from grants	13,400	—
Cash received from settlements	—	6,750
Cash paid for rebates and program incentives	(1,760)	(1,775)
Transfers from the City and County of San Francisco	505	5
Transfers to the City and County of San Francisco	(1,241)	(20,032)
Net cash provided by (used in) non-capital financing activities	10,904	(15,052)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	1,569	1,370
Proceeds from bond issuance, net of premium	474,538	—
Proceeds from commercial paper borrowings	191,150	165,162
Proceeds from State revolving fund loan	4,044	12,371
Principal paid on commercial paper	(372,609)	—
Principal paid on long-term debt	(138,342)	(128,408)
Interest paid on long-term debt	(214,366)	(209,194)
Interest paid on commercial paper	(1,511)	(5,170)
Issuance cost paid on long-term debt	(4,545)	—
Lease payment	(1,270)	(1,050)
Subscription payment	(408)	(862)
Acquisition and construction of capital assets	(228,113)	(172,835)
Federal interest income subsidy from Build America Bonds	22,909	23,260
Net cash (used in) capital and related financing activities	(266,954)	(315,356)
Cash flows from investing activities:		
Interest income received	17,141	9,141
Proceeds from sale of investments outside City Treasury	1,015,279	348,315
Purchase of investments outside City Treasury	(1,081,634)	(348,315)
Net cash (used in) provided by investing activities	(49,214)	9,141
Decrease in cash and cash equivalents	(19,409)	(45,465)
Cash and cash equivalents:		
Beginning of year	514,901	560,366
End of year	495,492	514,901
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments with City Treasury:		
Unrestricted	380,201	402,885
Restricted	71,015	21,000
Add: Unrealized loss on investments with City Treasury	7,188	13,479
Cash and investments outside City Treasury:		
Unrestricted	193	192
Restricted	103,250	77,345
Less: Unrealized (gain) loss on investments outside City Treasury	(540)	—
Less: Restricted (with maturity more than 90 days - see table in Note 3)	(65,815)	—
Cash and cash equivalents at end of year on statements of cash flows	$ 495,492	514,901

(Continued)

SAN FRANCISCO WATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 147,534	230,838
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	155,172	155,714
Miscellaneous revenue	4,776	4,832
Provision for uncollectible accounts	2,263	4,584
Write-off of capital assets and other non-cash items	58	4,628
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(17,701)	(13,655)
Prepaid charges, advances, and other	560	6,709
Due from other City departments	13	63
Inventory	366	(1,389)
Leases	(327)	575
Subscriptions	8	895
Accounts payable	2,682	(181)
Accrued payroll	1,637	1,312
Net other postemployment benefits obligation*	3,601	10,042
Net pension obligations*	(1,324)	(21,699)
Accrued vacation and sick leave	418	(144)
Accrued workers' compensation	1,267	762
Due to other City departments	(2,440)	2,440
Wholesale balancing account	(16,069)	(89,202)
Damage claims liability	3,148	(16,444)
Unearned revenues, refunds, and other liabilities	213	(4,878)
Total adjustments	138,321	44,964
Net cash provided by operating activities	$ 285,855	275,802
Noncash transactions:		
Accrued capital asset costs	$ 39,896	40,863
Interfund payable	—	2,440
Unrealized loss on investments with City Treasury	7,188	13,479
Unrealized (gain) on investments outside City Treasury	(540)	—
Capital contribution	53,599	2,717
Sale of land with promissory note	11,512	11,007
Principal refunded	619,115	—
Bond proceeds paid to refunding escrow	590,874	—

* Net other postemployment benefits obligation include related deferred outflows/inflows

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 2024, the Enterprise sold approximately 63,854 million gallons, i.e., about 174 million gallons per day of water, to approximately 2.7 million people within San Francisco and certain suburban areas.

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

The City Charter was amended in 2008 by Proposition E, a City and County of San Francisco Charter Section 4.112 amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, 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 SFPUC, 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 SFPUC 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 experience in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

The SFPUC is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Wastewater Enterprises are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024 and 2023, 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. Non-operating revenues include grants, investment income, and other income from non-operating activities.

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 at the time of donation and capital assets received in a service concession arrangement, are valued at acquisition value. 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

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, permits, leases, and subscription–based information technology arrangements (SBITAs). The Enterprise capitalizes purchased or internally developed intangible assets with a useful life extending beyond one reporting period. It has established a capitalization threshold of $100. Intangible assets are amortized over the benefit period or the contract term for leases and SBITAs, 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) 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.

(i) 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.

(j) 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 14(b)).

(k) 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 14(a)).

(l) 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 as of June 30, 2024 and 2023 were $869 and $0, respectively.

(m) 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.

(n) Income Taxes

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

(o) 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 as of June 30, 2024 and 2023 were $44,465 and $31,704, respectively.

(p) 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, liabilities, deferred outflows and deferred inflows, 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.

(q) 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 15(d)).

(r) Leases

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

Short-term Leases

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

Leases Other Than Short-term

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

Measurement of Lease Amounts (Lessee)

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

Measurement of Lease Amounts (Lessor)

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

Key Estimates and Judgments

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

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

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

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

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

Remeasurement of Lease

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

Presentation in Statement of Net Position

Lease assets are reported with current and non-current assets, lease liabilities are reported with current and long-term liabilities, and both capital-related assets and liabilities are reported under net investment in capital assets in the statement of net position (see Note 9).

(s) Subscription-Based Information Technology Arrangements

Subscription–Based Information Technology Arrangements (SBITAs) are defined as a contract that conveys control of the right to use another entity's IT software, alone or in combination with tangible capital assets for a specified period. The Enterprise has noncancellable subscription arrangements (similar to a lease) for the right to use various information technology hardware and software SBITAs.

Short-term SBITAs

For SBITAs with a maximum possible term of 12 months or less at commencement, the Enterprise recognizes subscription expense based on the provisions of the SBITAs. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

SBITAs Other Than Short-term

For all other SBITAs (i.e., those that are not short-term) the Enterprise recognizes SBITAs liability and intangible right-to-use subscription asset for the Enterprise.

Measurement of Subscription Amounts (Subscriber)

The Enterprise's subscription liability is recorded at the present value of future minimum subscription payments as of the date of commencement. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, less payments made at or before the subscription commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any subscription incentives received at or before the subscription commencement date. For SBITAs, subscription assets also include qualified software implementation costs. Subsequently, the subscription asset is amortized into depreciation and amortization expense on a straight-line basis over the subscription term.

Key Estimates and Judgments

Key estimates and judgments include how the Enterprise determines (a) the discount rate it uses to calculate the present value of the expected subscription payments, (b) subscription terms, (c) subscription payments, and (d) materiality threshold.

• The Enterprise generally uses its estimated incremental borrowing rate as the discount rate for SBITAs unless the rate is implicit in the agreement. The Enterprise incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on Enterprise's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table.

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

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

• SBITAs have a capitalization threshold of $100.

Remeasurement of Lease or SBITAs

The Enterprise monitors changes in circumstances that may require remeasurement of SBITAs. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured, and a corresponding adjustment is made to the subscription asset.

Presentation in Statement of Net Position

Subscription assets are reported with current and non-current assets, subscription liabilities are reported with short-term and long-term liabilities, and both subscription assets and liabilities are reported under net investment in capital assets in the statement of net position (see Note 10).

(t) Other Postemployment Benefits (OPEB)

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 12(b)).

(u) New Accounting Standards Adopted in Fiscal Year 2024

1) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 were adopted by the Enterprise for the year ended June 30, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023. The Enterprise adopted the provisions of Statement No. 99 in fiscal year 2024 which did not have a significant effect on its financial statements.

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

Enterprise adopted the provisions of Statement No. 100 in fiscal year 2024 which did not have a significant effect on its financial statements.

(v) GASB Statements Implemented in Fiscal Year 2023

1) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the comparability 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 adopted the provisions of Statement No. 91 in fiscal year 2023 which did not have a significant effect on its financial statements.

2) In March 2020, the GASB Issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements and availability payment arrangements (PPPs). The Enterprise adopted the provisions of Statement No. 94 in fiscal year 2023 which did not have a significant effect on its financial statements.

3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The standard is effective for periods beginning after June 15, 2022. The Enterprise adopted the provisions of Statement No. 96 in fiscal year 2023 (see Note 10).

(w) Future Implementation of New Accounting Standards

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

2) In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints within governments. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 102 in fiscal year 2025.

3) In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 103 in fiscal year 2026.

4) In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain types of capital assets, such as lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* to be disclosed separately by major classes of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements* are also required to be disclosed separately. Furthermore, the statement requires intangible assets other than those three types to be disclosed separately by major class. Finally, the statement requires additional disclosures for capital assets held for sale. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 104 in fiscal year 2026.

(x) Reclassifications

The Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. Lease receivable, lease related interest receivable, lease related interest payable, and subscription related interest payable were reclassified from net investment in capital assets to unrestricted in the statement of net position for fiscal year 2023. Restricted liabilities were reclassified from net position restricted for capital projects to net investment in capital assets for fiscal years 2024 and 2023. These reclassifications had no effect on previously reported changes in net position.

(3) Cash, Cash Equivalents, and Investments

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

Some 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, 2024 and 2023 were $103,250 and $77,345, respectively. The Enterprise held all investments in treasury and government obligations, commercial paper, 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, 2024 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, 2023 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, including commercial paper issuers, credit ratings and the fair value hierarchy as of June 30, 2024 and 2023:

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2024 Maturities	June 30, 2024 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	$ 22,815	22,815	–	–	–
Money Market Funds	A-1/P-1	< 90 days	43	43	–	–	–
Commercial Paper-Toyota Motor Corp	A-1+/P-1	October 11, 2024	45,422	–	45,422	–	–
Commercial Paper-Toronto-Dominion Bank	A-1+/P-1	October 28, 2024	10,310	–	10,310	–	–
U.S. Agency Securities	AA+/Aaa	April 17, 2025	10,083	–	10,083	–	–
Cash and Cash Equivalents	N/A		14,577	14,577	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 103,250	37,435	65,815	–	–
Cash and Cash Equivalents	N/A		$ 193	193	–	–	–
Total Unrestricted Cash and Investments outside City Treasury			$ 193	193	–	–	–

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2023 Maturities	June 30, 2023 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	$ 64,249	64,249	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	43	43	–	–	–
Cash and Cash Equivalents	N/A		13,053	13,053	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 77,345	77,345	–	–	–
Cash and Cash Equivalents	N/A		$ 192	192	–	–	–
Total Unrestricted Cash and Investments outside City Treasury			$ 192	192	–	–	–

Certain investments such as money market investments, and cash and cash equivalents are not subject to the fair value hierarchy.

The restricted cash and investments outside City Treasury as of June 30, 2024 and 2023 included an unrealized gain due to changes in fair value on commercial paper of $540 and $0, 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 as of June 30, 2024 and 2023, respectively, which is held in a commercial bank in non-interest bearing checking accounts covered by Federal Deposit

(Dollars in thousands, unless otherwise stated)

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 $165 and $164 as of June 30, 2024 and 2023, respectively.

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

		2024	2023
Current assets:			
Cash and investments with City Treasury	$	380,201	402,885
Cash and investments outside City Treasury		193	192
Restricted cash and investments outside City Treasury		40,065	10,863
Non-current assets:			
Restricted cash and investments with City Treasury		71,015	21,000
Restricted cash and investments outside City Treasury		63,185	66,482
Total cash, cash equivalents, and investments	$	554,659	501,422

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

Fiscal years ended June 30	Investment maturities (in months) Under 1	1 to less than 6	6 to less than 12	12 to 60
2024	22.2%	19.5%	16.3%	42.0%
2023	21.5%	18.0%	14.5%	46.0%

As of June 30, 2024, the Enterprise has the following commercial paper investments that represent 5.0% or more of the total investments outside City Treasury:

		Fair Value	% of Investments	
Toyota Motor Corp	$	45,422	51.2	%
Toronto-Dominion Bank		10,310	11.6	

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets as of June 30, 2024 and 2023 consist of the following:

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 113,322	—	—	113,322
Intangible assets	679	—	—	679
Construction work in progress	526,994	220,970	(141,160) *	606,804
Total capital assets not being depreciated and amortized	640,995	220,970	(141,160)	720,805
Capital assets being depreciated and amortized:				
Facilities and improvements	6,755,307	191,146	—	6,946,453
Intangible assets	26,121	1,593	—	27,714
Machinery and equipment	337,799	8,138	(131)	345,806
Right-to-use lease assets	8,208	—	(1,197)	7,011
Right-to-use subscription assets	2,450	—	(1,590)	860
Total capital assets being depreciated and amortized	7,129,885	200,877	(2,918)	7,327,844
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,828,932)	(141,039)	—	(1,969,971)
Intangible assets	(24,469)	(1,267)	—	(25,736)
Machinery and equipment	(258,507)	(11,273)	131	(269,649)
Right-to-use lease assets	(4,265)	(1,209)	1,197	(4,277)
Right-to-use subscription assets	(1,755)	(384)	1,590	(549)
Total accumulated depreciation and amortization	(2,117,928)	(155,172)	2,918	(2,270,182)
Total capital assets being depreciated and amortized, net	5,011,957	45,705	—	5,057,662
Total capital assets, net	$ 5,652,952	266,675	(141,160)	5,778,467

* Decrease in construction work in progress includes $58 in capital project write-offs, mainly related to Chlorine Trim Station Repairs project. The remaining difference of $59,775 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 113,441	—	(119)	113,322
Intangible assets	679	—	—	679
Construction work in progress	444,254	180,391	(97,651) *	526,994
Total capital assets not being depreciated and amortized	558,374	180,391	(97,770)	640,995
Capital assets being depreciated and amortized:				
Facilities and improvements	6,660,691	94,616	—	6,755,307
Intangible assets	25,142	979	—	26,121
Machinery and equipment	332,473	5,905	(579)	337,799
Right-to-use lease assets	5,646	2,562	—	8,208
Right-to-use subscription assets	2,450	—	—	2,450
Total capital assets being depreciated and amortized	7,026,402	104,062	(579)	7,129,885
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,688,717)	(140,215)	—	(1,828,932)
Intangible assets	(22,669)	(1,800)	—	(24,469)
Machinery and equipment	(247,700)	(11,386)	579	(258,507)
Right-to-use lease assets	(2,834)	(1,431)	—	(4,265)
Right-to-use subscription assets	(873)	(882)	—	(1,755)
Total accumulated depreciation and amortization	(1,962,793)	(155,714)	579	(2,117,928)
Total capital assets being depreciated and amortized, net	5,063,609	(51,652)	—	5,011,957
Total capital assets, net	$ 5,621,983	128,739	(97,770)	5,652,952

* Decrease in construction work in progress includes $4,628 in capital project write-offs, mainly related to Stern Grove Emergency Restoration and Upper Alameda Creek Filter projects. The remaining difference of $10,920 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

(5) Restricted Assets

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

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

(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the bond financing program maintains that certain restricted cash and investment balances be held in trust. Restricted assets held in trust consisted of the following as of June 30, 2024 and 2023:

	2024	2023
Cash and investments with City Treasury:		
Water revenue bond construction fund	$ 71,015	21,000
Cash and investments outside City Treasury:		
2010A Water revenue bond fund	—	12
2010B Water revenue bond fund	22,813	21,861
2010D Water revenue bond fund	—	12
2010E Water revenue bond fund	16,495	16,643
2010F Water revenue bond fund	—	8
2010G Water revenue bond fund	18,994	18,178
2015A Water revenue refunding bond fund	7	4
2016A Water revenue refunding bond fund	13	8
2016B Water revenue refunding bond fund	1	1
2016C Water revenue bond fund	4	2
2017A Water revenue bond fund	1	—
2017B Water revenue bond fund	6	2
2017C Water revenue bond fund	—	1
2017D Water revenue refunding bond fund	6	4
2017E Water revenue refunding bond fund	1	1
2019A Water revenue refunding bond fund	7	5
2019B Water revenue refunding bond fund	1	—
2019C Water revenue refunding bond fund	1	—
2020A Water revenue bond fund	4	2
2020B Water revenue bond fund	2	1
2020C Water revenue bond fund	2	1
2020D Water reveune bond fund	1	—
2020E Water revenue refunding bond fund	3	2
2020F Water revenue refunding bond fund	17	13
2020G Water reveune refunding bond fund	1	23
2020H Water revenue refunding bond fund	1	8
2023A Water revenue bond fund	19,235	—
2023B Water revenue bond fund	3,551	—
2023C Water revenue refunding bond fund	99	—
2023D Water revenue refunding bond fund	19	—
2009C Certificates of participation - 525 Golden Gate	965	1,696
2009D Certificates of participation - 525 Golden Gate	7,345	5,761
Commercial Paper - Tax Exempt	17	15
Commercial Paper - Taxable	28	28
Habitat reserve endowment fund	13,610	13,053
Total cash and investments outside City Treasury	103,250	77,345
Interest and other receivables:		
Water bond construction fund including interest, prepaids, and other receivables	3,789	3,514
Due from other government for State Revolving Fund	129,580	36,147
Total restricted assets	$ 307,634	138,006

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 overall Interim Funding Program issuance of up to $500,000, pursuant to the voter-approved 2002 Proposition E. The program is made up of two components: (1) three series totaling $400,000 (aggregate principal amount) that are for the issuance of either tax-exempt or taxable commercial paper and which are each supported by a high-grade bank credit facility in the form of a letter of credit or bank liquidity facility; and (2) one series that is for a $100,000 direct bank loan that can be used to make tax-exempt or taxable draws from a high-grade bank pursuant to a revolving credit agreement. As of June 30, 2024 and 2023, amounts outstanding under Proposition E were $190,000 and $371,59, respectively. Commercial paper interest rates ranged from 3.9% to 5.5%.

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.

As of June 30, 2023, the Enterprise had $371,459 in outstanding commercial paper which were repaid by the 2023 Series AB Water Revenue Bonds issued in July 2023. The $371,459 has been reclassed to long-term liabilities on the financial statements.

The commercial paper notes can be issued in the aggregate principal amounts of up to $500,000 and may be marketed and re-marketed with maturities up to 270 days and are secured by three separate bank letters of credit and one revolving note, as set forth below. The commercial paper notes and the revolving notes are payable from revenues, and are secured on a parity lien basis with each other. The commercial paper notes and the revolving notes, collectively, are secured on a basis subordinate to the payment of debt service on outstanding bonds and SRF Loans.

As of June 30, 2024, the commercial paper notes are secured by the following series. Series A-1/A-1-T, has a $100 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on May 16, 2025. The agreement for the Series A-1/A-1-T credit facility stipulates a quarterly commitment fee of .33%, on the maintenance of ratings of at least “AA-” by S&P and “Aa3” by Moody’s. Series A-2/A-2-T, has a $200 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on June 14, 2027. The agreement for the Series A-2/A-2-T credit facility stipulates a quarterly commitment fee of .29%, on the maintenance of ratings of at least “AA-” by S&P and “Aa3” by Moody’s. Series A-3/A-3-T, has a $100 million letter of credit from Barclays Bank PLC which expires on July 19, 2024. The agreement for the Series A-3/A-3-T credit facility stipulates a quarterly commitment fee of .29%, on the maintenance of ratings of at least “AA-” by S&P and “Aa3” by Moody’s.

BofA Securities, Inc., J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, serve as dealers for the commercial paper notes. The annual fee paid to the dealer equals .05% of the average outstanding principal amount of the Notes managed by the Dealer.

The revolving notes were issued pursuant to a $100 million revolving credit agreement with U.S. Bank National Association which expires on July 18, 2024. The revolving credit agreement stipulates an unutilized quarterly commitment fee of .21%, on the maintenance of ratings of at least “AA-” by S&P and “Aa3” by Moody’s. The revolving credit agreement had $0 outstanding as of June 30, 2024.

The commercial paper reimbursement agreement and the commercial paper revolving credit and term loan agreements for the Enterprise, contain a provision that in the event advances (or drawings) remain unpaid, such advances (or drawings) will convert into term loans and will be subject to the repayment provisions relating thereto.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, the Enterprise had $310,000 and $128,541 in unused authorization as of June 30, 2024 and 2023, respectively. Significant events of default 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, 2024, 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, 2024 and 2023 are as follows:

	Interest rate	Maturity (Calendar Year)	2023	Additions	Reductions	2024	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 336,390	—	(13,245)	323,145	13,725
2010E revenue bonds (Build America)	4.90 – 6.00	2040	331,455	—	(13,165)	318,290	13,610
2010G revenue bonds (Build America)	6.95	2050	351,470	—	—	351,470	—
2015A revenue refunding bonds	2.00 – 5.00	2036	366,375	—	(92,240)	274,135	29,485
2016A revenue refunding bonds	4.00 – 5.00	2039	686,945	—	(113,445)	573,500	24,800
2016B revenue refunding bonds	1.50 – 5.00	2030	58,980	—	(13,175)	45,805	13,720
2016C revenue bonds	0.87 – 4.19	2046	225,275	—	(6,105)	219,170	6,275
2017A revenue bonds	5.00	2047	24,675	—	(2,445)	22,230	2,570
2017B revenue bonds	5.00	2047	30,095	—	(2,985)	27,110	3,135
2017C revenue bonds	5.00	2047	14,395	—	(1,425)	12,970	1,500
2017D revenue refunding bonds	2.00 – 5.00	2035	345,340	—	(88,045)	257,295	10,230
2017E revenue refunding bonds	4.00 – 5.00	2031	48,125	—	(795)	47,330	835
2017F revenue refunding bonds	5.00	2031	8,005	—	(735)	7,270	770
2017G revenue refunding bonds	2.03 – 2.91	2024	18,890	—	(13,665)	5,225	5,225
2019A revenue refunding bonds	1.81 – 3.47	2043	587,825	—	(194,745)	393,080	2,700
2019B revenue refunding bonds	3.15 – 3.52	2041	16,315	—	(70)	16,245	75
2019C revenue refunding bonds	3.15 – 3.52	2041	17,775	—	(80)	17,695	80
2020A revenue bonds	4.00 – 5.00	2050	150,895	—	—	150,895	—
2020B revenue bonds	5.00	2050	61,330	—	—	61,330	—
2020C revenue bonds	4.00	2050	85,335	—	—	85,335	—
2020D revenue bonds	3.00	2050	49,200	—	—	49,200	—
2020E revenue refunding bonds	2.83 – 2.95	2047	335,035	—	(151,400)	183,635	915
2020F revenue refunding bonds	0.26 – 3.15	2047	135,455	—	(1,430)	134,025	1,440
2020G revenue refunding bonds	0.26 – 3.10	2043	108,970	—	(44,310)	64,660	6,360
2020H revenue refunding bonds	0.26 – 3.15	2047	64,815	—	(685)	64,130	690
2023A revenue bonds	5.00-5.25	2052	—	349,495	—	349,495	—
2023B revenue bonds	5.00-5.25	2052	—	64,540	—	64,540	—
2023C revenue refunding bonds	4.00-5.00	2043	—	486,875	—	486,875	—
2023D revenue refunding bonds	5.00	2035	—	27,980	—	27,980	—
Less issuance discount			(115)	—	8	(107)	—
Add issuance premiums			251,596	136,522	(57,439)	330,679	—
Total revenue bonds payable			4,710,846	1,065,412	(811,621)	4,964,637	138,140
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	—	(3,267)	89,232	3,402
Commercial paper *	2.20 – 5.15	2023	371,459	—	(371,459)	—	—
State Revolving Funds Loan	1.00 – 1.10	2057	163,627	97,477	(1,134)	259,970	—
Accrued interest payable			35,104	221,095	(214,653)	41,546	37,924
Net other postemployment benefits liability			148,601	9,700	—	158,301	—
Lease liability			4,010	—	(1,189)	2,821	1,028
Subscription liability			708	—	(400)	308	153
Net pension liability			115,343	37,300	—	152,643	—
Arbitrage rebate payable			—	869	—	869	—
Accrued vacation and sick leave			13,585	13,724	(13,306)	14,003	7,585
Accrued workers' compensation			9,735	4,336	(3,069)	11,002	2,188
Damage claims liability			19,625	18,823	(15,675)	22,773	5,716
Pollution remediation obligation			1,271	—	—	1,271	—
Total			$ 5,686,413	1,468,736	(1,435,773)	5,719,376	196,136

* Commercial paper recorded as short-term liability in FY24

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2022	Additions	Reductions	2023	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 349,170	—	(12,780)	336,390	13,245
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	—	(12,745)	331,455	13,165
2010G revenue bonds (Build America)	6.95	2050	351,470	—	—	351,470	—
2015A revenue refunding bonds	2.00 – 5.00	2036	382,420	—	(16,045)	366,375	28,070
2016A revenue refunding bonds	4.00 – 5.00	2039	719,735	—	(32,790)	686,945	23,590
2016B revenue refunding bonds	1.50 – 5.00	2030	71,510	—	(12,530)	58,980	13,175
2016C revenue bonds	0.87 – 4.19	2046	231,230	—	(5,955)	225,275	6,105
2017A revenue bonds	5.00	2047	27,000	—	(2,325)	24,675	2,445
2017B revenue bonds	5.00	2047	32,930	—	(2,835)	30,095	2,985
2017C revenue bonds	5.00	2047	15,750	—	(1,355)	14,395	1,425
2017D revenue refunding bonds	2.00 – 5.00	2035	346,795	—	(1,455)	345,340	1,270
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	—	(765)	48,125	795
2017F revenue refunding bonds	5.00	2031	8,705	—	(700)	8,005	735
2017G revenue refunding bonds	2.03 – 2.91	2024	31,960	—	(13,070)	18,890	13,665
2019A revenue refunding bonds	1.81 – 3.47	2043	591,320	—	(3,495)	587,825	3,565
2019B revenue refunding bonds	3.15 – 3.52	2041	16,385	—	(70)	16,315	70
2019C revenue refunding bonds	3.15 – 3.52	2041	17,850	—	(75)	17,775	80
2020A revenue bonds	4.00 – 5.00	2050	150,895	—	—	150,895	—
2020B revenue bonds	5.00	2050	61,330	—	—	61,330	—
2020C revenue bonds	4.00	2050	85,335	—	—	85,335	—
2020D revenue bonds	3.00	2050	49,200	—	—	49,200	—
2020E revenue refunding bonds	2.83 – 2.95	2047	335,535	—	(500)	335,035	1,530
2020F revenue refunding bonds	0.26 – 3.15	2047	135,455	—	—	135,455	1,430
2020G revenue refunding bonds	0.26 – 3.10	2043	114,765	—	(5,795)	108,970	7,065
2020H revenue refunding bonds	0.26 – 3.15	2047	64,815	—	—	64,815	685
Less issuance discount			(124)	—	9	(115)	—
Add issuance premiums			276,409	—	(24,813)	251,596	—
Total revenue bonds payable			4,860,935	—	(150,089)	4,710,846	135,095
2009C certificates of participation (COPs)	2.00 – 5.00	2022	3,124	—	(3,124)	—	—
2009C COPs issuance premiums			14	—	(14)	—	—
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	—	—	92,499	3,267
Commercial paper	1.20 – 5.30	2023	—	371,459	—	371,459	—
State Revolving Funds Loan	1.00 – 1.10	2057	121,761	41,866	—	163,627	—
Net other postemployment benefits liability			144,115	4,486	—	148,601	—
Lease liability			2,863	2,562	(1,415)	4,010	1,189
Subscription liability			1,556	—	(848)	708	400
Net pension liability			—	115,343	—	115,343	—
Accrued vacation and sick leave			13,729	12,427	(12,571)	13,585	7,057
Accrued workers' compensation			8,973	3,984	(3,222)	9,735	1,914
Damage claims liability			36,069	1,898	(18,342)	19,625	11,125
Wholesale balancing account			79,150	—	(79,150)	—	—
Pollution remediation obligation			1,271	—	—	1,271	—
Total			$ 5,366,059	554,025	(268,775)	5,651,309	160,047

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

(a) Water Revenue Bonds 2010 Series B

The 2010 Series B Bonds in the par amount of $417,720 were issued as taxable Build America Bonds (BAB) (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, 2024 and 2023, the principal amount outstanding was $323,145 and $336,390, respectively.

(b) Water Revenue Bonds 2010 Series E

In July 2010, 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, 2024 and 2023, the principal amount of 2010 Series E bonds outstanding was $318,290 and $331,455, respectively.

(c) Water Revenue Bonds 2010 Series G

In December 2010, 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, 2024 and 2023, the principal amount of 2010 Series G bonds outstanding was $351,470.

(d) 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.

A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2015 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2015 Series A bonds starting on November 1, 2028 to November 1, 2033 and November 1, 2036. As of June 30, 2024 and 2023, the principal amount of 2015 Series A bonds outstanding was $274,135 and $366,375, respectively.

(e) 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.

A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2016 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2016 Series A bonds starting on November 1, 2031 to November 1, 2035. As of June 30, 2024 and 2023, the principal amount of 2016 Series AB bonds outstanding was $619,305 and $745,925, respectively.

(f) 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, 2024 and 2023, the principal amount of 2016 Series C bonds outstanding was $219,170 and $225,275, respectively.

(g) Water Revenue Bonds 2017 Series ABC

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

The $121,140 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $60,265 of commercial paper notes and to provide $65,500 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. The Series A bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series A bonds. These deposits, together with certain other available monies 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 2017 Series A bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series A Revenue Bonds were $94,140 as June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series A bonds outstanding was $22,230 and $24,675, respectively.

The $147,725 2017 Series B bonds were issued as tax-exempt bonds to provide $150,000 in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. The Series B bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series F refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series B bonds. These deposits, together with certain other available monies 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 2017 Series B bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series B Revenue Bonds were $114,795 as of June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series B bonds outstanding was $27,110 and $30,095, respectively.

The $70,675 2017 Series C bonds were issued as tax-exempt bonds to refund approximately $60,266 of commercial paper notes and to provide $15,000 in new money for Hetch Hetchy Water capital projects. The Series C bonds were issued as serial bonds and a term bond with coupons of 5.0% and have a final maturity of 2047. The Series C bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series H refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series C bonds. These deposits, together with certain other available monies 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 2017 Series C bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series C Revenue Bonds were $54,925 as of June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series C bonds outstanding was $12,970 and $14,395, respectively.

(h) 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. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2017 Series D bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023

Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2017 Series D bonds starting on November 1, 2031 to November 1, 2035.

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, 2024 and 2023, the principal amount of 2017 Series DEFG bonds outstanding was $317,120 and $420,360, respectively.

(i) 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. A portion of the proceeds of the 2023 Series C refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2023 to refund and legally defease a portion of the outstanding 2019 Series A 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 portions of the maturities of the 2019 Series A bonds starting on November 1, 2024 to November 1, 2026 and November 1, 2029 to November 1 2033. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2019 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of portions of maturities of the 2019 Series A bonds starting on November 1, 2026 to November 1, 2032, November 1, 2034, November 1, 2039 and November 1, 2043. The defeased principal amount outstanding for 2019 Series A Revenue Bonds were $5,745 as of June 30, 2024.

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, 2024 and 2023, the principal amount of 2019 Series ABC bonds outstanding was $427,020 and $621,915, respectively.

(j) Water Revenue Bonds 2020 Series ABCD

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

The $150,895 2020 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $180,000 of commercial paper notes for WSIP capital projects. The Series A bonds were issued as term bonds with coupons of 4.0% and 5.0% and a final maturity of 2050. The 2020 Series A bonds have a true interest cost of 3.3%. As of June 30, 2024 and 2023, the principal amount of 2020 Series A bonds outstanding was $150,895.

The $61,330 Series B bonds were issued as tax-exempt bonds to provide $69,644 in new money for Water Enterprise capital projects (non-WSIP, Regional). The Series B bonds were issued as term bonds with coupons of 5.0% and have a final maturity of 2050. The Series B bonds have a true interest cost of 3.7%. As of June 30, 2024 and 2023, the principal amount of 2020 Series B bonds outstanding was $61,330.

The $85,335 Series C bonds were issued as tax-exempt bonds to provide $94,948 in new money for Water Enterprise capital projects (non-WSIP, Local). The Series C bonds were issued as term bonds with coupons of 4.0% and have a final maturity of 2050. The Series C bonds have a true interest cost of 3.0%. As of June 30, 2024 and 2023, the principal amount of 2020 Series C bonds outstanding was $85,335.

The $49,200 Series D bonds were issued as tax-exempt bonds to refund approximately $49,761 of commercial paper notes for Hetch Hetchy Water capital projects. The Series D bonds were issued as term bonds with coupons of 3.0% and a final maturity of 2050. The 2020 Series D bonds have a true interest cost of 2.7%. As of June 30, 2024 and 2023, the principal amount of 2020 Series D bonds outstanding was $49,200.

(k) Water Revenue Refunding Bonds 2020 Series EFGH

In October 2020, the Enterprise issued taxable revenue bonds, 2020 Series EFGH refunding bonds in the aggregate amount of $664,395. The 2020 Series E (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2038, and a portion of the outstanding 2017 Series A (WSIP) bonds maturing on and after November 1, 2030. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2020 Series E bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of the 2020 Series E bonds maturing November 1, 2041.

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

The 2020 Series G (non-WSIP, Local) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D bonds maturing on or after November 1, 2020, a portion of the 2011 Series D bonds maturing on or after November 1, 2022, a portion of 2012 Series B bonds maturing on or after November 1, 2031, and a portion of 2012 Series C bonds maturing on or after November 1, 2025. A portion of the proceeds of the 2023 Series D refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2023 to refund and legally defease a portion of the outstanding 2020 Series G 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 portions of the maturities of the 2020 Series G bonds maturing on November 1, 2024 and November 1, 2025. A portion of the proceeds of the 2023 Series D bonds were used to pay at closing a portion of the 2020 Series G bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series D bonds were sufficient to pay the accrued interest and tender price of portions of maturities of the 2020 Series G bonds starting on November 1, 2026 to November 1, 2032 and November 1, 2035. The defeased principal amount outstanding for the 2020 Series G Revenue Bonds was $1,495 as of June 30, 2024.

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

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2020 Series EFGH bonds include serial bonds and term bonds with interest rates varying from 0.3% to 3.1% and have a final maturity in 2047. The Series EFGH bonds have a true interest cost of 2.7%. The refunding resulted in the recognition of a deferred accounting loss of $27,010, gross debt service savings of $117,114, and an economic gain of $75,212 or 12.0% of refunded principal. As of June 30, 2024 and 2023, the principal amount of 2020 Series EFGH bonds outstanding was $446,450 and $644,275, respectively.

(l) Water Revenue Bonds 2023 Series AB

In July 2023, the Enterprise issued tax-exempt revenue bonds, 2023 Series AB in the aggregate amount of $414,035. The purpose of the 2023 Series AB Bonds was to refund approximately $373,000 aggregate principal amount of commercial paper notes and to provide approximately $59,341 new money for various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2023 Series AB bonds include serial and term bonds with coupons of 5.0% to 5.3% and final maturities in 2052.

The $349,495 2023 Series A bonds were issued as tax-exempt bonds to refund approximately $305,625 of commercial paper notes for Water Enterprise capital projects and to provide approximately $59,299 new money for various capital projects for the Water Enterprise. The Series A bonds were issued as serial and term bonds with coupons of 5.0% to 5.3% and a final maturity of 2052. The Series A bonds have a true interest cost of 4.1%. As of June 30, 2024, the principal amount of 2023 Series A bonds outstanding was $349,495.

The $64,540 Series B bonds were issued as tax-exempt bonds to refund approximately $67,348 of commercial paper notes for Hetch Hetchy Water capital projects and approximately $42 in new money for Hetch Hetchy Water capital projects. The Series B bonds were issued as serial and term bonds with coupons of 5.0% to 5.3% and have a final maturity of 2052. The Series B bonds have a true interest cost of 4.1%. As of June 30, 2024, the principal amount of 2023 Series B bonds outstanding was $64,540.

(m) Water Revenue Refunding Bonds 2023 Series CD

In August 2023, the Enterprise issued tax-exempt revenue bonds, 2023 Series CD refunding bonds in the aggregate amount of $514,855. The 2023 Series C (WSIP, Green) bonds were issued for the purpose of paying the purchase price of a portion of the 2015 Series A revenue bonds maturing on or after November 1, 2028, a portion of the 2016 Series A revenue bonds maturing on or after November 1, 2031, a portion of the 2017 Series D revenue bonds maturing on or after November 1, 2031, a portion of the 2019 Series A (WSIP, Green) revenue bonds maturing on or after November 1, 2026, and a portion of the 2020 Series E (WSIP, Green) revenue bonds maturing on November 1, 2041 that were tendered for cash and advance refund portions of 2019 Series A maturing on or after November 1, 2024.

The 2023 Series D (Local Water) bonds were issued for the purpose of paying the purchase price of a portion of the 2020 Series G bonds maturing on or after November 1, 2026 that were tendered for cash and advance refund portions of 2020 Series G bonds maturing on or after November 1, 2024.

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2023 Series CD bonds include serial bonds with interest rates of 4.0% to 5.0% and have a final maturity in 2043. The Series CD bonds have a true interest cost of 3.2%. The refunding resulted in the recognition of a deferred accounting gain of $33,378, gross debt service savings of approximately $85,376, and an economic gain of $58,518 or 9.5% of refunded principal. As of June 30, 2024, the principal amount of 2023 Series CD bonds outstanding was $514,855.

(n) Future Annual Debt Service of Revenue Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2024. The federal interest subsidy amounts represent 35.0%, excluding sequestration, of the interest for the revenue bond 2010 Series B, E, and G.

(Dollars in thousands, unless otherwise stated)

		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2025	$	138,140	214,379	(20,370)	194,009
2026		149,540	207,947	(19,876)	188,071
2027		154,735	200,835	(19,345)	181,490
2028		159,210	193,311	(18,772)	174,539
2029		174,380	185,123	(18,164)	166,959
2030-2034		989,480	790,528	(79,528)	711,000
2035-2039		1,169,760	530,841	(53,376)	477,465
2040-2044		858,385	286,469	(25,530)	260,939
2045-2049		529,695	147,127	(12,339)	134,788
2050-2053		310,740	21,931	(1,184)	20,747
		4,634,065	2,778,491	(268,484)	2,510,007
Less: Current portion		(138,140)			
Less: Unamortized bond discount		(107)			
Add: Unamortized bond premiums		330,679			
Long-term portion as of June 30, 2024	$	4,826,497			

* The SFPUC received an IRS notice dated April 17, 2024 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 $16,228, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

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

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

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of $191,094, which includes $15,000 of principal forgiveness, or a grant. It will bear an interest rate of 1.0% for a 30-year term, with loan repayment beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2024 and 2023 was $154,178 and $131,525, respectively. In addition, there was $15,000 of principal forgiveness in fiscal year 2023.

(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2025	$	–	–	–
2026		4,432	1,542	5,974
2027		4,477	1,497	5,974
2028		4,521	1,453	5,974
2029		4,567	1,407	5,974
2030-2034		23,526	6,342	29,868
2035-2039		24,728	5,143	29,871
2040-2044		25,989	3,882	29,871
2045-2049		27,315	2,556	29,871
2050-2054		28,708	1,163	29,871
2055		5,915	60	5,975
		154,178	25,045	179,223
Less: Current portion		–		
Long-term portion as of June 30, 2024	$	154,178		

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

In April 2022, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Enterprise's Mountain Tunnel Improvement Project. The DWSRF loan is in the amount of $238,219. It will bear an interest rate of 1.1% for a 30-year term, with interest payments beginning annually after the initial loan proceed draw occurs and loan principal repayment beginning one year after substantial completion of project construction. Power Enterprise is responsible for repayment for its share of SRF Loan debt service costs representing up to its allocable share of the cost of the Mountain Tunnel Improvement Project by a Memorandum of Understanding that will be executed with the Water Enterprise. The DWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2024 and 2023 was $105,792 and $32,102, respectively.

Drinking Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2025	$	–	–	–
2026		–	–	–
2027		–	–	–
2028		–	–	–
2029		3,041	1,058	4,099
2030-2034		15,669	4,827	20,496
2035-2039		16,468	4,028	20,496
2040-2044		17,308	3,188	20,496
2045-2049		18,191	2,305	20,496
2050-2054		19,119	1,377	20,496
2055-2058		15,996	402	16,398
		105,792	17,185	122,977
Less: Current portion		–		
Long-term portion as of June 30, 2024	$	105,792		

(q) Proposition A

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of indebtedness by the Commission in a principal amount not to exceed $1,628,000 to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2023, there was no commercial paper outstanding pursuant to this authorization and $1,499,230 of bonds had been issued in fiscal years 2006, 2010, 2012, and 2021 against Prop A. The total authorization against Prop A was $1,499,230 as of June 30, 2024.

(r) Proposition E

On November 5, 2002, the San Francisco voters passed Proposition E, which authorizes the Board of Supervisors' approval of the issuance of revenue bonds and/or other forms of indebtedness by the Commission to finance costs for the Commission's capital programs, including WSIP. As of June 30, 2024, the Board of Supervisors authorized the issuance of $6,157,510 in revenue bonds with $4,317,653 issued against this authorization; in September 2017 and amended in April 2023, 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 $191,094 (which includes a $15,000 grant) and in April 2022, the SFPUC entered in to an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Mountain Tunnel Improvement Project in the amount of $238,219. Additionally, $190,000 and $371,459 in commercial paper were outstanding pursuant to this authorization as of June 30, 2024 and 2023, respectively.

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

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

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

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

(Dollars in thousands, unless otherwise stated)

The future annual debt services relating to the certificates of participation 2009 Series D outstanding as of June 30, 2024 are as follows:

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy *	Interest net of subsidy
Fiscal years ending June 30:					
2025	$	3,402	5,652	(1,865)	3,787
2026		3,545	5,431	(1,792)	3,639
2027		3,695	5,201	(1,716)	3,485
2028		3,852	4,961	(1,637)	3,324
2029		4,013	4,710	(1,555)	3,155
2030-2034		22,762	19,369	(6,393)	12,976
2035-2039		28,071	11,157	(3,682)	7,475
2040-2042		19,892	1,972	(651)	1,321
Total		89,232	58,453	(19,291)	39,162
Less: Current portion		(3,402)			
Long-term portion as of June 30, 2024	$	85,830			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of $1,166, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(t) *Events of Default and Remedies*

Significant Events of default as specified in the Water Enterprise Indenture (applicable to Water Revenue Bonds, and SRF Loan) include 1) Non-payment 2) material breach of warranty, representation or indenture covenants (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations or of a credit provider), declaring the principal and the interest accrued thereon, to be due and payable immediately. As of June 30, 2024 and 2023, 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 2058.

The outstanding amount of revenue bonds and State Revolving Funds loan, total principal and interest remaining, principal and interest paid during fiscal years 2024 and 2023, applicable net revenues and funds available for debt service are as follows:

(Dollars in thousands, unless otherwise stated)

		2024	2023
Bonds issued with revenue pledge	$	4,634,065	4,459,365
Principal and interest remaining due at the end of the year		7,714,756	7,193,317
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge		259,970	163,627
Principal and interest paid net of capitalized interest and BAB subsidy during the year		306,369	307,062
Net revenues for the year ended June 30		337,985	372,689
Funds available for debt service*		555,585	566,764

* Includes other available funds budgetary balances that are non GAAP

(9) Leases

Water Enterprise as Lessee

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

A summary of intangible right-to-use leases during the years ended June 30, 2024 and 2023 is as follows:

		Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Right-to-use assets:						
Land	$	605	-	(605)	-	-
Building/Facility		7,603	-	(592)	-	7,011
Total lease assets		8,208	-	(1,197)	-	7,011
Less accumulated amortization:						
Right-to-use assets:						
Land		(580)	(55)	605	-	(30)
Building/Facility		(3,685)	(1,154)	592	-	(4,247)
Total accumulated amortization		(4,265)	(1,209)	1,197	-	(4,277)
Total lease assets, net	$	3,943	(1,209)	-	-	2,734

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Right-to-use assets:						
Land	$	605	-	-	-	605
Building/Facility		5,041	149	-	2,413	7,603
Total lease assets		5,646	149	-	2,413	8,208
Less accumulated amortization:						
Right-to-use assets:						
Land		(383)	(197)	-	-	(580)
Building/Facility		(2,451)	(1,234)	-	-	(3,685)
Total accumulated amortization		(2,834)	(1,431)	-	-	(4,265)
Total lease assets, net	$	2,812	(1,282)	-	2,413	3,943

(Dollars in thousands, unless otherwise stated)

A summary of changes in the related lease liabilities during the years ended June 30, 2024 and 2023 is as follows:

	Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
Water lease liabilities	$ 4,010	-	-	(1,189)	2,821	1,028
Total	$ 4,010	-	-	(1,189)	2,821	1,028

	Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
Water lease liabilities	$ 2,863	149	2,413	(1,415)	4,010	1,189
Total	$ 2,863	149	2,413	(1,415)	4,010	1,189

Future annual lease payments for fiscal years 2024 and 2023 are as follows:

Year ending June 30:	Principal amount	Interest amount	Total
2025	$ 1,028	55	1,083
2026	546	32	578
2027	135	26	161
2028	122	23	145
2029	85	21	106
2030-2034	418	77	495
2035-2039	436	29	465
2040-2044	51	1	52
	2,821	264	3,085
Less: current portion	(1,028)		
Long-term portion as of June 30, 2024	$ 1,793		

Year ending June 30:	Principal amount	Interest amount	Total
2024	$ 1,189	81	1,270
2025	1,028	55	1,083
2026	546	32	578
2027	135	26	161
2028	122	23	145
2029-2033	416	86	502
2034-2038	445	39	484
2039-2043	129	3	132
	4,010	345	4,355
Less: current portion	(1,189)		
Long-term portion as of June 30, 2023	$ 2,821		

Variable lease payments

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

Certain facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $79 and $263 during the year ended June 30, 2024 and 2023, respectively.

Water Enterprise as Lessor

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

Variable payments include percentage of sales, or payments depended on an index made by the lessee; these amounts are generally determined periodically. The Enterprise did not incur revenue related to residual value guarantees or lease termination penalties. The total amounts for lease revenue, interest revenue, and other lease-related revenues recognized during the years ended June 30, 2024 and 2023 were $1,742 and $1,161, respectively.

(Dollars in thousands, unless otherwise stated)

Principal and interest requirements to maturity for the lease receivable on June 30, 2024 and 2023 are as follows:

Year ended June 30	Principal	Interest	Total
2025	$ 3,246	807	4,053
2026	2,676	748	3,424
2027	2,409	695	3,104
2028	2,423	645	3,068
2029	2,215	595	2,810
2030-2034	10,897	2,348	13,245
2035-2039	8,246	1,280	9,526
2040-2044	363	921	1,284
2045-2049	-	1,056	1,056
2050-2054	-	1,224	1,224
2055-2059	240	1,179	1,419
2060-2064	898	748	1,646
2065-2069	1,291	617	1,908
2070-2074	1,778	433	2,211
2075+	2,381	181	2,562
	$ 39,063	13,477	52,540

Year ended June 30	Principal	Interest	Total
2024	$ 3,521	869	4,390
2025	3,610	821	4,431
2026	3,046	756	3,802
2027	2,721	698	3,419
2028	2,423	645	3,068
2029-2033	10,951	2,571	13,522
2034-2038	9,941	1,477	11,418
2039-2043	828	914	1,742
2044-2048	-	1,027	1,027
2049-2053	-	1,191	1,191
2054-2058	117	1,263	1,380
2059-2063	832	768	1,600
2064-2068	1,208	647	1,855
2069-2073	1,676	475	2,151
2074+	2,756	250	3,006
	$ 43,630	14,372	58,002

(Dollars in thousands, unless otherwise stated)

(10) Subscription-Based Information Technology Arrangements

Water Enterprise as Subscriber

The Enterprise has noncancellable subscription arrangements (similar to a lease) for the right to use various information technology hardware and software (SBITAs). The terms and conditions for these subscriptions varies, which ranges between 1 – 5 years.

A summary of intangible right-to-use subscription IT assets during the years ended June 30, 2024 and 2023 are as follows:

		Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Subscription assets	$	2,450	-	(1,590)	-	860
Less accumulated amortization:		(1,755)	(384)	1,590	-	(549)
Total subscription assets, net	$	695	(384)	-	-	311

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Subscription assets	$	2,450	-	-	-	2,450
Less accumulated amortization:		(873)	(882)	-	-	(1,755)
Total subscription assets, net	$	1,577	(882)	-	-	695

A summary of changes in the related subscription liabilities during the years ended June 30, 2024 and 2023 is as follows:

		Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
SBITA liabilities	$	708	-	-	(400)	308	153
Total	$	708	-	-	(400)	308	153

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
SBITA liabilities	$	1,556	-	-	(848)	708	400
Total	$	1,556	-	-	(848)	708	400

Future annual subscription payments as of June 30, 2024 and 2023 are as follows:

Year ending June 30:		Principal amount	Interest amount	Total
2025	$	153	4	157
2026		155	2	157
		308	6	314
Less: current portion		(153)		
Long-term portion as of June 30, 2024	$	155		

(Dollars in thousands, unless otherwise stated)

Year ending June 30:		Principal amount	Interest amount	Total
2024	$	400	8	408
2025		153	4	157
2026		155	2	157
		708	14	722
Less: current portion		(400)		
Long-term portion as of June 30, 2023	$	308		

(11) 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 most recently restated and amended in January 2023). 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 allowed by 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)). During fiscal years ending in 2024 and 2023, the WRR, net of adjustments, charged to such wholesale customers was $334,261 and $300,502, 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

(Dollars in thousands, unless otherwise stated)

Treasury and shall be taken into consideration in the determination of subsequent wholesale water rates. The Wholesale Customers owed the Enterprise $26,121 as of June 30, 2024. The Wholesale Customers owed the Enterprise $10,052 as of June 30, 2023. Refer to the compliance audit report for the final balancing account available at https://sfpuc.gov/about-us/reports/audited-financial-statements-annual-financial-reports.

(12) Employee Benefits

(a) Pension Plan

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

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

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

	Fiscal Year 2024
Valuation Date (VD)	July 1, 2022 updated to June 30, 2023
Measurement Date (MD)	June 30, 2023
Measurement Period (MP)	July 1, 2022 to June 30, 2023
	Fiscal Year 2023
Valuation Date (VD)	July 1, 2021 updated to June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

The City is an employer of the plan with a proportionate share of 94.85% as of June 30, 2023 (measurement date), and 94.87% as of June 30, 2022 (measurement date), 0.02% decrease from prior year. The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2023 and 2022. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 4.34% as of June 30, 2023, and 4.27% as of June 30, 2022 (measurement dates).

Replacement Benefits Plan – The Enterprise's allocation percentage was determined based on the Enterprise's total pension liability divided by the City's total headcount for fiscal year 2023. The Enterprise's total pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 1.95% as of June 30, 2023, and 2.31% as of June 30, 2022 (measurement dates).

SFERS Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website at 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.

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

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Proposition A passed on November 8, 2022 making members who retired before November 6, 1996 (Pre96 Retirees) eligible for a Supplemental COLA, even if SFERS is not fully funded based on the market value of assets. Also, Pre96 Retirees' base retirement allowances were adjusted to account for Supplemental COLAs not received in 2013, 2014, 2017, 2018, and 2019 due to the full funding requirement. Effective with Proposition A, Pre96 Retirees receive the same Supplemental COLAs as the after November 6, 1996 and before January 7, 2012 members. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy

SFERS Plan – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 11.5% as a percentage of gross covered salary in fiscal year 2024, and 7.5% to 12.0% in fiscal year 2023. 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, 2022 actuarial report, the required employer contribution rates for fiscal year 2024 range from 15.24% to 18.24%. Based on the July 1, 2021 actuarial report, the required employer contribution rates for fiscal year 2023 range from 17.85% to 21.35%.

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, 2023 and 2022 (measurement period) were $638,003 and $729,578, respectively. The Enterprise's allocation of employer contributions for fiscal years 2023 and 2022 (measurement period) was $27,925 and $31,151, respectively.

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $4,614 replacement benefits in the year ended June 30, 2024.

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

Fiscal Year 2024

As of June 30, 2024, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan and total pension liability of RBP of $3,588,819. The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2023 (measurement date), and the total pension liability for the SFERS Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022 rolled forward to June 30, 2023 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2024 (reporting year) was $150,060. The Enterprise's allocation of total pension liability for the RBP as of June 30, 2024 was $2,583.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2024, the City's recognized pension expense was $667,276 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 $26,330. Pension expense increased from the prior year, largely due to the amortization of deferrals.

As of June 30, 2024, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2024 Schedule of Deferred Outflows and Inflows of Resources

	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 27,653	–	–	–
Differences between expected and actual experience	16,124	–	222	657
Changes in assumptions	19,421	8,861	202	532
Net difference between projected and actual earnings on pension plan investments	28,399	–	–	–
Change in employer's proportion	1,033	2,262	472	993
Total	$ 92,630	11,123	896	2,182

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 (benefit) as follows:

Fiscal Years	SFERS Plan	Replacement Benefits Plan
2025	$ (340)	(366)
2026	(9,299)	(550)
2027	55,297	(384)
2028	8,196	14
Total	$ 53,854	(1,286)

On June 30, 2024, the Enterprise reported $27,653 as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net pension liability in the reporting year ending June 30, 2025.

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan and net pension liability of RBP of $2,708,927. The City's NPL/net pension assets (NPA) for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2023 (reporting year) was $111,743. The Enterprise's allocation of total pension liability for the RBP as of June 30, 2023 was $3,600.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2023, the City's recognized pension expense was $1,771 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 $6,225. Pension expense increased from the prior year, largely due to the amortization of deferrals.

As of June 30, 2023, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2023 Schedule of Deferred Outflows and Inflows of Resources

	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 27,925	–	–	–
Differences between expected and actual experience	10,200	–	475	455
Changes in assumptions	29,035	8,713	579	778
Net difference between projected and actual earnings on pension plan investments	–	13,890	–	–
Change in employer's proportion	1,869	3,138	18	1,530
Total	$ 69,029	25,741	1,072	2,763

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/(benefits) as follows:

Fiscal Years	SFERS Plan	Replacement Benefits Plan
2024	$ (5,899)	(283)
2025	(8,602)	(374)
2026	(17,636)	(589)
2027	47,500	(445)
Total	$ 15,363	(1,691)

Actuarial Assumptions

Fiscal Year 2024

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2023 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2022 actuarial valuation. Refer to the July 1, 2022 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	July 1, 2022 updated to June 30, 2023
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of investment expenses
Municipal Bond Yield	3.65% as of June 30, 2023
	3.54% as of June 30, 2022
	Bond Buyer 20-Bond GO Index, June 30, 2022 and June 30, 2023
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	7.20% as of June 30, 2023
	7.20% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2023
	0.60% of payroll as of June 30, 2022

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, 2023	2.00%	1.90%	2.50%	3.60%
June 30, 2022	2.00%	1.90%	2.50%	3.60%

Changes of Assumptions SFERS plan – There were no changes in the discount rate for the measurement period ended June 30, 2023. The municipal bond yield increased from 3.54% to 3.65%.

Changes of Assumptions Replacement Benefits Plan – Both discount rate for the measurement period ended June 30, 2023 and the municipal bond yield increased from 3.54% to 3.65%.

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

The actuarial assumptions used at the June 30, 2023 measurement date were based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2022.

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2022 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2021 actuarial valuation. Refer to the July 1, 2021 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	July 1, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of investment expenses
Municipal Bond Yield	3.54% as of June 30, 2022
	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 30, 2022
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	7.20% as of June 30, 2022
	7.40% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2022
	0.60% of payroll as of June 30, 2021

Basic COLA	Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
June 30, 2022	2.00%	1.90%	2.50%	3.60%
June 30, 2021	2.00%	1.90%	2.50%	3.60%

Key Actuarial Assumptions	Replacement Benefits Plan
Valuation Date	July 1, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Municipal Bond Yield	3.54% as of June 30, 2022
	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	3.54% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2022

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, 2022	2.00%	1.90%	2.50%	3.60%
June 30, 2021	2.00%	1.90%	2.50%	3.60%

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

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

Discount Rate

Fiscal Year 2024

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2023 (measurement date) and 7.20% June 30, 2022 (measurement date).

(Dollars in thousands, unless otherwise stated)

The discount rate used to measure the Total Pension Liability as of June 30, 2023 was 7.20%. 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, 2022 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. However, the change due to Proposition A was amortized over 10 years. In the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted effective July 1, 2013 was amortized over 17 years. For the July 1, 2021 valuation, all amortization periods for actuarial gains and losses and prior assumption changes were reduced to 5 years. The assumption change effective July 1, 2021 is amortized over 20 years. Future experience gains and losses and assumption or method changes on or after July 1, 2021 are amortized over 20 years. If the plan becomes 100% funded based on the actuarial value of assets, any new net surpluses are amortized over a rolling 20-year period. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who were hired 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 were hired after Proposition C passed, the market value of assets must also exceed the actuarial liability 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. Most members receive a 1.50% Supplemental COLA when a full Supplemental COLA is granted.

No Supplemental COLA was payable as of July 1, 2023 due to the unfavorable investment return for fiscal year 2023. 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
2025+	0.75 %	0.50 %

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

(Dollars in thousands, unless otherwise stated)

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members through 2104. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.65% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2023 is 7.20%.

The long-term expected rate of return on pension plan investments was 7.20%. 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.

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.6 %
Private Equity	23.0	7.8
Private Credit	10.0	5.8
Real Assets	10.0	5.3
Absolute Return	10.0	4.4
Treasuries	8.0	1.7
Liquid Credit	5.0	3.5
Leverage	-3.0	1.4
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.65% as of June 30, 2023. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 30, 2022 and June 29, 2023. These are the rates used to determine the total pension liability as of June 30, 2023.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of $265 was used for the 2023 measurement date.

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

On June 30, 2024, City's membership in the RBP had a total of 227 active members and 149 retirees and beneficiaries currently receiving benefits. The Enterprise has 6 active members and 4 retirees and beneficiary currently receiving benefits.

Fiscal Year 2023

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2022 (measurement date) and 7.40% June 30, 2021 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2022 was 7.20%. 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, 2021 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

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

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2022 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2022. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

(Dollars in thousands, unless otherwise stated)

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal Years	96 - Prop C	Before 11/6/96 or After Prop C
2024	0.75 %	0.70 %
2025	0.75	0.60
2026	0.75	0.60
2027+	0.75	0.50

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.54% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2022 is 7.20%.

The long-term expected rate of return on pension plan investments was 7.20%. 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.8 %
Private Equity	23.0	7.9
Private Credit	10.0	5.8
Real Assets	10.0	4.7
Hedge Funds/Absolute Return	10.0	3.4
Treasuries	8.0	0.6
Liquid Credit	5.0	3.5
Leverage	-3.0	0.6
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.54% as of June 30, 2022. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 30, 2022. This is the rate used to determine the total pension liability as of June 30, 2022.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of $245 was used for the 2022 measurement date.

(Continued)

(Dollars in thousands, unless otherwise stated)

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

On June 30, 2023, City's membership in the RBP had a total of 327 active members and 160 retirees and beneficiaries currently receiving benefits. The Enterprise has 7 active members and 6 retirees and beneficiary currently receiving benefits.

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

Fiscal Year 2024

Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Water	$ 351,972	150,060	(16,414)

Fiscal Year 2023

Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Water	$ 305,993	111,743	(48,394)

The allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits Plan, calculated using the discount rate, as well as what the Enterprise's allocation of the employer's proportionate share of the total 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 2024

Employer	1% Decrease @ 2.65%	Measurment Date @ 3.65%	1% Increase @ 4.65%
Water	$ 3,060	2,583	2,207

Fiscal Year 2023

Employer	1% Decrease @ 2.54%	Measurment Date @ 3.54%	1% Increase @ 4.54%
Water	$ 4,270	3,600	3,072

(b) Other Postemployment Benefits

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

(Dollars in thousands, unless otherwise stated)

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

San Francisco Health Service System Retiree Plan - Single-Employer

Fiscal year 2024	
Valuation Date (VD)	June 30, 2022 updated to June 30, 2023
Measurement Date (MD)	June 30, 2023
Measurement Period (MP)	July 1, 2022 to June 30, 2023

Fiscal year 2023	
Valuation Date (VD)	June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

The Enterprise's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2023 and June 30, 2022. The Enterprise's net Other Postemployment Benefits (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, 2023 and 2022 measurement dates was 4.03% and 3.97%, respectively.

Benefits

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

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

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012 under Charter Section 8.603.
[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.

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

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

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

Contributions

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

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

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

For the fiscal years ended June 30, 2024 and 2023, funding was based on "pay-as-you-go" plus a contribution of $48,779 and $45,241 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $229,922 for a total contribution of $278,701 for the fiscal year ended June 30, 2024, and $215,408 for a total contribution of $260,649 for the fiscal year ended June 30, 2023. The Enterprise's proportionate share of the City's contributions for fiscal year 2024 was $11,241, and for fiscal year 2023 was $10,339, and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

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

Fiscal Year 2024

As of June 30, 2024, the City reported net OPEB liability related to the Plan of $3,924,832. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2024 was $158,301.

For the year ended June 30, 2024, the City's recognized OPEB expense was $261,158. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $13,394.

(Dollars in thousands, unless otherwise stated)

As of June 30, 2024, 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	$ 11,241	$ -
Differences between expected and actual experience	6,801	18,351
Changes in assumptions	4,602	-
Net difference between projected and actual earnings on plan investments	1,212	-
Change in proportion	6,118	3,983
Total	$ 29,974	$ 22,334

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

Year ending June 30:	
2025	$ (531)
2026	(459)
2027	(877)
2028	(2,223)
2029	489
Total	$ (3,601)

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liability related to the Plan of $3,746,270. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2023 was $148,601.

For the year ended June 30, 2023, the City's recognized OPEB expense was $256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $20,381.

As of June 30, 2023, 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	$ 10,339	$ -
Differences between expected and actual experience	3,299	24,740
Changes in assumptions	6,344	-
Net difference between projected and actual earnings on plan investments	2,392	-
Change in proportion	6,242	2,335
Total	$ 28,616	$ 27,075

(Dollars in thousands, unless otherwise stated)

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

Year ending June 30:	
2024	$ (2,253)
2025	(2,213)
2026	(720)
2027	(1,132)
2028	(2,480)
Total	$ (8,798)

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2024

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2023 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2022 updated to June 30, 2023
Measurement Date	June 30, 2023
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 7.24% trending down to ultimate rate of 3.94% in 2075
	Medicare trend starts at 7.24% trending down to ultimate rate of 3.94% in 2075
	10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2075
	Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25%
	Additional Merit Component (dependent on years of service):
	Police: 0.50% - 7.50%
	Fire: 0.50% - 14.00%
	Muni Drivers: 0.00% - 16.00%
	Craft: 0.50% - 3.75%
	Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually
	Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ended June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2022 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
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 7.74% trending down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.74% trending down to ultimate rate of 3.94% in 2076 10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2076 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

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 2024

Employer	-1.00%	Healthcare Cost Trend Rate	1.00%
Water	$ 134,621	$ 158,301	$ 187,684

Fiscal Year 2023

Employer	-1.00%	Healthcare Cost Trend Rate	1.00%
Water	$ 127,125	$ 148,601	$ 175,238

Discount Rate

Fiscal Year 2024

The discount rate used to measure the Total OPEB Liability as of June 30, 2023 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

(Dollars in thousands, unless otherwise stated)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	25.0%	6.1%
U.S. Small Cap	2.0%	6.7%
Developed Market Equity (non-U.S.)	13.0%	7.2%
Emerging Market Equity	10.0%	7.4%
Credit		
Bank Loans	3.0%	4.4%
High Yield Bonds	3.0%	4.7%
Rate Securities		
Investment Grade Bonds	7.0%	2.8%
Short-term Treasury Inflation-Protected Securities (TIPS)	5.0%	1.0%
Private Markets		
Private Equity	10.0%	8.4%
Private Debt	5.0%	6.4%
Core Private Real Estate	5.0%	3.9%
Infrastructure (Core Private)	2.0%	5.2%
Risk Mitigating Strategies		
Global Macro	10.0%	3.1%
Total	100.0%	

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

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 185,275	$ 158,301	$ 136,180

Fiscal Year 2023

The discount rate used to measure the Total OPEB Liability as of June 30, 2022 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

(Dollars in thousands, unless otherwise stated)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	6.8%
U.S. Small Cap	3.0%	7.4%
Developed Market Equity (non-U.S.)	15.0%	7.5%
Emerging Market Equity	13.0%	8.4%
Credit		
Bank Loans	3.0%	4.0%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.2%
Rate Securities		
Investment Grade Bonds	9.0%	2.4%
Long-term Government Bonds	4.0%	2.8%
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0%	1.9%
Private Markets		
Private Equity	5.0%	10.0%
Core Private Real Estate	5.0%	6.1%
Risk Mitigating Strategies		
Global Macro	5.0%	5.0%
Total	100.0%	

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

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 173,000	$ 148,601	$ 128,583

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

(13) 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 of $59,952 or 48.1% and $55,121 or 48.2% were allocated to the Enterprise for the years ended June 30, 2024 and 2023, 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 $46,266 and $49,636 for the years ended June 30, 2024 and 2023, 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 $10,256 and $11,398 for the years ended June 30, 2024 and 2023, 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 $1,736 and $1,552 for the years ended June 30, 2024 and 2023, 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 2024 and 2023, the Enterprise delivered water for fire hydrant purposes totaling $5 and $9, respectively, based on metered usage and applicable water rates, and the amount has been excluded from operating revenues in the accompanying financial statements.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling $20,925 and $18,690 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

During the fiscal year ended June 30, 2024, the Enterprise transferred $1,167 to the Arts Commission for the arts enrichment fund, $42 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. During the fiscal year ended June 30, 2023, the Enterprise transferred $20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program.

As of June 30, 2024, the Enterprise had interfund receivables of $102 from DPW relating to custom work projects. As of June 30, 2023, the Enterprise had interfund receivables of $115 from DPW relating to custom work projects.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Park Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. The total payment under this agreement is $6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2024, the Enterprise's allocable shares of expenses and prepayment were $46 and $3,174, respectively; and as of June 30, 2023, the Enterprise's allocable shares of expenses and prepayment were $45 and $3,220, respectively.

The Enterprise had a $0 and $2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project as of June 30, 2024 and 2023, respectively.

(Dollars in thousands, unless otherwise stated)

(14) Risk Management

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

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

(a) General Liability

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

The changes for the general liability (damage claims) for the years ended June 30, 2024 and 2023 are as follows:

Fiscal years		Beginning of year	Claims	Claims paid and changes changes in estimates	End of year
2024	$	19,625	18,823	(15,675)	22,773
2023		36,069	1,898	(18,342)	19,625
2022		36,723	452	(1,106)	36,069

(b) Workers' Compensation

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

(Dollars in thousands, unless otherwise stated)

The changes in the liabilities for workers' compensation for the years ended June 30, 2024 and 2023 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2024	$	9,735	4,336	(3,069)	11,002
2023		8,973	3,984	(3,222)	9,735
2022		8,828	2,793	(2,648)	8,973

(c) *Property*

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

(d) *Public Officials Liability*

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

(e) *Employment Practices Liability*

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

(f) *Cyber Liability*

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

(g) *Crime*

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

(h) *Electronic Data Processing*

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

(i) *Surety Bonds*

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

(j) *Errors and Omissions*

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

(k) *Builders' Risk*

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

(15) Commitments and Litigation

(a) *Commitments*

As of June 30, 2024 and 2023, the Enterprise has outstanding commitments with third parties of $248,510 and $220,706, 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, 2024 and 2023, the pollution remediation liability of $1,271 is related to the Pacific Rod & Gun Club site construction projects for the full value of construction.

(16) Subsequent Events

(a) *Water Enterprise Interim Funding Program*

On July 16, 2024 the SFPUC entered into an Amended and Restated Revolving Credit Agreement with U.S. Bank National Association to provide a revolving line of credit in the principal amount of up to $100,000. The commitment expiration date under the Revolving Credit Agreement is July 16, 2027.

(b) Water Enterprise Interim Funding Program

On July 16, 2024 the SFPUC entered into a Second Amendment to Reimbursement Agreement, together with an Omnibus Amendment and Extension of Stated Expiration Date to the Irrevocable Letter of Credit with Barclays Bank PLC that, among other things, amends the Stated Expiration Date of the A-3 LOC to July 15, 2027.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the San Francisco Water Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2024

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

Cover photo: Calaveras Reservoir: Outlet Tower

Back cover photo: Hetch Hetchy Reservoir Waterfall

Photos by: Robin Scheswohl

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Water Enterprise

Basic Financial Statements June 30, 2023 And 2022 (With Independent Auditors' Report Thereon)

SAN FRANCISCO WATER ENTERPRISE

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MGO. | Certified Public Accountants

Independent Auditor's Report

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

Opinion

We have audited the financial statements of the San Francisco Water Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Enterprise and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective July 1, 2021, the Enterprise adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Enterprise as of and for the year ended June 30, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on January 27, 2023.

Responsibilities of Management for the Financial Statements

The Enterprise's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 December 26, 2023 on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 26, 2023

This section presents management's analysis of the San Francisco Water Enterprise's (the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2023 and 2022. 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
- 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 170 million gallons of water per day in the year ended June 30, 2023. Approximately 69% of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining 31% and are primarily San Francisco consumers, including residential, commercial, industrial, and governmental users. Wholesale customers include cities, water districts, one private utility, and one non-profit university. Service to these customers is provided pursuant to the 25-year Amended and Restated Water Supply Agreement (WSA), commenced on July 1, 2009, which established the basis for determining the costs of wholesale service.

Overview of the Financial Statements

The Enterprise's financial statements include the following:

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

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

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2023

- Total assets exceeded total liabilities by $565,858.
- Net position increased by $58,646 or 9.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $30,720 or 0.5% to $5,648,314.
- Current and other assets decreased by $99,623 or 12.5% mainly due to bond principal and interest payments, capital project expenses, and payments for salaries.
- Operating revenues increased by $117,974 or 20.6% to $691,091.
- Operating expenses increased by $58,489 or 14.6% to $460,253.

Financial Highlights for Fiscal Year 2022

- Total assets exceeded total liabilities by $727,284.
- Net position decreased by $17,937 or 2.8% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by $29,795 or 0.5% to $5,617,594.
- Current and other assets increased by $8,816 or 1.1% mainly due to net pension asset.
- Operating revenues decreased by $9,319 or 1.6% to $573,117.
- Operating expenses decreased by $47,018 or 10.5% to $401,764.

(Continued)

(Dollars in thousands, unless otherwise stated)

Financial Position

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

Table 1
Comparative Condensed Net Position
June 30, 2023, 2022, and 2021

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Total assets:					
Current and other assets	$ 695,715	795,338	786,522	(99,623)	8,816
Capital assets, net of accumulated depreciation and amortization	5,648,314	5,617,594	5,587,799	30,720	29,795
Total assets	6,344,029	6,412,932	6,374,321	(68,903)	38,611
Deferred outflows of resources:					
Unamortized loss on refunding of debt	124,635	139,481	154,991	(14,846)	(15,510)
Pensions	70,101	52,852	64,797	17,249	(11,945)
Other post-employment benefits	28,616	32,445	37,762	(3,829)	(5,317)
Total deferred outflows of resources	223,352	224,778	257,550	(1,426)	(32,772)
Liabilities:					
Current liabilities:					
Revenue bonds	135,095	125,285	108,500	9,810	16,785
Certificates of participation	3,267	3,138	2,970	129	168
Commercial paper	—	206,297	105,862	(206,297)	100,435
State revolving fund loans	—	3,283	1,667	(3,283)	1,616
Other liabilities	148,547	182,349	154,257	(33,802)	28,092
Subtotal current liabilities	286,909	520,352	373,256	(233,443)	147,096
Long-term liabilities:					
Revenue bonds	4,575,751	4,735,650	4,886,275	(159,899)	(150,625)
Certificates of participation	89,232	92,499	95,692	(3,267)	(3,193)
Commercial paper	371,459	—	—	371,459	—
State revolving fund loans	163,627	118,478	105,740	45,149	12,738
Other liabilities	291,193	218,669	445,234	72,524	(226,565)
Subtotal long-term liabilities	5,491,262	5,165,296	5,532,941	325,966	(367,645)
Total liabilities:					
Revenue bonds	4,710,846	4,860,935	4,994,775	(150,089)	(133,840)
Certificates of participation	92,499	95,637	98,662	(3,138)	(3,025)
Commercial paper	371,459	206,297	105,862	165,162	100,435
State revolving fund loans	163,627	121,761	107,407	41,866	14,354
Other liabilities	439,740	401,018	599,491	38,722	(198,473)
Total liabilities	5,778,171	5,685,648	5,906,197	92,523	(220,549)
Deferred inflows of resources:					
Related to pensions	28,504	248,704	4,885	(220,200)	243,819
Leases	41,558	44,583	48,110	(3,025)	(3,527)
Other post-employment benefits	27,075	25,348	21,315	1,727	4,033
Total deferred inflows of resources	97,137	318,635	74,310	(221,498)	244,325
Net position:					
Net investment in capital assets	545,542	584,646	517,302	(39,104)	67,344
Restricted for debt service	14,625	14,671	45,586	(46)	(30,915)
Restricted for capital projects	15,959	—	22,319	15,959	(22,319)
Restricted for other purposes	—	100,407	—	(100,407)	100,407
Unrestricted	115,947	(66,297)	66,157	182,244	(132,454)
Total net position	$ 692,073	633,427	651,364	58,646	(17,937)

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

Net Position, Fiscal Year 2023

For the period ended June 30, 2023, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $692,073. Total net position increased from prior year by $58,646 or 9.3% (see Table 1). The increase in net position was the result of a decrease of $128,975 in liabilities and deferred inflows of resources offset by a decrease of $70,329 in assets and deferred outflows of resources.

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

During the fiscal year 2023, current and other assets decreased by $99,623 or 12.5%. The decreases included $100,407 in restricted net pension asset based on actuarial estimates, $45,106 in restricted and unrestricted cash and investments mainly due to debt principal and interest payments, capital projects spending, payments for salaries and goods and services, $6,625 in prepaid expenses of multiple software licensing and membership fees, $2,535 in lease receivable due to lease payments received, $882 in subscription asset from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 96 – *Subscription-Based Information Technology Arrangements (SBITAs),* $632 in restricted interest and other receivables mainly due to capacity fees, and $63 mainly for custom work projects due from the Department of Public Works (DPW). These decreases were offset by increases of $28,594 for a reimbursement receivable from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, $11,007 in notes receivable from the sale of the Balboa Reservoir, $10,052 in Wholesale Balancing Account receivable (see Note 11 for details), $2,249 in interest receivable mainly due to higher interest rates, $2,205 in charges for services receivable mainly due to a 15.9% rate increase for wholesale customers beginning July 1, 2022, $1,389 in inventory due to more purchases than issuances during the fiscal year, and $1,131 in lease asset due to additional leases in the current year.

Capital assets, net of accumulated depreciation and amortization, increased by $30,720 or 0.5% mainly due to Mountain Tunnel Improvement and SF Westside Recycled Water projects. The largest portion of the Enterprise's net position of $545,542 or 78.8% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by $39,104 or 6.7% from prior year's $584,646. The change was explained by an increase of $62,664 in liabilities related to capital assets mainly from State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, offset by a $23,560 increase in capital assets mainly from increased buildings, structures and improvements.

Deferred outflows of resources decreased by $1,426 due to decreases of $14,846 from amortization for unamortized loss on refunding and $3,829 in OPEB obligations based on actuarial estimates, offset by an increase of $17,249 from pensions based on actuarial estimates.

Total liabilities increased by $92,523, which was due to increases of $165,162 in commercial paper from additional principal issuances, $115,343 in pensions based on actuarial reports, $41,866 in State Revolving Funds Loan payable due to additional loans related to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, $15,329 in restricted and unrestricted payables due to higher year end expense accruals for capital projects as compared to prior year, $4,486 in OPEB obligations based on actuarial estimates, $2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project, $1,168 in accrued payroll, vacation and sick leave due to cost of living adjustments and actuarial entries, $1,147 in lease liability from additional leases, and $762 in workers' compensation based on actuarial estimates. These increases were offset by decreases of $150,089 in outstanding revenue bonds from $125,285 in bond repayment, $24,812 in bond premium amortization, offset by $8 in bond discount amortization, $79,150 in the Wholesale Balancing Account liability (see Note 11 for details), $16,444 in general liability based on actuarial report, $5,160 in unearned revenues mainly from lower custom work deposits and reduced Bay Area Water Supply and Conservation Agency (BAWSCA) Bond Surcharges, $3,138 in certificates of participation from $3,124 in principal repayment and $14 in amortization of premium, $848 in subscription liabilities from the implementation of GASB Statement No. 96 – *SBITAs,* and $351 in interest payable from lower outstanding revenue bonds.

Deferred inflows of resources decreased by $221,498 due to decreases of $220,200 related to pensions based on actuarial estimates and $3,025 in leases based on Controller's Office GASB 87 lease calculations, offset by an increase of $1,727 in OPEB obligations based on actuarial estimates.

Net Position, Fiscal Year 2022

For the period ended June 30, 2022, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $633,427. Total net position decreased from prior year by $17,937 or 2.8% (see Table 1). The decrease in net position was the result of an increase of $23,776 in liabilities and deferred inflows of resources offset by an increase of $5,839 in assets and deferred outflows of resources.

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

During the fiscal year 2022, current and other assets increased by $8,816 or 1.1%. The increases included $100,407 in restricted net pension asset based on actuarial estimates, $6,276 in prepaid charges advances and other receivables mainly for a settlement from PG&E related to damages on Casitas Avenue in San Francisco, $6,267 in charges for services attributed to more billings, net of decrease in allowance for doubtful accounts due to utility arrearage relief payment received from the State as Federal pass-through from the California Water and Wastewater Arrearages Payment Program (CWWAPP), $1,577 in subscription asset from the implementation of GASB Statement No. 96, $865 in inventory due to more purchases than issuances during the fiscal year, $167 in interest, leases and other receivables due to higher interest rates, and $159 in restricted interest and other receivables. These increases were offset by decreases of $60,453 in restricted and unrestricted cash and investments mainly due to debt principal and interest payments, capital projects spending, payments for salaries and goods and services, $41,993 reimbursement from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Westside Recycled Water project, $2,945 in leases receivable from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*, $1,425 in lease asset from the implementation of GASB Statement No. 87 – *Leases*, $70 mainly for custom work projects due from the Department of Public Works, and $16 for a Federal grant of culvert repairs relating to the Santa Clara Unit Lightning Complex fires.

Capital assets, net of accumulated depreciation and amortization, increased by $29,795 or 0.5% mainly due to Water Main Replacement, Treasure Island Well, Serramonte Well and all other well construction, and capital improvement activities. The largest portion of the Enterprise's net position of $584,646 or 92.3% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which increased by $67,344 or 13.0% from prior year's $517,302. The change was explained by an increase of $81,232 in capital assets mainly from increased buildings, structures and improvements, offset by a decrease of $13,888 in liabilities related to capital assets mainly from bond principal repayment.

(Dollars in thousands, unless otherwise stated)

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

Total liabilities decreased by $220,549 which was due to decreases of $216,417 in pensions based on actuarial report, $133,840 in outstanding revenue bonds from principal repayments, $4,656 from OPEB obligations due to actuarial report, $3,025 in certificates of participation mainly due to principal repayments, $1,381 in lease liability from the implementation of GASB Statement No. 87 – *Leases*, $745 in interest payable mainly due to lower bonds outstanding, and $654 in general liability based on actuarial report. These decreases were offset by increases of $100,435 in commercial paper from additional principal issuances, $14,354 in State Revolving Funds Loan payable due to additional loans related to the SF Westside Recycled Water project, $4,759 in restricted and unrestricted payables due to higher year end accruals as compared to prior year, $1,556 in subscription liability from the implementation of GASB Statement No. 96, $463 in accrued payroll, vacation and sick leave due to actuarial entries, $171 in unearned revenues mainly for deposits on custom work, and $145 in workers' compensation based on actuarial estimates. The Enterprise owed the wholesale customers $79,150, an increase of $18,286 which was mainly due to annual revenues from the wholesale customers exceeding their share of expenditures. This amount was recorded as a liability in accordance with the 2009 Water Supply agreement. See Note 11, Water Supply Agreement, for additional details.

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

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, 2023, 2022, and 2021

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Revenues:					
Charges for services	$ 661,241	539,526	550,306	121,715	(10,780)
Rents and concessions	13,282	13,765	13,735	(483)	30
Other operating revenues	16,568	19,826	18,395	(3,258)	1,431
Interest and investment income (loss)	11,156	(10,896)	1,374	22,052	(12,270)
Other non-operating revenues	40,679	41,871	45,874	(1,192)	(4,003)
Total revenues	742,926	604,092	629,684	138,834	(25,592)
Expenses:					
Operating expenses	460,253	401,764	448,782	58,489	(47,018)
Interest expenses	214,913	213,681	184,678	1,232	29,003
Amortization of premium, discount, refunding loss, and issuance costs	(9,971)	(9,875)	(7,782)	(96)	(2,093)
Non-operating expenses	1,775	828	2,208	947	(1,380)
Total expenses	666,970	606,398	627,886	60,572	(21,488)
Change in net position before capital contributions and transfers	75,956	(2,306)	1,798	78,262	(4,104)
Capital contributions	2,717	—	4,180	2,717	(4,180)
Transfers from the City and County of San Francisco	5	15,035	21,025	(15,030)	(5,990)
Transfers to the City and County of San Francisco	(20,032)	(30,666)	(16,654)	10,634	(14,012)
Capital contributions and net transfers	(17,310)	(15,631)	8,551	(1,679)	(24,182)
Change in net position	58,646	(17,937)	10,349	76,583	(28,286)
Net position at beginning of year	633,427	651,364	641,015	(17,937)	10,349
Net position at end of year	$ 692,073	633,427	651,364	58,646	(17,937)

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

Results of Operations, Fiscal Year 2023

The Enterprise's total revenues of $742,926 for the year represented an increase of $138,834 or 23.0% from prior year (see Table 2). Increases included $121,715 from charges for services, and $22,052 in interest and investment income. These increases were offset by decreases of $3,258 in other operating revenues, $1,192 in other non-operating revenues, and $483 in rents and concessions.

Charges for services were $661,241, an increase of $121,715 or 22.6% mainly due to an adopted rate increase of 15.9% for wholesale customers and a 5% drought surcharge for retail customers beginning July 1, 2022. Rents and concessions were $13,282, a decrease of $483 or 3.5% mainly due to lease terminations. Other operating revenues were $16,568, a decrease of $3,258 or 16.4% mainly due to decreased consumption by other City departments and fewer capacity fee applications. Interest and investment income was $11,156, an increase of $22,052 or 202.4% due to prior year unrealized losses and higher interest earned on pooled cash. Other non-operating revenues were $40,679, a decrease of $1,192 or 2.8% due to an accrued settlement and water utility arrearages relief grant received in prior year.

The Enterprise's total expenses were $666,970, an increase of $60,572 or 10.0%. Operating expenses were $460,253, an increase of $58,489 or 14.6%, as a result of increases of $52,324 in personnel services mainly due to pensions based on actuarial estimates, $6,937 in depreciation from additional capital assets placed into service, $6,603 in services provided by other departments mainly for higher water assessments fees paid to Hetch Hetchy Water, $4,357 in contractual services mainly for custom work and professional & specialized service charges, and increase of $4,327 in materials and supplies mainly for water treatment supplies. These increases were offset by a decrease of $16,059 in general administrative and other expenses mainly from judgement and claims. Interest expenses increased by $1,232, compared to prior year, mainly due to increased commercial paper interest. Amortization of bond premium, discount, refunding loss and issuance costs increased by $96 mainly due to amortization of bond refunding loss. Non-operating expenses increased by $947 mainly for youth employment and employment projects.

Transfer in of $5 from the General Fund was for the Mayor's Office's minimum compensation ordinance. Transfer out of $20,032 included $20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. Capital contribution of $2,717 was received from a developer for assets relating to the Potrero HOPE SF and Sunnydale HOPE SF projects.

Results of Operations, Fiscal Year 2022

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

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

(Dollars in thousands, unless otherwise stated)

The Enterprise's total expenses were $606,398, a decrease of $21,488 or 3.4%. Operating expenses were $401,764, a decrease of $47,018 or 10.5%, the result of decreases of $49,143 in personnel services mainly due to decreases in pension obligations based on actuarial report, $5,357 in general and administrative and other expenses due to higher judgement and claims in prior year, and $1,467 in contractual services mainly from other current expenses and subscriptions. These decreases were offset by increases of $3,333 in depreciation due to additional capital assets placed into service, $3,072 in services provided by other departments mainly for higher water assessment fees paid to Hetch Hetchy Water and higher gas and electric charges paid to Hetch Hetchy Power, and $2,544 in materials and supplies mainly for water treatment supplies. Interest expenses increased by $29,003 due to reduced bond interest capitalization resulting from the implementation of GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* in fiscal year 2022. Amortization of bond premium, discount, refunding loss and issuance costs increased by $2,093 due to prior year bond issuance costs. Non-operating expenses decreased by $1,380 mainly due to prior year grant payments for water conservation.

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

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, 2023, 2022, and 2021

	2023	2022	2021	2023-2022 Change	2022-2021 Change
Facilities, improvements, machinery, and equipment	$ 5,005,667	5,056,747	4,948,186	(51,080)	108,561
Intangible assets	2,331	3,152	2,763	(821)	389
Land and rights-of-way	113,322	113,441	104,248	(119)	9,193
Construction work in progress	526,994	444,254	532,602	82,740	(88,348)
Total	$ 5,648,314	5,617,594	5,587,799	30,720	29,795

Capital Assets, Fiscal Year 2023

The Enterprise has net capital assets of $5,648,314 invested in a broad range of utility capital assets as of June 30, 2023 (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 $30,720 from the prior year. Facilities, improvements, machinery, and equipment decreased by $51,080 mainly due to depreciation. Intangible assets decreased by $821 mainly due to amortization. Land decreased by $119 from the sale of Balboa Reservoir. Construction work in progress increased by $82,740 mainly from the Mountain Tunnel Improvement and SF Westside Recycled Water projects.

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress during the year ended June 30, 2023 include the following:

Mountain Tunnel Improvements	$	22,623
SF Westside Recycled Water Project		9,400
New Water Utility Service Facilities		7,594
Water Main Replacement and Auxiliary Water Supply System Pipeline - 19th Ave		7,183
College Hill Reservoir Outlet and Pipeline		7,087
Sunol Valley Water Treatment Plant Ozonation		6,987
Water Main Replacement - WD-2718 Prospect/Cortland/Fair Ave		5,987
Harry Tracy Water Treatment Plant - Filters No. 1 to 6 Underdrain Replacement		5,939
Water Main Replacement - WD-2859 Taraval Segment B		5,649
San Joaquin Pipeline Valve and Safe Entry Improvements		5,486
Water Main Replacement - WD-2843 Diamond/27th/28th Streets		5,372
Water Main Replacement - WD-2806 Vicente Street/19th to 25th Ave		5,189
Regional Groundwater Storage and Recovery		5,152
Other project additions individually below $5,000		80,743
Total	$	180,391

Major land, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2023 include the following:

Auxiliary Water Supply System Pumping Station No. 2 Improvement - Structural System	$	14,683
Water Main Replacement - WD-2811 17th/Clayton/Ord Streets		11,240
New Water Utility Service Facilities		7,594
Water Main Replacement - 19th Ave		7,018
Auxiliary Water Supply System Pumping Station No. 2 Improvement - Diesel Engine Generator		6,235
Other items individually below $5,000		54,730
Total	$	101,500

See Note 4 for additional information about Capital Assets.

Water System Improvement Program (WSIP)

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

Overall, the $4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with $4.8 billion of project appropriations expended through fiscal year ended June 30, 2023. 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, 2023, 35 local projects were completed. For regional projects, 48 projects were completed, the Alameda Creek Recapture and Regional Groundwater Storage projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is February 2027. Additional details regarding the WSIP are available at https://sfpuc.org/construction-contracts/water-infrastructure-improvements.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2022

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

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

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

(Dollars in thousands, unless otherwise stated)

Major land, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2022 include the following:

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

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

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

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

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2023, the Enterprise had $5,338,431 total debt outstanding, an increase of $53,801 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, 2023, 2022, and 2021

		2023	2022	2021	2023-2022 Change	2022-2021 Change
Revenue bonds	$	4,710,846	4,860,935	4,994,775	(150,089)	(133,840)
Commercial paper		371,459	206,297	105,862	165,162	100,435
Certificates of participation		92,499	95,637	98,662	(3,138)	(3,025)
State revolving fund loans		163,627	121,761	107,407	41,866	14,354
Total	$	5,338,431	5,284,630	5,306,706	53,801	(22,076)

The decrease of $150,089 in revenue bonds was due to decreases of $125,285 from bond repayment, $24,812 in bond premium from amortization, offset by a $8 increase in bond discount from amortization. The $3,138 decrease of certificates of participation was due to $3,124 from principal repayment, and $14 amortization of premium. The increase of $41,866 in State revolving funds loans was mainly from additional reimbursement requests of $32,102 for the Mountain Tunnel Improvement project and $9,764 for SF Westside Recycled Water project. The Enterprise had $343,767 in tax-exempt and $27,692 in taxable commercial paper as of June 30, 2023, and $179,600 in tax-exempt and $26,697 in taxable commercial paper as of June 30, 2022. The increase of $165,162 was due to additional issuances of $164,167 in tax-exempt and $995 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, 2023, and "Aa2" and "AA-" from Moody's and Standard & Poor's (S&P) at June 30, 2022, 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 2023 and 2022, 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, 2023, the Board of Supervisors has authorized the issuance of $4,758,518 in revenue bonds under Proposition E, with $3,903,617 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, 2023, $1,499,230 of the $1,628,000 Proposition A authorized bonds were issued. The Enterprise is also authorized to issue up to $500,000 in commercial paper.

(Continued)

Cost of Debt Capital – The Enterprise's outstanding long-term debt has coupon interest rates ranging from 0.3% to 7.0% as of June 30, 2023 and 2022. The Enterprise's short-term debt has interest rates ranging from 1.2% to 5.3% during fiscal year 2023, and 0.1% to 2.0% during fiscal year 2022.

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 spring 2023. In May 2023, the Commission subsequently adopted three years of retail rate increases from July 1, 2023 through June 30, 2026.

Other miscellaneous fees for service and charges were last approved in 2018, and generally increase annually by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, or the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine.

All current SFPUC Rates Schedules and Fees are available at https://sfpuc.org/accounts-services/water-power-and-sewer-rates.

Wholesale Customers

The Water Supply Agreement (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, and was most recently amended and restated in January 2023. Compared to the prior contract with the wholesale customers, the WSA 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 or at the time of budget appropriation and spending for revenue-funded capital projects, 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 11 of the notes to financial statements for further discussion on the balancing account of the wholesale customers.

(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments

Effective Date:	Retail	Wholesale [5]
July 1, 2016	10.0 [1]	9.3
July 1, 2017	7.0 [1]	-
July 1, 2018	9.0 [2]	-
July 1, 2019	8.0 [2]	-
July 1, 2020	7.0 [2]	-
July 1, 2021	7.0 [2]	-
July 1, 2022	- [3]	15.9
July 1, 2023	5.0 [4]	9.7
July 1, 2024	5.0 [4]	
July 1, 2025	5.0 [4]	

[1] Four-year retail rate increases adopted and effective July 1, 2014.
[2] Four-year retail rate increases adopted and effective July 1, 2018.
[3] No retail rate increase adopted and effective July 1, 2022.
[4] Three-year rate increases adopted and effective July 1, 2023.
[5] Wholesale rates adopted annually.

Request for Information

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

SAN FRANCISCO WATER ENTERPRISE

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

	2023	Restated 2022*
Assets		
Current assets:		
Cash and investments with City Treasury	$ 402,885	460,954
Cash and investments outside City Treasury	192	318
Receivables:		
Charges for services, current portion (net of allowance for doubtful accounts of $8,615 as of June 30, 2023 and $3,915 as of June 30, 2022)	63,943	61,740
Wholesale balancing account receivable, current portion	5,571	—
Due from other City departments	115	178
Interest	2,621	399
Interest - Leases	911	884
Restricted due from other governments	36,147	7,553
Leases receivable, current portion	3,521	3,325
Restricted interest and other receivable (net of allowance for doubtful accounts of $30 as of June 30, 2023 and $146 as of June 30, 2022)	3,510	4,142
Total current receivables	116,339	78,221
Prepaid charges, advances, and other receivables, current portion	5,909	12,180
Inventory	8,191	6,802
Restricted cash and investments outside City Treasury, current portion	10,863	11,063
Total current assets	544,379	569,538
Non-current assets:		
Wholesale balancing account receivable, less current portion	4,481	—
Restricted net pension asset	—	100,407
Restricted cash and investments with City Treasury	21,000	9,299
Restricted cash and investments outside City Treasury, less current portion	66,482	64,894
Leases receivable, less current portion	40,109	42,840
Restricted interest and other receivable (net of allowance for doubtful accounts of $8 as of June 30, 2023 and $8 as of June 30, 2022)	4	4
Charges for services, less current portion (net of allowance for doubtful accounts of $656 as of June 30, 2023 and $656 as of June 30, 2022)	209	207
Note receivable - Balboa Reservoir	11,007	—
Right-to-use lease asset, net of accumulated amortization	3,943	2,812
Right-to-use subscription asset, net of accumulated amortization	695	1,577
Capital assets, not being depreciated and amortized	640,995	558,374
Capital assets, net of accumulated depreciation and amortization	5,007,319	5,059,220
Prepaid charges, advances, and other receivables, less current portion	3,406	3,760
Total non-current assets	5,799,650	5,843,394
Total assets	6,344,029	6,412,932
Deferred outflows of resources		
Unamortized loss on refunding of debt	124,635	139,481
Pensions	70,101	52,852
Other post-employment benefits	28,616	32,445
Total deferred outflows of resources	$ 223,352	224,778

SAN FRANCISCO WATER ENTERPRISE

Statements of Net Position
June 30, 2023 and 2022
(In thousands)

	2023	Restated 2022*
Liabilities		
Current liabilities:		
Accounts payable	$ 22,671	22,852
Accrued payroll	11,807	10,495
Accrued vacation and sick leave, current portion	7,057	6,888
Accrued workers' compensation, current portion	1,914	1,700
Due to other City departments	2,440	—
Damage claims liability, current portion	11,125	10,191
Unearned revenues, refunds, and other	13,977	19,137
Bond, loan, lease, and subscription interest payable	35,104	35,455
Lease liability, current portion	1,189	1,008
Subscription liability, current portion	400	848
Revenue bonds, current portion	135,095	125,285
Certificates of participation, current portion	3,267	3,138
Commercial paper, current portion	—	206,297
State revolving fund loans, current portion	—	3,283
Wholesale balancing account, current portion	—	48,422
Current liabilities payable from restricted assets	40,863	25,353
Total current liabilities	286,909	520,352
Long-term liabilities:		
Other post-employment benefits obligations	148,601	144,115
Net pension liability	115,343	—
Lease liability, less current portion	2,821	1,855
Subscription liability, less current portion	308	708
Accrued vacation and sick leave, less current portion	6,528	6,841
Accrued workers' compensation, less current portion	7,821	7,273
Damage claims liability, less current portion	8,500	25,878
Revenue bonds, less current portion	4,575,751	4,735,650
Certificates of participation, less current portion	89,232	92,499
Commercial paper, less current portion	371,459	—
State revolving fund loans, less current portion	163,627	118,478
Wholesale balancing account, less current portion	—	30,728
Pollution remediation obligation	1,271	1,271
Total long-term liabilities	5,491,262	5,165,296
Total liabilities	5,778,171	5,685,648
Deferred inflows of resources		
Related to pensions	28,504	248,704
Leases	41,558	44,583
Other post-employment benefits	27,075	25,348
Total deferred inflows of resources	97,137	318,635
Net position		
Net investment in capital assets	545,542	584,646
Restricted for debt service	14,625	14,671
Restricted for capital projects	15,959	—
Restricted for other purposes	—	100,407
Unrestricted	115,947	(66,297)
Total net position	$ 692,073	633,427

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

See accompanying notes to financial statements

SAN FRANCISCO WATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022
(In thousands)

	2023	Restated 2022*
Operating revenues:		
Charges for services	$ 661,241	539,526
Rents and concessions	13,282	13,765
Capacity fees	1,256	2,163
Other revenues	15,312	17,663
Total operating revenues	691,091	573,117
Operating expenses:		
Personnel services	135,709	83,385
Contractual services	16,919	12,562
Materials and supplies	20,046	15,719
Depreciation and amortization	155,714	148,777
Services provided by other departments	79,910	73,307
General and administrative and other	51,955	68,014
Total operating expenses	460,253	401,764
Operating income	230,838	171,353
Non-operating revenues (expenses):		
Federal and state grants	—	5,931
Interest and investment income (loss)	11,156	(10,896)
Interest expenses	(214,913)	(213,681)
Amortization of premium, discount, refunding loss, and issuance costs	9,971	9,875
Net gain from sale of assets	12,660	1,079
Other non-operating revenues	28,019	34,861
Other non-operating expenses	(1,775)	(828)
Net non-operating expenses	(154,882)	(173,659)
Change in net position before capital contributions and transfers	75,956	(2,306)
Capital contributions	2,717	—
Transfers from the City and County of San Francisco	5	15,035
Transfers to the City and County of San Francisco	(20,032)	(30,666)
Capital contributions and net transfers	(17,310)	(15,631)
Change in net position	58,646	(17,937)
Net position at beginning of year	633,427	651,364
Net position at end of year	$ 692,073	633,427

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE
Statements of Cash Flows
Year Ended June 30, 2023 and 2022
(In thousands)

		2023	Restated 2022*
Cash flows from operating activities:			
Cash received from customers, including cash deposits	$	582,603	570,183
Cash received from tenants for rent		13,098	15,032
Cash received from miscellaneous revenues		4,832	4,558
Cash paid to employees for services		(142,866)	(137,080)
Cash paid to suppliers for goods and services		(174,938)	(158,443)
Cash paid for judgments and claims		(6,927)	(2,515)
Net cash provided by operating activities		275,802	291,735
Cash flows from non-capital financing activities:			
Cash received from grants		—	5,947
Cash received from settlements		6,750	—
Cash paid for rebates and program incentives		(1,775)	(828)
Transfers from the City and County of San Francisco		5	15,035
Transfers to the City and County of San Francisco		(20,032)	(30,666)
Net cash (used in) non-capital financing activities		(15,052)	(10,512)
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		1,370	986
Proceeds from commercial paper borrowings		165,162	130,221
Proceeds from State revolving fund loan		12,371	56,113
Principal paid on commercial paper		—	(29,786)
Principal paid on long-term debt		(128,408)	(111,470)
Interest paid on long-term debt		(209,194)	(213,922)
Interest paid on commercial paper		(5,170)	(212)
Issuance cost paid on long-term debt		—	(10)
Lease payment		(1,050)	(1,439)
Subscription payment		(862)	—
Acquisition and construction of capital assets		(172,835)	(183,671)
Federal interest income subsidy from Build America Bonds		23,260	23,590
Net cash (used in) capital and related financing activities		(315,356)	(329,600)
Cash flows from investing activities:			
Interest income received		9,141	2,154
Proceeds from sale of investments outside City Treasury		348,315	398,825
Purchase of investments outside City Treasury		(348,315)	(398,825)
Net cash provided by investing activities		9,141	2,154
Decrease in cash and cash equivalents		(45,465)	(46,223)
Cash and cash equivalents:			
Beginning of year		560,366	606,589
End of year		514,901	560,366
Reconciliation of cash and cash equivalents to the statement of net position:			
Cash and investments with City Treasury:			
Unrestricted		402,885	460,954
Restricted		21,000	9,299
Add: Unrealized loss on investments with City Treasury		13,479	13,838
Cash and investments outside City Treasury:			
Unrestricted		192	318
Restricted		77,345	75,957
Cash and cash equivalents at end of year on statements of cash flows	$	514,901	560,366

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs),* and reclassification of prior year $6,750 settlement to confirm with current year presentation.

(Continued)

SAN FRANCISCO WATER ENTERPRISE

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

(In thousands)

	2023	Restated 2022*
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 230,838	171,353
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	155,714	148,777
Miscellaneous revenue	4,832	4,558
Provision for uncollectible accounts	4,584	(1,410)
Write-off of capital assets and other non-cash items	4,628	4,592
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(13,655)	(4,734)
Prepaid charges, advances, and other	6,709	207
Due from other City departments	63	70
Inventory	(1,389)	(865)
Leases	575	380
Subscriptions	895	—
Accounts payable	(181)	6,669
Accrued payroll	1,312	650
Other post-employment benefits obligations	10,042	4,694
Pension obligations	(21,699)	(61,060)
Accrued vacation and sick leave	(144)	(187)
Accrued workers' compensation	762	145
Due to other City departments	2,440	—
Wholesale balancing account	(89,202)	18,286
Damage claims liability	(16,444)	(654)
Unearned revenues, refunds, and other liabilities	(4,878)	264
Total adjustments	44,964	120,382
Net cash provided by operating activities	$ 275,802	291,735
Noncash transactions:		
Accrued capital asset costs	$ 40,863	25,353
Interfund payable	2,440	—
Unrealized loss on investments	13,479	13,838
Capital contribution	2,717	—
Sale of land promissory note	11,007	—

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

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 2023, the Enterprise sold approximately 62,227 million gallons, i.e., about 170 million gallons per day of water, to approximately 2.7 million people within San Francisco and certain suburban areas.

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

Until August 1, 2008, the Commission consisted of five members, all appointed by the Mayor. Proposition E, a City Charter SEC. 4.112 amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the Commission, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for the Commission members and requires them to meet the following qualifications:

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

The SFPUC is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Wastewater Enterprises are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2023 and 2022, 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 at the time of donation and capital assets received in a service concession arrangement, are valued at acquisition value. 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

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, permits, leases, and SBITAs. The Enterprise capitalizes purchased or internally developed intangible assets with a useful life extending beyond one reporting period. It has established a capitalization threshold of $100. Intangible assets are amortized over the benefit period or the contract term for leases and SBITAs, 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) 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.

(i) 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.

(j) 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 14(b)).

(k) 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 14(a)).

(l) 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 as of June 30, 2023 and 2022.

(m) 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.

(n) Income Taxes

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

(o) 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, 2023 and 2022 were $31,704 and $29,774, respectively.

(p) 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.

(q) 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 15(d)).

(r) Leases

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

Short-term Leases

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

Leases Other Than Short-term

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

Measurement of Lease Amounts (Lessee)

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

Measurement of Lease Amounts (Lessor)

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

Key Estimates and Judgements

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

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

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

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

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

Remeasurement of Lease

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

Presentation in Statement of Net Position

Lease assets are reported with current and non-current assets, lease liabilities are reported with current and long-term liabilities, and both lease assets and liabilities are reported under net investment in capital assets in the statement of net position (see Note 9).

(s) Subscription-Based Information Technology Arrangements

Subscription–Based Information Technology Arrangements (SBITAs) are defined as a contract that conveys control of the right to use another entity's IT software, alone or in combination with tangible capital assets for a specified period. The Enterprise has noncancellable subscription arrangements (similar to a lease) for the right to use various information technology hardware and software SBITAs.

Short-term SBITAs

For SBITAs with a maximum possible term of 12 months or less at commencement, the Enterprise recognizes subscription expense based on the provisions of the SBITA. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

SBITAs Other Than Short-term

For all other SBITAs (i.e., those that are not short-term) the Enterprise recognizes SBITA liability and intangible right-to-use subscription asset for the Enterprise.

The Enterprise's subscription liability is recorded at the present value of future minimum subscription payments as of the date of commencement. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, less payments made at or before the subscription commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any subscription incentives received at or before the subscription commencement date. For SBITAs, subscription assets also include qualify software implementation costs. Subsequently, the subscription asset is amortized into depreciation and amortization expense on a straight-line basis over the subscription term.

Key Estimates and Judgements

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

• The Enterprise generally uses its estimated incremental borrowing rate as the discount rate for SBITAs unless the rate is implicit in the agreement. The Enterprise incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on Enterprise's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table.

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

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

- SBITAs have a capitalization threshold of $100.

Remeasurement of Lease or SBITAs

The Enterprise monitors changes in circumstances that may require remeasurement of SBITA. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured, and a corresponding adjustment is made to the subscription asset.

Presentation in Statement of Net Position

Subscription assets are reported with current and non-current assets, subscription liabilities are reported with short-term and long-term liabilities, and both subscription assets and liabilities are reported under net investment in capital assets in the statement of net position (see Note 10).

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

As prescribed under GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 12(b)).

(u) New Accounting Standards Adopted in Fiscal Year 2023

1) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the compatibility and consistency of conduit debt obligation reporting and reporting of related transactions by State and local government issuers. The new standard is effective for periods beginning after December 15, 2021. The SFPUC adopted the provisions of Statement No. 91 in fiscal year 2023 which did not have a significant effect on its financial statements.

2) In March 2020, the GASB Issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The SFPUC adopted the provisions of Statement No. 94 in fiscal year 2023 which did not have a significant effect on its financial statements.

3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by

(Dollars in thousands, unless otherwise stated)

a government. The new standard is effective for periods beginning after June 15, 2022. The Enterprise adopted the provisions of Statement No. 96 in fiscal year 2023 (see Note 10 for more details). As a result of adoption, the cumulative effect of applying this Statement is recorded as beginning balance for the following accounts as of July 1, 2021:

Water	FY 2022 Beginning Balance	FY2022 Activities	FY 2022 Ending Balance
Subscription asset	$ 2,344	$ 106	$ 2,450
Accumulated amortization	-	(873)	(873)
Accrued interest payable	-	(12)	(12)
Subscription liability - current	(1,636)	788	(848)
Subscription liabiity - LT	(708)	-	(708)
Expenses	-	(9)	(9)
Change to net position	$ -	$ (9)	$ (9)

(v) *GASB Statements Implemented in Fiscal Year 2022*

1) In June 2017, the GASB issued Statement No. 87, Leases. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after June 15, 2021. The beginning balances as of July 1, 2020 were restated as a result of adopting this standard.

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

3) In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 92 in fiscal year 2022, which did not have a significant effect on its financial statements.

4) In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 93 in fiscal year 2022, which did not have a significant effect on its financial statements.

(w) *Future Implementation of New Accounting Standards*

1) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by

pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance and did not have a significant impact on the Enterprise for the year ended June 30, 2022. The requirements related to leases, public-public and public-private partnerships, and subscription-based information technology arrangements are effective for fiscal years beginning after June 15, 2022, and effective for the Enterprise's year ending June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and effective for the Enterprise's year ending June 30, 2024. The Enterprise is currently analyzing its accounting practices to determine the potential impact of the provisions of Statement No. 99 applicable in future years.

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

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

(x) Reclassifications

The Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. For fiscal year 2022, cash received from settlements in the amount of $6,750 was reclassified to cash received from customers including cash deposits to conform with the fiscal year 2023 presentation. In addition, for fiscal year 2022, net pension assets in the amount of $100,407 was reclassified from unrestricted to restricted for other purposes in the statement of net position. These reclassifications had no effect on previously reported changes in net position.

(3) Cash, Cash Equivalents, and Investments

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

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The current balances as of June 30, 2023 and 2022 were $77,345 and

(Dollars in thousands, unless otherwise stated)

$75,957, 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, 2023 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, 2022 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1+" by S&P. Investment agreements must be with a U.S. bank or trust company that have a rating by Moody's and S&P of "A" or higher, or are guaranteed by any entity with a rating of "A" or higher, at the time the agreement is entered.

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

The following tables present the restricted and unrestricted cash and investments outside City Treasury as of June 30, 2023 and 2022:

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2023 Maturities	June 30, 2023 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: 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	64,249	64,249	–	–	–
Money Market Funds	A-1/P-1	< 90 days	43	43	–	–	–
Cash and Cash Equivalents	N/A		13,053	13,053	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 77,345	77,345	–	–	–
Cash and Cash Equivalents	N/A		192	192	–	–	–
Total Unrestricted Cash and Investments outside City Treasury			$ 192	192	–	–	–

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2022 Maturities	June 30, 2022 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 62,854	62,854	–	–	–
Money Market Funds	A-1+/P-1	< 90 days	48	48	–	–	–
Cash and Cash Equivalents	N/A		13,055	13,055	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 75,957	75,957	–	–	–
Cash and Cash Equivalents	N/A		318	318	–	–	–
Total Unrestricted Cash and Investments outside City Treasury			$ 318	318	–	–	–

(Dollars in thousands, unless otherwise stated)

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

The restricted cash and investments outside City Treasury as of June 30, 2023 and 2022 included an unrealized gain due to changes in fair value on commercial paper of $0.

Additional cash outside of the investment pool included revolving fund and cash in transit. The revolving fund has a balance of $28 and $28 as of June 30, 2023 and 2022, 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 $164 and $290 as of June 30, 2023 and 2022, respectively.

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

		2023	2022
Current assets:			
Cash and investments with City Treasury	$	402,885	460,954
Cash and investments outside City Treasury		192	318
Restricted cash and investments outside City Treasury		10,863	11,063
Non-current assets:			
Restricted cash and investments with City Treasury		21,000	9,299
Restricted cash and investments outside City Treasury		66,482	64,894
Total cash, cash equivalents, and investments	$	501,422	546,528

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
2023	21.5%	18.0%	14.5%	46.0%
2022	20.2%	14.0%	14.9%	50.9%

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets as of June 30, 2023 and 2022 consist of the following:

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land	$ 113,441	–	(119)	113,322
Intangible assets **	679	–	–	679
Construction work in progress	444,254	180,391	(97,651) *	526,994
Total capital assets not being depreciated and amortized	558,374	180,391	(97,770)	640,995
Capital assets being depreciated and amortized:				
Facilities and improvements	6,660,691	94,616	–	6,755,307
Intangible assets**	25,142	979	–	26,121
Machinery and equipment	332,473	5,905	(579)	337,799
Total capital assets being depreciated and amortized	7,018,306	101,500	(579)	7,119,227
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,688,717)	(140,215)	–	(1,828,932)
Intangible assets**	(22,669)	(1,800)	–	(24,469)
Machinery and equipment	(247,700)	(11,386)	579	(258,507)
Total accumulated depreciation and amortization	(1,959,086)	(153,401)	579	(2,111,908)
Total capital assets being depreciated and amortized, net	5,059,220	(51,901)	–	5,007,319
Total capital assets, net	$ 5,617,594	128,490	(97,770)	5,648,314

* Decrease in construction work in progress includes $4,628 in capital project write-offs, mainly related to Stern Grove Emergency Restoration and Upper Alameda Creek Filter projects. The remaining difference of $8,477 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

** Right-to-use lease and subscription assets are reported separately from intangible assets in Notes 9 and 10, respectively.

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

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

** Right-to-use lease and subscription assets are reported separately from intangible assets in Notes 9 and 10, respectively.

(5) Restricted Assets

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

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

(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the bond financing program maintains that certain restricted cash and investment balances be held in trust. Restricted assets held in trust consisted of the following as of June 30, 2023 and 2022:

		2023	2022
Cash and investments with City Treasury:			
Water revenue bond construction fund	$	21,000	9,299
Cash and investments outside City Treasury:			
2010A Water revenue bond fund		12	—
2010B Water revenue bond fund		21,861	21,386
2010D Water revenue bond fund		12	1
2010E Water revenue bond fund		16,643	16,304
2010F Water revenue bond fund		8	—
2010G Water revenue bond fund		18,178	17,703
2012A Water revenue bond fund		—	1
2015A Water revenue refunding bond fund		4	—
2016A Water revenue refunding bond fund		8	—
2016B Water revenue refunding bond fund		1	—
2016C Water revenue bond fund		2	—
2017B Water revenue bond fund		2	—
2017C Water revenue bond fund		1	—
2017D Water revenue refunding bond fund		4	—
2017E Water revenue refunding bond fund		1	—
2019A Water revenue refunding bond fund		5	—
2020A Water revenue bond fund		2	86
2020B Water revenue bond fund		1	34
2020C Water revenue bond fund		1	54
2020D Water reveune bond fund		—	38
2020E Water revenue refunding bond fund		2	—
2020F Water revenue refunding bond fund		13	12
2020G Water reveune refunding bond fund		23	22
2020H Water revenue refunding bond fund		8	7
2009C Certificates of participation - 525 Golden Gate		1,696	1,638
2009D Certificates of participation - 525 Golden Gate		5,761	5,567
Commercial Paper - Tax Exempt		15	14
Commercial Paper - Taxable		28	37
Habitat reserve endowment fund		13,053	13,053
Total cash and investments outside City Treasury		77,345	75,957
Interest and other receivables:			
Water bond construction fund including interest, prepaids, and other receivables		3,514	4,146
Due from other government for State Revolving Fund		36,147	7,553
Total restricted assets	$	138,006	96,955

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, 2023 and 2022, amounts outstanding under Proposition E were $371,459 and $206,297, respectively. Commercial paper interest rates ranged from 1.2% to 5.3%.

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.

As of June 30, 2023, the Enterprise had $371,459 in outstanding commercial paper which were repaid by the 2023 Series AB Water Revenue Bonds issued in July 2023. The $371,459 has been reclassed to long-term liabilities on the financial statements.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, the Enterprise had $128,541 and $293,703 in unused authorization as of June 30, 2023 and 2022, 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, 2023, 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, 2023 and 2022 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2022*	Additions	Reductions	2023	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 349,170	–	(12,780)	336,390	13,245
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	–	(12,745)	331,455	13,165
2010G revenue bonds (Build America)	6.95	2050	351,470	–	–	351,470	–
2015A revenue refunding bonds	2.00 – 5.00	2036	382,420	–	(16,045)	366,375	28,070
2016A revenue refunding bonds	4.00 – 5.00	2039	719,735	–	(32,790)	686,945	23,590
2016B revenue refunding bonds	1.50 – 5.00	2030	71,510	–	(12,530)	58,980	13,175
2016C revenue bonds	0.87 – 4.19	2046	231,230	–	(5,955)	225,275	6,105
2017A revenue bonds	5.00	2047	27,000	–	(2,325)	24,675	2,445
2017B revenue bonds	5.00	2047	32,930	–	(2,835)	30,095	2,985
2017C revenue bonds	5.00	2047	15,750	–	(1,355)	14,395	1,425
2017D revenue refunding bonds	2.00 – 5.00	2035	346,795	–	(1,455)	345,340	1,270
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	–	(765)	48,125	795
2017F revenue refunding bonds	5.00	2031	8,705	–	(700)	8,005	735
2017G revenue refunding bonds	2.03 – 2.91	2024	31,960	–	(13,070)	18,890	13,665
2019A revenue refunding bonds	1.81 – 3.47	2043	591,320	–	(3,495)	587,825	3,565
2019B revenue refunding bonds	3.15 – 3.52	2041	16,385	–	(70)	16,315	70
2019C revenue refunding bonds	3.15 – 3.52	2041	17,850	–	(75)	17,775	80
2020A revenue bonds	4.00 – 5.00	2050	150,895	–	–	150,895	–
2020B revenue bonds	5.00	2050	61,330	–	–	61,330	–
2020C revenue bonds	4.00	2050	85,335	–	–	85,335	–
2020D revenue bonds	3.00	2050	49,200	–	–	49,200	–
2020E revenue refunding bonds	2.83 – 2.95	2047	335,535	–	(500)	335,035	1,530
2020F revenue refunding bonds	0.26 – 3.15	2047	135,455	–	–	135,455	1,430
2020G revenue refunding bonds	0.26 – 3.10	2043	114,765	–	(5,795)	108,970	7,065
2020H revenue refunding bonds	0.26 – 3.15	2047	64,815	–	–	64,815	685
Less issuance discount			(124)	–	9	(115)	–
Add issuance premiums			276,409	–	(24,813)	251,596	–
Total revenue bonds payable			4,860,935	–	(150,089)	4,710,846	135,095
2009C certificates of participation (COPs)	2.00 – 5.00	2022	3,124	–	(3,124)	–	–
2009C COPs issuance premiums			14	–	(14)	–	–
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	–	–	92,499	3,267
Commercial paper	1.20 – 5.30	2023	–	371,459		371,459	–
State Revolving Funds Loan	1.00 – 1.10	2057	121,761	41,866	–	163,627	–
Other post-employment benefits obligations			144,115	4,486	–	148,601	–
Lease liability			2,863	2,562	(1,415)	4,010	1,189
Subscription liability			1,556	–	(848)	708	400
Net pension liability			–	115,343	–	115,343	–
Accrued vacation and sick leave			13,729	12,427	(12,571)	13,585	7,057
Accrued workers' compensation			8,973	3,984	(3,222)	9,735	1,914
Damage claims liability			36,069	1,898	(18,342)	19,625	11,125
Wholesale balancing account			79,150	–	(79,150)	–	–
Pollution remediation obligation			1,271	–	–	1,271	–
Total			$ 5,366,059	554,025	(268,775)	5,651,309	160,047

* Restated due to implementation of GASB 96 - *Subscriptions-Based Information Technology Arrangments (SBITAs)*

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2021	Additions	Reductions	2022*	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	$ 361,500	—	(12,330)	349,170	12,780
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	—	—	344,200	12,745
2010G revenue bonds (Build America)	6.95	2050	351,470	—	—	351,470	—
2011B revenue bonds	3.50 – 5.00	2041	755	—	(755)	—	—
2011C revenue bonds	3.00 – 5.00	2041	825	—	(825)	—	—
2015A revenue refunding bonds	2.00 – 5.00	2036	397,745	—	(15,325)	382,420	16,045
2016A revenue refunding bonds	4.00 – 5.00	2039	743,050	—	(23,315)	719,735	32,790
2016B revenue refunding bonds	1.50 – 5.00	2030	81,525	—	(10,015)	71,510	12,530
2016C revenue bonds	0.87 – 4.19	2046	237,050	—	(5,820)	231,230	5,955
2017A revenue bonds	5.00	2047	27,000	—	—	27,000	2,325
2017B revenue bonds	5.00	2047	32,930	—	—	32,930	2,835
2017C revenue bonds	5.00	2047	15,750	—	—	15,750	1,355
2017D revenue refunding bonds	2.00 – 5.00	2035	347,720	—	(925)	346,795	1,455
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	—	—	48,890	765
2017F revenue refunding bonds	5.00	2031	8,705	—	—	8,705	700
2017G revenue refunding bonds	2.03 – 2.91	2024	32,780	—	(820)	31,960	13,070
2019A revenue refunding bonds	1.81 – 3.47	2043	615,725	—	(24,405)	591,320	3,495
2019B revenue refunding bonds	3.15 – 3.52	2041	16,450	—	(65)	16,385	70
2019C revenue refunding bonds	3.15 – 3.52	2041	17,925	—	(75)	17,850	75
2020A revenue bonds	4.00 – 5.00	2050	150,895	—	—	150,895	—
2020B revenue bonds	5.00	2050	61,330	—	—	61,330	—
2020C revenue bonds	4.00	2050	85,335	—	—	85,335	—
2020D revenue bonds	3.00	2050	49,200	—	—	49,200	—
2020E revenue refunding bonds	2.83 – 2.95	2047	341,435	—	(5,900)	335,535	500
2020F revenue refunding bonds	0.26 – 3.15	2047	136,880	—	(1,425)	135,455	—
2020G revenue refunding bonds	0.26 – 3.10	2043	120,585	—	(5,820)	114,765	5,795
2020H revenue refunding bonds	0.26 – 3.15	2047	65,495	—	(680)	64,815	—
Less issuance discount			(133)	—	9	(124)	—
Add issuance premiums			301,758	—	(25,349)	276,409	—
Total revenue bonds payable			4,994,775	—	(133,840)	4,860,935	125,285
2009C certificates of participation (COPs)	2.00 – 5.00	2022	6,094	—	(2,970)	3,124	3,124
2009C COPs issuance premiums			69	—	(55)	14	14
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	—	—	92,499	—
State Revolving Funds Loan	1.00	2051	107,407	14,354	—	121,761	3,283
Other post-employment benefits obligations			148,771	14,868	(19,524)	144,115	—
Lease liability			4,244	—	(1,381)	2,863	1,008
Subscription liability			—	1,556	—	1,556	848
Net pension liability			216,417	—	(216,417)	—	—
Accrued vacation and sick leave			13,916	8,177	(8,364)	13,729	6,888
Accrued workers' compensation			8,828	2,793	(2,648)	8,973	1,700
Damage claims liability			36,723	452	(1,106)	36,069	10,191
Wholesale balancing account			60,864	18,633	(347)	79,150	48,422
Pollution remediation obligation			1,271	—	—	1,271	—
Total			$ 5,691,878	60,833	(386,652)	5,366,059	200,763

* Restated due to implementation of GASB 96 - *Subscriptions-Based Information Technology Arrangments (SBITAs)*

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

(a) Water Revenue Bonds 2010 Series B

The 2010 Series B Bonds in the par amount of $417,720 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $364,757 in new money for WSIP capital projects and pay financing costs. The 2010 Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 6.0% and have a final maturity of 2040. The Series B bonds have a true interest cost (net of federal subsidy) of 3.9%. As of June 30, 2023 and 2022, the principal amount outstanding was $336,390 and $349,170, respectively.

(b) Water Revenue Bonds 2010 Series DE

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

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

On February 27, 2013, the Wholesale Water Customers BAWSCA made an early repayment of $356,139 to the Enterprise. $12,360 of the repayment proceeds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated February 27, 2013, to refund and legally defease a portion of the outstanding 2010 Series D bonds. BAWSCA repayment funds were combined with $165 from the 2010 Series D Capitalized Interest Account. This deposit, together with certain other available monies, was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities – SLGS. The principal and interest on monies held by the escrow agent will be sufficient to partially defease a portion of the 2010 Series D bonds maturing November 1, 2015 through 2017. A portion of the proceeds from 2020 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated October 1, 2020, to refund and legally defease the outstanding 2010 Series D bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to refund and legally defease all of the maturities of the 2010 Series D bonds starting on November 1, 2021. As of June 30, 2023 and 2022, the principal amount of 2010 Series D bonds outstanding was $0.

The 2010 Series E Bonds in the par amount of $344,200 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide $300,446 in new money proceeds for WSIP capital projects. The Series E bonds were issued as serial and term bonds with coupons ranging from 4.9% to 6.0% and have a final maturity of 2040. The Series E bonds have a true interest cost (net of federal subsidy) of 3.8%. As of June 30, 2023 and 2022, the principal amount of 2010 Series E bonds outstanding was $331,455 and $344,200, respectively.

(c) *Water Revenue Bonds 2010 Series FG*

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

The $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, 2023 and 2022, the principal amount of 2010 Series G bonds outstanding was $351,470.

(d) *Water Revenue Bonds 2011 Series ABCD*

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

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

A portion of the proceeds of the 2017 Series D and G and 2019 Series A refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series A bonds starting on November 1, 2020 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2011 Series A bonds outstanding was $0.

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

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

A portion of the proceeds from the 2017 Series F and 2019 Series B refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and December 1, 2019, respectively, to refund and legally defease a portion of the outstanding 2011 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series B bonds starting on November 1, 2022 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2011 Series B bonds outstanding was $0.

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, 2023 and 2022, the principal amount of 2011 Series C bonds outstanding was $0.

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

A portion of the proceeds of the 2017 Series E and 2020 Series G refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated December 1, 2017 and October 1, 2020, respectively, to refund and legally defease a portion of the outstanding 2011 Series D bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2011 Series D bonds starting on November 1, 2022 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2011 Series D bonds outstanding was $0.

(e) 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, 2023 and 2022, the principal amount of 2015 Series A bonds outstanding was $366,375 and $382,420, respectively.

(f) 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, 2023 and 2022, the principal amount of 2016 Series AB bonds outstanding was $745,925 and $791,245, respectively.

(g) 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, 2023 and 2022, the principal amount of 2016 Series C bonds outstanding was $225,275 and $231,230, respectively.

(h) Water Revenue Bonds 2017 Series ABC

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

The $121,140 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $60,265 of commercial paper notes and to provide $65,500 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. The Series A bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series A bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series A bonds starting on November 1, 2030 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2017 Series A bonds outstanding was $24,675 and $27,000, respectively.

The $147,725 2017 Series B bonds were issued as tax-exempt bonds to provide $150,000 in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. The Series B bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series F refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series B bonds. These deposits, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series B bonds starting on November 1, 2030 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2017 Series B bonds outstanding was $30,095 and $32,930, respectively.

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

C bonds starting on November 1, 2030 and thereafter. As of June 30, 2023 and 2022, the principal amount of 2017 Series C bonds outstanding was $14,395 and $15,750, respectively.

(i) 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, 2023 and 2022, the principal amount of 2017 Series DEFG bonds outstanding was $420,360 and $436,350, respectively.

(j) 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, 2023 and 2022, the principal amount of 2019 Series ABC bonds outstanding was $621,915 and $625,555, respectively.

(k) Water Revenue Bonds 2020 Series ABCD

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

The $150,895 2020 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $180,000 of commercial paper notes for WSIP capital projects. The Series A bonds were issued as term bonds with coupons of 4.0% and 5.0% and a final maturity of 2050. The 2020 Series A bonds have a true interest cost of 3.3%. As of June 30, 2023 and 2022, the principal amount of 2020 Series A bonds outstanding was $150,895.

The $61,330 Series B bonds were Issued as tax-exempt bonds to provide $69,644 in new money for Water Enterprise capital projects (non-WSIP, Regional). The Series B bonds were issued as term bonds with coupons of 5.0% and have a final maturity of 2050. The Series B bonds have a true interest cost of 3.7%. As of June 30, 2023 and 2022, the principal amount of 2020 Series B bonds outstanding was $61,330.

The $85,335 Series C bonds were issued as tax-exempt bonds to provide $94,948 in new money for Water Enterprise capital projects (non-WSIP, Local). The Series C bonds were issued as term bonds with coupons of 4.0% and have a final maturity of 2050. The Series C bonds have a true interest cost of 3.0%. As of June 30, 2023 and 2022, the principal amount of 2020 Series C bonds outstanding was $85,335.

The $49,200 Series D bonds were issued as tax-exempt bonds to refund approximately $49,761 of commercial paper notes for Hetch Hetchy Water capital projects. The Series D bonds were issued as term bonds with coupons of 3.0% and a final maturity of 2050. The 2020 Series D bonds have a true interest cost of 2.7%. As of June 30, 2023 and 2022, the principal amount of 2020 Series D bonds outstanding was $49,200.

(l) Water Revenue Refunding Bonds 2020 Series EFGH

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

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

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

(Dollars in thousands, unless otherwise stated)

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

The bonds carried "Aa2" and "AA-" ratings from Moody's and S&P, respectively. The 2020 Series EFGH bonds include serial bonds and term bonds with interest rates varying from 0.3% to 3.1% and have a final maturity in 2047. The Series EFGH bonds have a true interest cost of 2.7%. The refunding resulted in the recognition of a deferred accounting loss of $27,010, gross debt service savings of $117,114, and an economic gain of $75,212 or 12.0% of refunded principal. As of June 30, 2023 and 2022, the principal amount of 2020 Series EFGH bonds outstanding was $644,275 and $650,570, respectively.

(m) *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, 2023. 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:					
2024	$	135,095	197,481	(20,841)	176,640
2025		140,485	191,563	(20,370)	171,193
2026		151,930	185,085	(19,876)	165,209
2027		157,635	177,956	(19,345)	158,611
2028		163,125	170,410	(18,772)	151,638
2029-2033		926,810	728,151	(83,650)	644,501
2034-2038		1,117,065	489,895	(59,144)	430,751
2039-2043		924,965	255,105	(29,912)	225,193
2044-2048		443,220	125,062	(14,788)	110,274
2049-2051		299,035	23,037	(2,629)	20,408
		4,459,365	2,543,745	(289,327)	2,254,418
Less: Current portion		(135,095)			
Less: Unamortized bond discount		(115)			
Add: Unamortized bond premiums		251,596			
Long-term portion as of June 30, 2023	$	4,575,751			

* The SFPUC received an IRS notice dated May 25, 2023 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 $17,488, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

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

(n) *Clean Water State Revolving Fund (CWSRF) Loan and Grant*

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of $186,220, which includes $15,000 of principal forgiveness, or a grant. It will bear an interest rate of 1.0% for a 30-year term, with loan repayment beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2023 and 2022 were $131,525 and $121,761, respectively. In addition, there was $15,000 of principal forgiveness in fiscal year 2023.

(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2024	$	–	–	–
2025		–	–	–
2026		3,781	1,315	5,096
2027		3,819	1,277	5,096
2028		3,857	1,239	5,096
2029-2033		19,872	5,610	25,482
2034-2038		20,885	4,596	25,481
2039-2043		21,951	3,531	25,482
2044-2048		23,070	2,411	25,481
2049-2053		24,247	1,234	25,481
2054-2057		10,043	152	10,195
		131,525	21,365	152,890
Less: Current portion		–		
Long-term portion as of June 30, 2023	$	131,525		

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

In April 2022, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Enterprise's Mountain Tunnel Improvement Project. The DWSRF loan is in the amount of $238,219. It will bear an interest rate of 1.1% for a 30-year term, with interest payments beginning annually after the initial loan proceed draw occurs and loan principal repayment beginning one year after substantial completion of project construction. Power Enterprise is responsible for repayment for its share of SRF Loan debt service costs representing up to its allocable share of the cost of the Mountain Tunnel Improvement Project by a Memorandum of Understanding that will be executed with the Water Enterprise. The DWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2023 and 2022 was $32,102 and $0, respectively.

Drinking Water State Revolving Fund Loan		Principal	Interest	Total
Fiscal years ending June 30:				
2024	$	–	–	–
2025		–	–	–
2026		–	–	–
2027		–	–	–
2028		–	–	–
2029-2033		4,708	1,512	6,220
2034-2038		4,948	1,272	6,220
2039-2043		5,200	1,019	6,219
2044-2048		5,465	754	6,219
2049-2053		5,744	475	6,219
2054-2057		6,037	183	6,220
		32,102	5,215	37,317
Less: Current portion		–		
Long-term portion as of June 30, 2023	$	32,102		

(p) 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, 2023, there was no commercial paper outstanding pursuant to this authorization and $1,499,230 of bonds had been issued in fiscal years 2006, 2010, 2012, 2021 against Prop A. The total authorization against Prop A was $1,499,230 as of June 30, 2023.

(q) 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, 2023, the Board of Supervisors authorized the issuance of $4,758,518 in revenue bonds with $3,903,617 issued against this authorization; in September 2017 and amended in April 2023, 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 in April 2022, the SFPUC entered in to an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Mountain Tunnel Improvement Project in the amount of $238,219. Additionally, $371,459 and $206,297 in commercial paper was outstanding pursuant to this authorization as of June 30, 2023 and 2022, respectively.

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

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

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

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

(Dollars in thousands, unless otherwise stated)

The future annual debt services relating to the certificates of participation 2009 Series D outstanding as of June 30, 2023 are as follows:

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy *	Interest net of subsidy
Fiscal years ending June 30:					
2024	$	3,267	5,864	(1,935)	3,929
2025		3,402	5,652	(1,865)	3,787
2026		3,545	5,431	(1,792)	3,639
2027		3,695	5,201	(1,716)	3,485
2028		3,852	4,961	(1,637)	3,324
2029-2033		21,834	20,808	(6,868)	13,940
2034-2038		26,918	12,940	(4,271)	8,669
2039-2042		25,986	3,460	(1,142)	2,318
Total		92,499	64,317	(21,226)	43,091
Less: Current portion		(3,267)			
Long-term portion as of June 30, 2023	$	89,232			

* The SFPUC received an IRS notice dated May 25, 2023 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of $1,283, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(s) Events of Default and Remedies

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Significant Events of default as specified in the Water Enterprise Indenture (applicable to Water Revenue Bonds, and SRF Loan) include 1) Non-payment 2) material breach of warranty, representation or indenture covenants (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations or of a credit provider), declaring the principal and the interest accrued thereon, to be due and payable immediately. As of June 30, 2023 and 2022, there were no such events describe herein.

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds and State Revolving Fund loans. Proceeds from the revenue bonds and State Revolving Fund loans provided financing for various capital construction projects, and to refund previously issued bonds. The bonds and State Revolving Fund loans are payable solely from revenues of the Enterprise through the fiscal year ending 2058.

The original amount of revenue bonds and State Revolving Funds loan issued, total principal and interest remaining, principal and interest paid during fiscal years 2023 and 2022, applicable net revenues and funds available for debt service are as follows:

(Dollars in thousands, unless otherwise stated)

		2023	2022
Bonds issued with revenue pledge	$	4,882,130	4,891,480
Principal and interest remaining due at the end of the year		7,193,317	7,472,962
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge		163,627	121,761
Principal and interest paid during the year		307,062	279,352
Net revenues for the year ended June 30		372,689	306,918
Funds available for debt service		566,764	410,424

(9) Leases

Water Enterprise as Lessee

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

A summary of intangible right-to-use leases during the year ended June 30, 2023 and 2022 is as follows:

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Right-to-use assets:						
Land	$	605	-	-	-	605
Building/Facility		5,041	149	-	2,413	7,603
Total lease assets		5,646	149	-	2,413	8,208
Less accumulated amortization:						
Right-to-use assets:						
Land		(383)	(197)	-	-	(580)
Building/Facility		(2,451)	(1,234)	-	-	(3,685)
Total accumulated amortization		(2,834)	(1,431)	-	-	(4,265)
Total lease assets, net	$	2,812	(1,282)	-	2,413	3,943

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

(Dollars in thousands, unless otherwise stated)

A summary of changes in the related lease liabilities during the year ended June 30, 2023 and 2022 is as follows:

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
Water lease liabilities	$	2,863	149	2,413	(1,415)	4,010	1,189
Total	$	2,863	149	2,413	(1,415)	4,010	1,189

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

Future annual lease payments for fiscal years 2023 and 2022 are as follows:

Year ending June 30:		Principal amount	Interest amount	Total
2024	$	1,189	81	1,270
2025		1,028	55	1,083
2026		546	32	578
2027		135	26	161
2028		122	23	145
2029-2033		416	86	502
2034-2038		445	39	484
2039-2043		129	3	132
		4,010	345	4,355
Less: current portion		(1,189)		
Long-term portion as of June 30, 2023	$	2,821		

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

Variable lease payments

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

Certain equipment or facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $263 and $34 during the year ended June 30, 2023 and 2022, respectively.

Water Enterprise as Lessor

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

Variable payments include percentage of sales, or payments depended on an index made by the lessee; these amounts are generally determined periodically. The Enterprise did not incur revenue related to residual value guarantees or lease termination penalties. The total amounts for lease revenue, interest revenue, and other lease-related revenues recognized during the year ended June 30, 2023 and 2022 were $1,161 and $2,332, respectively.

(Dollars in thousands, unless otherwise stated)

Principal and interest requirements to maturity for the lease receivable at June 30, 2023 and 2022 are as follows:

Year ended June 30	Principal	Interest	Total
2024	$ 3,521	869	4,390
2025	3,610	821	4,431
2026	3,046	756	3,802
2027	2,721	698	3,419
2028	2,423	645	3,068
2029-2033	10,951	2,571	13,522
2034-2038	9,941	1,477	11,418
2039-2043	828	914	1,742
2044-2048	-	1,027	1,027
2049-2053	-	1,191	1,191
2054-2058	117	1,263	1,380
2059-2063	832	768	1,600
2064-2068	1,208	647	1,855
2069-2073	1,676	475	2,151
2074+	2,756	250	3,006
	$ 43,630	14,372	58,002

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

(Dollars in thousands, unless otherwise stated)

(10) Subscription-Based Information Technology Arrangements

Water Enterprise as Subscriber

The Enterprise has noncancellable subscription arrangements (similar to a lease) for the right to use various information technology hardware and software (SBITAs). The terms and conditions for these subscriptions varies, which ranges between 1 – 5 years.

A summary of intangible right-to-use subscription IT assets during the year ended June 30, 2023 and 2022 are as follows:

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Subscription assets	$	2,450	-	-	-	2,450
Less accumulated amortization:		(873)	(882)	-	-	(1,755)
Total subscription assets, net	$	1,577	(882)	-	-	695

		July 1, 2021	Increases	Decreases	Remeasurements	Balance June 30, 2022 as restated *
Subscription assets	$	2,344	106	-	-	2,450
Less accumulated amortization:		-	(873)	-	-	(873)
Total subscription assets, net	$	2,344	(767)	-	-	1,577

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

A summary of changes in the related subscription liabilities during the year ended June 30, 2023 and 2022 is as follows:

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
SBITA IT libabilities	$	1,556	-	-	(848)	708	400
Total	$	1,556	-	-	(848)	708	400

		Balance July 1, 2021	Additions	Remeasurements	Deductions	Balance June 30, 2022 as restated*	Amounts Due Within One Year
SBITA IT libabilities	$	2,344	-	-	(788)	1,556	848
Total	$	2,344	-	-	(788)	1,556	848

* Restated due to the implementation of GASB 96 - *Subscription-Based Information Technology Arrangements (SBITAs)*

Future annual subscription payments as of June 30, 2023 and 2022 are as follows:

Year ending June 30:		Principal amount	Interest amount	Total
2024	$	400	8	408
2025		153	4	157
2026		155	2	157
		708	14	722
Less: current portion		(400)		
Long-term portion as of June 30, 2023	$	308		

(Dollars in thousands, unless otherwise stated)

Year ending June 30:		Principal amount	Interest amount	Total
2023	$	848	14	862
2024		400	8	408
2025		153	4	157
2026		155	2	157
		1,556	28	1,584
Less: current portion		(848)		
Long-term portion as of June 30, 2022	$	708		

(11) 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 most recently restated and amended in January 2023). 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 allowed by 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)). During fiscal years ending in 2023 and 2022, the WRR, net of adjustments, charged to such wholesale customers was $300,502 and $289,828, 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

(Dollars in thousands, unless otherwise stated)

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 Wholesale Customers owed the Enterprise $10,052 as of June 30, 2023. The Enterprise owed the Wholesale Customers $79,150 as of June 30, 2022. Refer to the compliance audit report for the final balancing account available at https://sfpuc.org/about-us/reports/audited-financial-statements-annual-financial-reports.

(12) Employee Benefits

(a) Pension Plan

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

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

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

	Fiscal Year 2023
Valuation Date (VD)	June 30, 2021 updated to June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022
	Fiscal Year 2022
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

The City is an employer of the plan with a proportionate share of 94.87% as of June 30, 2022 (measurement date), and 94.64% as of June 30, 2021 (measurement date), 0.23% increase from prior year. The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2022 and 2021. The Enterprise's net pension liability/(assets), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the

City's proportionate share was 4.27% as of June 30, 2022, and 4.27% as of June 30, 2021 (measurement dates).

Replacement Benefits Plan – The Enterprise's allocation percentage was determined based on the Enterprise's total pension liabilities divided by the City's total pension liabilities for fiscal year 2022. The Enterprise's total pension liability/(assets), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 2.31% as of June 30, 2022, and 1.85% as of June 30, 2021 (measurement dates).

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

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

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The

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

Funding and Contribution Policy

SFERS Plan – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2023 and 2022. 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, 2021 actuarial report, the required employer contribution rate for fiscal year 2023 was 17.85% to 21.35%. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 was 19.91% to 24.41%

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, 2022 and 2021 (measurement period) were $729,578 and $791,736, respectively. The Enterprise's allocation of employer contributions for fiscal year 2022 and 2021 (measurement period) were $31,151 and $33,367, respectively.

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $4,472 replacement benefits in the year ended June 30, 2023.

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

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan and net pension liability of RBP of $2,708,927. The City's NPL/net pension assets (NPA) for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2023 (reporting year) was $111,743. The Enterprise's allocation of total pension liability for the RBP as of June 30, 2023 was $3,600.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2023, the City's recognized pension expense was $1,771 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 $6,225. Pension expense increased from the prior year, largely due to the amortization of deferrals

As of June 30, 2023, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2023 Schedule of Deferred Outflows and Inflows of Resources

		SFERS Plan		Replacement Benefits Plan	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$	27,925	–	–	–
Differences between expected and actual experience		10,200	–	475	455
Changes in assumptions		29,035	8,713	579	778
Net difference between projected and actual earnings on pension plan investments		–	13,890	–	–
Change in employer's proportion		1,869	3,138	18	1,530
Total	$	69,029	25,741	1,072	2,763

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 (benefit) as follows:

Fiscal Years		SFERS Plan	Replacement Benefits Plan
2024	$	(5,899)	(283)
2025		(8,602)	(374)
2026		(17,636)	(589)
2027		47,500	(445)
Total	$	15,363	(1,691)

Fiscal Year 2022

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

(Dollars in thousands, unless otherwise stated)

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

As of June 30, 2022, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2022 Schedule of Deferred Outflows and Inflows of Resources

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

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

Fiscal Years		Deferred Outflows/(Inflows)	Replacement Benefits Plan
2023	$	(57,166)	247
2024		(51,954)	52
2025		(54,608)	1
2026		(63,403)	(172)
Total	$	(227,131)	128

Actuarial Assumptions

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2022 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2021 actuarial valuation. Refer to the July 1, 2021 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	June 30, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of investment expenses
Municipal Bond Yield	2.16% as of June 30, 2021
	3.54% as of June 30, 2022
	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	7.40% as of June 30, 2021
	7.20% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2021
	0.60% of payroll as of June 30, 2022

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, 2021	2.00%	1.90%	2.50%	3.60%
June 30, 2022	2.00%	1.90%	2.50%	3.60%

Key Actuarial Assumptions	Replacement Benefits Plan
Valuation Date	June 30, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Municipal Bond Yield	3.54% as of June 30, 2022
	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	3.54% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2022

Basic COLA	Old Miscellaneous	Old Police & Fire	Old Police & Fire, Charters	Old Police & Fire, Charters
June 30, 2021	2.00%	1.90%	2.50%	3.60%
June 30, 2022	2.00%	1.90%	2.50%	3.60%

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

The actuarial assumptions used at the June 30, 2022 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2021.

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability/(Assets) for both SFERS Plan and RBP as of June 30, 2021 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	June 30, 2020 updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry - Age Normal Cost
Expected Rate of Return	7.40% net of investment expenses
Municipal Bond Yield	2.21% as of June 30, 2020
	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based employee classification and years of service
Discount Rate	7.40% as of June 30, 2020
	7.40% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2020
	0.60% of payroll as of June 30, 2021

Basic COLA	Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
June 30, 2020	2.00%	2.50%	3.10%	4.20%
June 30, 2021	2.00%	1.90%	2.50%	3.60%

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

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

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

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

Discount Rate

Fiscal Year 2023

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2022 (measurement date) and 7.40% June 30, 2021 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2022 was 7.20%. 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, 2021 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

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

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2022 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2022. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

(Dollars in thousands, unless otherwise stated)

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal Years	96 - Prop C	Before 11/6/96 or After Prop C
2024	0.75 %	0.70 %
2025	0.75	0.60
2026	0.75	0.60
2027+	0.75	0.50

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.54% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2022 is 7.20%.

The long-term expected rate of return on pension plan investments was 7.20%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.8 %
Private Equity	23.0	7.9
Private Credit	10.0	5.8
Real Assets	10.0	4.7
Hedge Funds/Absolute Return	10.0	3.4
Treasuries	8.0	0.6
Liquid Credit	5.0	3.5
Leverage	-3.0	0.6
Total	100.0	

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.54% as of June 30, 2022. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 24, 2021 and June 30, 2022. These are the rates used to determine the total pension liability as of June 30, 2022.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of $245 for was used for the 2022 measurement date.

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

On June 30, 2023, City's membership in the RBP had a total of 327 active members and 160 retirees and beneficiaries currently receiving benefits. The Enterprise has 7 active members and 6 retirees and beneficiary currently receiving benefits.

Fiscal Year 2022

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of June 30, 2021 (measurement date) and June 30, 2020 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2021 was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2020 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

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

(Dollars in thousands, unless otherwise stated)

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 is 7.40%.

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

Long- Term Expected Real Rates of Return

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

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

Fiscal Year 2023

Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of NPA @ 8.20%
Water	$ 305,993	111,743	(48,394)

Fiscal Year 2022

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

The allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits Plan, calculated using the discount rate, as well as what the Enterprise's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2023

Employer	1% Decrease @ 2.54%	Measurment Date @ 3.54%	1% Increase @ 4.54%
Water	$ 4,270	3,600	3,072

Fiscal Year 2022

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

(Dollars in thousands, unless otherwise stated)

(b) *Other Post-Employment Benefits*

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

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

San Francisco Health Service System Retiree Plan - Single-Employer

Fiscal year 2023	
Valuation Date (VD)	June 30 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

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

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, 2022 and June 30, 2021. 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, 2022 and 2021 measurement dates were 3.97% and 3.90%, respectively.

Benefits

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

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

[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 under Charter Section 8.603.
[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.

(Dollars in thousands, unless otherwise stated)

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

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

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

Contributions

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

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

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

For the fiscal years ending June 30, 2023 and 2022, funding was based on "pay-as-you-go" plus a contribution of $45,241 and $41,841 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $215,408 for a total contribution of $260,649 for the fiscal year ending June 30, 2023, and $211,025 for a total contribution of $252,866 for the fiscal year ending June 30, 2022. The Enterprise's proportionate share of the City's contributions for fiscal year 2023 was $10,339, and for fiscal year 2022 was $9,873, and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liabilities related to the Plan of $3,746,270. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2023 was $148,601.

For the year ended June 30, 2023, the City's recognized OPEB expense was $256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $20,381.

As of June 30, 2023, 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	$ 10,339	$ -
Differences between expected and actual experience	3,299	24,740
Changes in assumptions	6,344	-
Net difference between projected and actual earnings on plan investments	2,392	-
Change in Proportion	6,242	2,335
Total	$ 28,616	$ 27,075

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

Year ended June 30:	
2024	$ (2,253)
2025	(2,213)
2026	(720)
2027	(1,132)
Thereafter	(2,480)
Total	$ (8,798)

Fiscal Year 2022

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

For the year ended June 30, 2022, the City's recognized OPEB expense was $272,001. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $14,566.

 (Continued)

(Dollars in thousands, unless otherwise stated)

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

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

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

Year ended June 30:	
2023	$ (313)
2024	(324)
2025	(286)
2026	(263)
2027	(669)
Thereafter	(921)
Total	$ (2,776)

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2022 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
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 7.74% trending down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.74% trending down to ultimate rate of 3.94% in 2076 10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2076 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2022

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

Key Actuarial Assumptions

Valuation Date	June 30, 2020, updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.74% trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 7.24% trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 5.50% trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

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 2023

Employer	-1.00%	Healthcare Trend	1.00%
Water	$ 127,125	$ 148,601	$ 175,238

Fiscal Year 2022

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

Discount Rate

Fiscal Year 2023

The discount rate used to measure the Total OPEB Liability as of June 30, 2022 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	6.8%
U.S. Small Cap	3.0%	7.4%
Developed Market Equity (non-U.S.)	15.0%	7.5%
Emerging Market Equity	13.0%	8.4%
Credit		
Bank Loans	3.0%	4.0%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.2%
Rate Securities		
Investment Grade Bonds	9.0%	2.4%
Long-term Government Bonds	4.0%	2.8%
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0%	1.9%
Private Markets		
Private Equity	5.0%	10.0%
Core Private Real Estate	5.0%	6.1%
Risk Mitigating Strategies		
Global Macro	5.0%	5.0%
Total	100.0%	

(Dollars in thousands, unless otherwise stated)

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

1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$ 173,000	$ 148,601	$ 128,583

Fiscal Year 2022

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	8.2%
U.S. Small Cap	3.0%	9.5%
Developed Market Equity (non-U.S.)	15.0%	8.9%
Emerging Market Equity	13.0%	11.0%
Credit		
Bank Loans	3.0%	4.4%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.3%
Rate Securities		
Investment Grade Bonds	9.0%	1.9%
Long-term Government Bonds	4.0%	3.2%
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0%	1.5%
Private Markets		
Private Equity	5.0%	13.0%
Core Private Real Estate	5.0%	6.2%
Risk Mitigating Strategies		
Global Macro	5.0%	4.4%
Total	100.0%	

(Dollars in thousands, unless otherwise stated)

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

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

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

(13) 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 of $55,121 or 48.2% and $52,769 or 49.2% were allocated to the Enterprise for the years ended June 30, 2023 and 2022, 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 $49,636 and $45,815 for the years ended June 30, 2023 and 2022, respectively, have been included in the services provided by other departments in the accompanying financial statements.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. The amounts, totaling $11,398 and $11,394 for the years ended June 30, 2023 and 2022, 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 $1,552 and $1,819 for the years ended June 30, 2023 and 2022, 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 2023 and 2022, the Enterprise delivered water for fire hydrant purposes totaling $9 and $8, respectively, based on metered usage and applicable water rates, and the amount has been excluded from operating revenues in the accompanying financial statements.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling $18,690 and $15,951 for the years ended June 30, 2023 and 2022, respectively, have been included in services provided by other departments in the accompanying financial statements.

(Continued)

During the fiscal year ended June 30, 2023, the Enterprise transferred $20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and $32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. The Enterprise received $5 from the General Fund for Mayor's Office instructions relating to the minimum compensation ordinance.

As of June 30, 2023, the Enterprise had interfund receivables of $115 from DPW relating to custom work projects. As of June 30, 2022, the Enterprise had interfund receivables of $102 from DPW relating to custom work projects and $69 from Academy of Sciences for unpaid interdepartmental services.

The Enterprise had receivables due from the Treasure Island Development Authority for capacity fees of $195 as of June 30, 2022, and from the Office of Community Investment and Infrastructure for custom work projects of $0 and $7 for the years ended June 30, 2023 and 2022, respectively.

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, 2023, the Enterprise's allocable shares of expenses and prepayment were $45 and $3,220, respectively; and as of June 30, 2022, the Enterprise's allocable shares of expenses and prepayment were $44 and $3,265, respectively.

The Enterprise had a $2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project as of June 30, 2023.

(14) Risk Management

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

(Dollars in thousands, unless otherwise stated)

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

(a) General Liability

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

The changes for the general liability (damage claims) for the years ended June 30, 2023 and 2022 are as follows:

Fiscal years		Beginning of year	Claims	Claims paid and changes in estimates	End of year
2023	$	36,069	1,898	(18,342)	19,625
2022		36,723	452	(1,106)	36,069

(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, 2023 and 2022 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2023	$	8,973	3,984	(3,222)	9,735
2022		8,828	2,793	(2,648)	8,973

(c) Property

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

(d) Public Officials Liability

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

(e) Employment Practices Liability

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

(f) Cyber Liability

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

(g) Crime

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

(h) Electronic Data Processing

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

(i) Surety Bonds

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

(j) Errors and Omissions

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

(k) Builders' Risk

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

(15) Commitments and Litigation

(a) Commitments

As of June 30, 2023 and 2022, the Enterprise has outstanding commitments with third parties of $220,706 and $322,132, 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, 2023 and 2022, the pollution remediation liability of $1,271 is related to the Pacific Rod & Gun Club site.

(16) Subsequent Events

(a) Water Revenue Bonds, Series 2023 AB Issuance

On July 27, 2023, the SFPUC issued its San Francisco Water Revenue Bonds, 2023 Sub-Series A (Regional and Local Water, Tax-exempt) and Sub-Series B (Hetch Hetchy Water, Tax-exempt) in the aggregate principal amount of $414,035 to (i) refund principal and interest on Commercial Paper Notes issued to finance and refinance a portion of the design, acquisition and construction of various capital projects of benefit to the SFPUC's Water Enterprise, (ii) finance and refinance a portion of the design, acquisition and construction of various capital projects of benefit to the SFPUC's Water Enterprise, and (iii) fund capitalized interest through May 1, 2025 and other financing costs.

(b) Water Revenue Bonds, Series 2023 CD Issuance

On August 10, 2023, the SFPUC issued its San Francisco Water Revenue Bonds, 2023 Sub-Series C (Tax-exempt Refunding – WSIP, Green Bonds), and Sub-Series D (Tax-exempt Refunding –Local Water) an aggregate principal amount of $514,855 to refund all or a portion of various series of the SFPUC's Outstanding Bonds.

(c) Water Enterprise Commercial Paper Program

On July 10, 2023, the SFPUC entered into new commercial paper dealer agreements with BofA Securities, Inc., J.P. Morgan Securities LLC and Wells Fargo Bank, National Association for the offering and sale, and remarketing from time to time of water commercial paper program notes.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the San Francisco Water Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
December 26, 2023

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

Cover photo: O'Shaughnessy Dam, Hetch Hetchy Reservoir Waterfall

Back cover photo: Don Pedro Reservoir, Alameda Siphon No. 4

Photos by: Robin Scheswohl, Marshall Moxom

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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.

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