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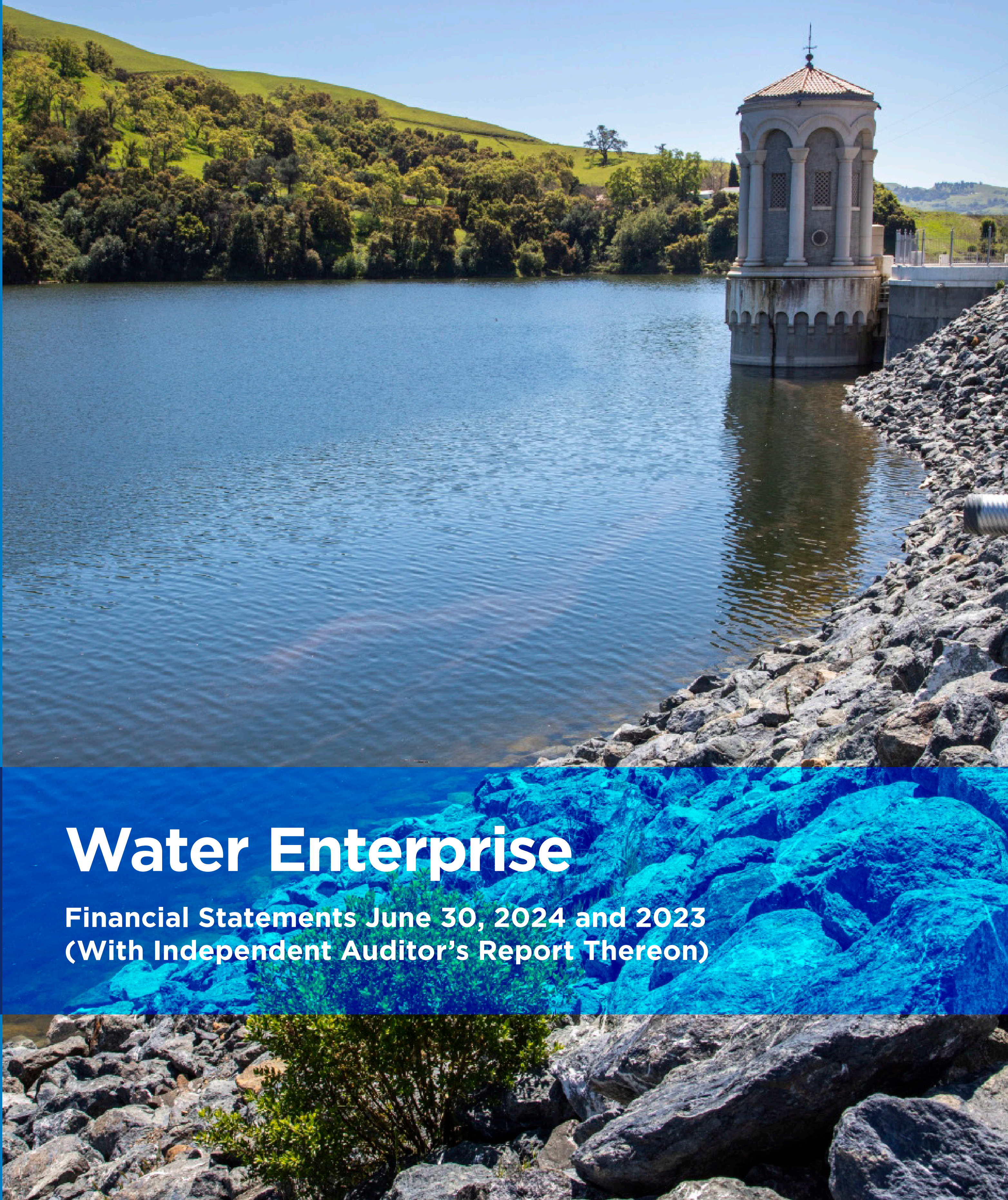

Water Enterprise

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).

(Continued)

(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:

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

(Continued)

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.

(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

(Continued)

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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