

Protecting Public Health
and the Environment.



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



Wastewater Enterprise

Financial Statements June 30, 2025 and 2024
(With Independent Auditor's Reports Thereon)

SAN FRANCISCO WASTEWATER ENTERPRISE

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	20
Statements of Revenues, Expenses, and Changes in Net Position	22
Statements of Cash Flows	23
Notes to Financial Statements	25
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 <i>Government Auditing Standards</i>	81

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 Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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 5, 2025 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.



Walnut Creek, California
November 5, 2025

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of the San Francisco Wastewater Enterprise's (the Enterprise) financial condition and activities as of and for the fiscal years ended June 30, 2025 and 2024. Management's Discussion and Analysis (MD&A) 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, Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater (the Enterprise). The primary responsibility of the Enterprise is to protect the public health and the surrounding bay and ocean receiving waters by collecting, transmitting, treating, and discharging storm and sanitary flows generated in the service area. This includes 1,139 miles of combined, sanitary, and storm collection system pipes including: gravity mains, force mains, culverts, transport storage boxes, and tunnels. San Francisco is the only coastal city in California with a combined sewer system that collects both wastewater and stormwater in the same network of pipes and provides treatment to remove harmful pollutants before discharging into the San Francisco Bay and Pacific Ocean. In addition, the Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Enterprise recovers costs of service through user fees based on the volume and strength of sanitary flow. As of June 30, 2025, the Enterprise serves 149,672 residential accounts, which discharge approximately 15.9 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf), and 32,010 non-residential accounts, which discharge approximately 5.8 million ccf per year. These figures reflect increases of 0.67 million discharge units for residential accounts and 0.15 million discharge units for non-residential accounts, resulting from account growth of 217 and 4,367, respectively, compared to prior year.

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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations at 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 2025

- Total assets exceeded total liabilities by \$1,323,663.
- Net position increased by \$31,303 or 2.4% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$796,443 or 14.5% to \$6,284,853.
- Operating revenues increased by \$36,150 or 9.2% to \$431,191.
- Operating expenses decreased by \$170,610 or 36.8% to \$292,481.

Financial Highlights for Fiscal Year 2024

- Total assets exceeded total liabilities by \$1,289,457.
- Net position decreased by \$75,198 or 5.4% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$802,064 or 17.1% to \$5,488,410.
- Operating revenues increased by \$31,105 or 8.5% to \$395,041.
- Operating expenses increased by \$201,741 or 77.2% to \$463,091.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited) June 30, 2025 and 2024 (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, 2025, 2024, and 2023

	2025	Restated* 2024	2023	2025-2024 Change	2024-2023 Change
Total assets:					
Current and other assets	\$ 1,013,574	577,997	574,446	435,577	3,551
Capital assets, net of accumulated depreciation and amortization	6,284,853	5,488,410	4,686,346	796,443	802,064
Total assets	7,298,427	6,066,407	5,260,792	1,232,020	805,615
Deferred outflows of resources:					
Unamortized loss on refunding of debt	—	—	8	—	(8)
Pensions	44,997	42,685	32,592	2,312	10,093
Other postemployment benefits	11,099	12,816	11,493	(1,717)	1,323
Total deferred outflows of resources	56,096	55,501	44,093	595	11,408
Liabilities:					
Current liabilities:					
Revenue bonds	38,460	35,370	28,070	3,090	7,300
Certificates of participation	937	900	864	37	36
State revolving fund loans	6,419	5,629	2,526	790	3,103
Arbitrage rebate payable	290	—	—	290	—
Other liabilities	215,276	246,962	200,992	(31,686)	45,970
Subtotal current liabilities	261,382	288,861	232,452	(27,479)	56,409
Long-term liabilities:					
Commercial paper	—	341,373	—	(341,373)	341,373
Revenue bonds	3,710,386	2,649,681	2,708,840	1,060,705	(59,159)
Revenue notes	—	—	349,556	—	(349,556)
Certificates of participation	21,758	22,695	23,594	(937)	(899)
State revolving fund loans	360,187	312,033	316,163	48,154	(4,130)
Water Infrastructure Finance and Innovation Act (WIFIA) loans	1,394,652	922,431	122,357	472,221	800,074
Arbitrage rebate payable	4,254	8,521	188	(4,267)	8,333
Other liabilities	222,145	231,355	121,786	(9,210)	109,569
Subtotal long-term liabilities	5,713,382	4,488,089	3,642,484	1,225,293	845,605
Total liabilities:					
Revenue bonds	3,748,846	2,685,051	2,736,910	1,063,795	(51,859)
Revenue notes	—	—	349,556	—	(349,556)
Certificates of participation	22,695	23,595	24,458	(900)	(863)
Commercial paper	—	341,373	—	(341,373)	341,373
State revolving fund loans	366,606	317,662	318,689	48,944	(1,027)
Water Infrastructure Finance and Innovation Act (WIFIA) loans	1,394,652	922,431	122,357	472,221	800,074
Arbitrage rebate payable	4,544	8,521	188	(3,977)	8,333
Other liabilities	437,421	478,317	322,778	(40,896)	155,539
Total liabilities	5,974,764	4,776,950	3,874,936	1,197,814	902,014
Deferred inflows of resources:					
Unamortized gain on refunding of debt	15,217	10,255	11,353	4,962	(1,098)
Leases	954	1,203	1,453	(249)	(250)
Pensions	2,172	4,055	10,023	(1,883)	(5,968)
Other postemployment benefits	6,477	5,809	8,286	668	(2,477)
Total deferred inflows of resources	24,820	21,322	31,115	3,498	(9,793)
Net position:					
Net investment in capital assets	1,039,359	1,148,814	1,110,957	(109,455)	37,857
Restricted for debt service	2,112	—	3,510	2,112	(3,510)
Restricted for capital projects	140,768	31,782	53,137	108,986	(21,355)
Unrestricted	172,700	143,040	231,230	29,660	(88,190)
Total net position	\$ 1,354,939	1,323,636	1,398,834	31,303	(75,198)

* Restated due to the implementation of GASB 101 - *Compensated Absences*.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Net Position, Fiscal Year 2025

As of June 30, 2025, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,354,939. The Enterprise's total net position increased by \$31,303 or 2.4% from prior year. This change reflects increases of \$108,986 in restricted for capital projects, \$29,660 in unrestricted net position, and \$2,112 in restricted for debt service, offset by a decrease of \$109,455 in net investment in capital assets. The \$1,232,615 increase in total assets and deferred outflows of resources, as well as the increase of \$1,201,312 in total liabilities and deferred inflows of resources, are described below (see Table 1).

During fiscal year 2025, current and other assets increased by \$435,577 or 75.4%. The increase was primarily driven by a \$404,591 increase in restricted and unrestricted cash and investments, resulting from proceeds of the 2024 Series ABCD revenue bonds issuance and new loans under the Water Infrastructure Finance and Innovation Act (WIFIA) and State Revolving Fund (SRF). Additional increases included a \$30,301 rise in reimbursement receivables from the State Water Resources Control Board (SWRCB) for the Southeast Water Pollution Control Plant New Headworks (Grit) Replacement and OSP Digester Gas Utilization Upgrade projects; a \$4,560 increase in restricted and unrestricted receivables and inventory, primarily due to higher interest receivables driven by elevated average annualized interest rates and cash balances; and a \$2,097 increase in receivables from charges for services and prepaid expenses, net of allowance for uncollectible receivables, largely attributed to higher sales. These increases were partially offset by a \$5,972 decrease in other receivables, mainly due to a \$7,370 payment received from the University of California, San Francisco (UCSF) and the Golden State Warriors (GSW) for their fair share contribution to the Mariposa Sanitary Pump Station Upgrade Project.

Capital assets, net of accumulated depreciation and amortization, increased by \$796,443 or 14.5%, primarily due to expanded capital improvement activities and the right-to-use lease and subscription assets. The largest component of the Enterprise's net position \$1,039,359 or 76.7%, represents net investment in capital assets (see the Capital Assets section of the MD&A for further details). Deferred outflows of resources increased by \$595, resulting from a \$2,312 rise in pension contributions, offset by a \$1,717 reduction in other postemployment benefits.

Total liabilities increased by \$1,197,814 or 25.1%. As of June 30, 2025, the outstanding balance of \$5,532,799 for revenue bonds, certificate of participation (COP), SRF, and WIFIA loans represented 92.6% of total liabilities, an increase of \$1,242,687 or 29.0%. This increase was driven by the issuances of 2024 Series ABCD revenue bonds totaling \$1,217,971, which included an original issue premium of \$74,996; \$472,221 in new WIFIA loans, including \$16,324 of capitalized interest; \$55,221 in new SRF loans; and additions from commercial paper. These increases in outstanding debt were offset by \$465,325 in defeasance and repayment of outstanding debt, as well as \$37,401 in amortization and defeasance of revenue bond premiums (see Table 4).

Other liabilities of \$441,965, including arbitrage rebate payable, payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, decreased by \$44,873 or 9.2%. This is due to a \$34,009 reduction in restricted and unrestricted payables to vendors and contractors mainly due to decreased capital project spending; \$3,977 decrease in arbitrage rebate payable; and a \$1,391 decrease resulting from revenue recognition of rental deposits, payments to other City departments, and a refund to the State for unspent Federal COVID-19 recovery pass-through grant funds under the California Water and Wastewater Arrearages Payment Program (CWWAPP). Additionally, there was a decrease of \$36,310 in damage claims liability based on the analyses performed by the City Attorney's Office and Controller's Office and in pollution remediation obligation due to payments made for the

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Yosemite Creek Remediation Project. Wastewater's damage claims liability as of June 30, 2025 was estimated by using probable exposure information provided by the City Attorney's Office and includes an estimate of incurred but not reported losses. These reductions were offset by an increase of \$13,666 in interest payable primarily related to the newly issued 2024 Series ABCD revenue bonds; an \$8,816 increase in lease and subscription liabilities, and higher accrued payroll and workers' compensation; and an increase of \$8,332 in net pension and other postemployment benefits liability based on actuarial estimates.

Deferred inflows of resources increased by \$3,498 due to an increase of \$5,630 in the unamortized gain on refunding of debt by the 2024 ABCD revenue bonds and other postemployment benefits, offset by \$2,132 decreases in pension and leases.

Net Position, Fiscal Year 2024

As of June 30, 2024, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,323,636. The Enterprise's total net position decreased by \$75,198 or 5.4% from prior year, comprised of decreases of \$88,190 in unrestricted net position, \$21,355 in restricted for capital projects, and \$3,510 in restricted for debt service offset by an increase of \$37,857 in net investment in capital assets. Increases in total assets and deferred outflows of resources of \$817,023 and increases of \$878,418 in total liabilities and deferred inflows of resources are described below (see Table 1).

During the fiscal year 2024, current and other assets increased by \$3,551 or 0.6%. The increase was due to an \$8,245 rise in charges for services resulting from a \$10,835 increase in sewer charges receivable, as there were more billings than collections. This was offset by a \$2,590 increase in allowance for doubtful accounts related to sewer charges receivable that were over 120 days old. Other increases included \$7,558 in other receivable due to revenue accrual for the upgrades fair share contribution from the Golden State Warriors and the University of California, San Francisco for the Mariposa Project, \$1,526 in unrestricted and restricted interest receivable due to higher average annualized interest rate, \$458 in restricted and unrestricted cash and investments due to loan proceeds from Water Infrastructure Finance and Innovation Act (WIFIA) loans and commercial paper issuances offset by capital project spending and debt service principal and interest payments, \$317 increase in inventory as there were more purchases than issuances during the year, \$172 increase in capacity charges receivable, net of allowance for doubtful accounts, and \$10 increase in custom work receivable. These increases were primarily offset by a \$13,942 decrease in receivables from the State Water Resources Control Board (SWRCB), as a result of receipts from reimbursement requests for the Southeast Water Pollution Control Plant New Headworks (Grit) Replacement Project. Other decreases included \$440 in prior year prepaid expenses recognized in current year, \$212 in lease receivable, \$46 in receivable from the Department of Public Works (DPW) for the Mission Bay South Project, \$38 prepayments amortizations for the Civic Center Garage lease and the Mariposa Pump Station & Force Project, \$32 decrease in Federal interest subsidy receivable, \$22 in property rent receivable, and \$3 in miscellaneous receivable.

Capital assets, net of accumulated depreciation and amortization, increased by \$802,064 or 17.1% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of \$1,148,814 or 85.9%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources increased by \$11,408 mainly due to increases in pensions and other postemployment benefits of \$10,093 and \$1,323, respectively, based on actuarial report, offset by \$8 amortization of the 2013 Series A bond refunding loss.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Total liabilities increased by \$902,014 or 23.3%. As of June 30, 2024, total outstanding balance of \$4,290,112 for revenue bonds, certificates of participation (COP), commercial paper, State Revolving Fund (SRF) loans, and WIFIA loans represented 90.1% of total liabilities, an increase of \$738,142 or 20.8%. The increase was mainly due to \$800,074 new WIFIA loans (included \$7,506 of capitalized interest) for the Biosolids Digester Facilities Project and the Southeast Treatment Plant Improvement Project, \$341,373 new issuance of commercial paper, and \$1,498 SRF loan capitalized interest for the OSP Digester Gas Utilization Upgrade and SEP New Headworks (Grit) Replacement projects, offset by \$347,465 defeasance of 2021 Series AB revenue notes by the WIFIA loans, principal repayments of \$28,070 in bonds, \$2,525 in SRF loans, and \$863 in COP, and \$25,880 in revenue bonds and notes premium amortization and defeasance. Other liabilities of \$486,838, including arbitrage rebate payable, payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by \$163,872 or 50.7% due to increases of \$110,733 in damage claims liability based on actuarial report, \$17,750 in net pension liability based on actuarial report, \$15,732 increase in employee related benefits including workers' compensation, accrued payroll, vacation and sick leave from the implementation of GASB Statement No. 101, and 4.75% increase in cost of living adjustment (COLA), \$8,549 in restricted and unrestricted payable to vendors and contractors mainly due to increased capital project spending, \$8,333 in arbitrage rebate payable due to actuarial calculation, \$4,488 in bond, loan, lease, and subscription interest payable mainly due to higher outstanding debt principal resulting from the issuance of 2023 Series ABC revenue bonds and commercial paper, \$3,166 in unearned revenue mainly due to \$1,429 in unspent Federal pass-through grant relating to California Water and Wastewater Arrearages Payment Program (CWWAPP), \$1,169 in liens payable, and \$652 in customer credit balances due to overpayments, offset by \$84 decrease in deposits from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project, and \$225 increase in other postemployment benefits obligations based on actuarial report. The increase in other liabilities were offset by \$2,102 in payment of prior year payable that was made in current year to Municipal Transportation Agency for its share of the Walsh Construction Settlement, \$1,349 decrease in pollution remediation obligation due to payments made for the Yosemite Creek Remediation project, \$1,297 in leases due to payments made, \$243 decrease in subscription liability, and \$113 payment to Hetch Hetchy Power related to the 525 Golden Gate Living Machine System. Deferred inflows of resources decreased by \$9,793 due to decreases in pensions and other postemployment benefits of \$5,968 and \$2,477, respectively, based on actuarial reports, \$1,098 in unamortized gain on refunding of debt due to amortization and refunding gain, and \$250 in leases.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Results of Operations

The following table summarizes the Enterprise's revenues, expenses, and changes in net position.

Table 2
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2025, 2024, and 2023

	2025	Restated** 2024	2023	2025-2024 Change	2024-2023 Change
Revenues:					
Charges for services	\$ 427,493	392,040	360,037	35,453	32,003
Rents and concessions	875	739	822	136	(83)
Other operating revenues	2,823	2,262	3,077	561	(815)
Interest and investment income	44,065	25,528	2,556	18,537	22,972
Other non-operating revenues	4,646	24,297	9,910	(19,651)	14,387
Total revenues	<u>479,902</u>	<u>444,866</u>	<u>376,402</u>	<u>35,036</u>	<u>68,464</u>
Expenses:					
Operating expenses	292,481	463,091	261,350	(170,610)	201,741
Interest expenses*	154,566	91,584	81,133	62,982	10,451
Non-operating expenses	225	505	535	(280)	(30)
Total expenses	<u>447,272</u>	<u>555,180</u>	<u>343,018</u>	<u>(107,908)</u>	<u>212,162</u>
Change in net position before capital contributions and transfers	<u>32,630</u>	<u>(110,314)</u>	<u>33,384</u>	<u>142,944</u>	<u>(143,698)</u>
Capital contributions	145	48,080	2,740	(47,935)	45,340
Transfers from the City and County of San Francisco	—	—	75	—	(75)
Transfers to the City and County of San Francisco	(1,472)	(209)	(32)	(1,263)	(177)
Capital contributions and net transfers	<u>(1,327)</u>	<u>47,871</u>	<u>2,783</u>	<u>(49,198)</u>	<u>45,088</u>
Change in net position	<u>31,303</u>	<u>(62,443)</u>	<u>36,167</u>	<u>93,746</u>	<u>(98,610)</u>
Net position at beginning of year:					
Beginning of year, as previously reported	1,323,636	1,398,834	1,362,667	(75,198)	36,167
Cumulative effect of accounting change	—	(12,755)	—	12,755	(12,755)
Beginning of year as restated	<u>1,323,636</u>	<u>1,386,079</u>	<u>1,362,667</u>	<u>(62,443)</u>	<u>23,412</u>
Net position at end of year	<u>\$ 1,354,939</u>	<u>1,323,636</u>	<u>1,398,834</u>	<u>31,303</u>	<u>(75,198)</u>

* Net of amortization of premium, refunding gain/loss, and issuance cost.

** Restated due to the implementation of GASB 101 - *Compensated Absences*.

Results of Operations, Fiscal Year 2025

The Enterprise's total revenues were \$479,902, an increase of \$35,036 or 7.9% from prior year (see Table 2). Charges for services increased by \$35,453 or 9.0% mainly due to a 9.0% rate increase adopted on July 1, 2024, and an increase in sanitary flow of 797,494 ccf, or 3.7% from both residential and non-residential customers.

Interest and investment income increased by \$18,537 or 72.6%, driven by a \$19,939 increase in interest earned from City Treasury pooled investments. This was attributed to higher average cash balances resulting from issuances of the 2024 Series ABCD revenue bonds and WIFIA loans, as well as higher interest rates.

Other operating revenues increased by \$561 or 24.8%, mainly due to increased capacity fees, driven by an 8% increase in the average permit price and a 3% increase in the number of permits issued. This was further supported by a reduction in the allowance for doubtful accounts and write-offs compared to prior year.

Rents and concessions increased by \$136 or 18.4% mainly due to higher lease payments and the recognition of non-refundable deposits as revenue.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Other non-operating revenues decreased by \$19,651 or 80.9%, primarily due to prior year receipts of \$12,104 in federal and state grants under the CWWAPP and revenue recognized from fair share contributions totaling \$7,558 from the GSW and the UCSF for the Mariposa Project.

Total expenses were \$447,272, reflecting a decrease of \$107,908 or 19.4% compared to prior year. This reduction was primarily driven by a \$170,610 decrease in operating expenses and a \$280 decrease in City grants program expenses for community-based organization services and floodwater management program. These decreases were offset by a \$62,982 increase in interest expenses, mainly resulting from an increase of \$75,292 in bonds and loans interest, amortization of premiums, refunding gains, and issuance cost, primarily due to the issuance of the 2024 ABCD revenue bonds and the new WIFIA loans, offset by a \$12,310 decrease in arbitrage rebate interest expense based on the computation from the BLX interim arbitrage rebate analysis report.

The \$170,610 decrease in operating expenses was primarily due to a \$202,206 decline in general and administrative and other operating expenses, largely due to reduced judgments and claims expenses based on analyses performed by the City Attorney's Office and Controller's Office, as well as lower project costs associated with the Westside Pump Station Reliability Improvement, Biosolids Digester, and Treasure Island Capital Improvement projects. These reductions were partially offset by several increases, including a \$21,334 increase in personnel services – driven by a 3% increase in cost-of-living adjustment (COLA), a 3% increase in full-time equivalents, and increased other postemployment benefit and pension expenses. Additional increases included a \$4,667 rise in electric utility services provided by Hetch Hetchy Power at the Southeast Treatment Plant; a \$3,754 increase in assets depreciation and amortization expenses; and a \$1,841 increase in materials and supplies and contractual services for building and construction, equipment maintenance, and sewage treatment at the Southeast Treatment Plant reflecting higher maintenance costs.

Capital contributions totaled \$145, representing a decrease of \$47,935 compared to prior year. This is primarily due to the Developer Built Infrastructure transferred to capital assets, comprising \$25,923 for Pier 70 Phase 1, \$17,550 for the Treasure Island Stage 1, and \$4,607 for the Yerba Buena Island Street Improvements projects in prior year. Transfer out totaled \$1,472, which included allocations to Culture and Recreation Fund for art enrichment, to Recreation and Park for the Green Infrastructure Grant Program at Buchanan Street Mall, and to the Office of the City Administrator for the Surety Bond Program.

Results of Operations, Fiscal Year 2024

The Enterprise's total revenues were \$444,866, an increase of \$68,464 or 18.2% from prior year (see Table 2). Charges for services increased by \$30,360 or 8.6% mainly due to a 9% rate increase adopted on July 1, 2023, offset by a decrease in sanitary flow of 95,679 ccf, or 0.4% from both residential and non-residential customers. Interest and investment income increased by \$22,972 or 898.7% mainly due to \$10,485 increase in unrealized gain in City Treasury pooled investments, attributed to improved fair value of investments and a \$12,487 increase in interest earned mainly due to higher average cash balances from issuance of WIFIA loans and 2023 Series AB bonds and increase in interest rates. Other non-operating revenues increased by \$14,387, primarily due to a \$12,104 rise in Federal and State grants received mainly for the CWWAPP and a revenue accrual of \$7,558 for the upgrades fair share contribution from the Golden State Warriors and the University of California, San Francisco for the Mariposa Project. This increase was offset by the Monsanto settlement related to water pollution of \$5,000 and the \$196 Baker Beach grant received in the prior year, as well as decreases of \$85 in Federal interest subsidy and \$37 in gains from the sale of assets. Other operating revenues increased by \$828 or 9.6% mainly due to a \$1,643 increase in revenues from other City departments, including Recreation & Park, Zuckerberg San Francisco

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

General Hospital and Trauma Center, and the San Francisco Municipal Transportation Agency. This increase was offset by an \$815 decrease in capacity fees, driven by a \$544 increase in the allowance for doubtful accounts and write-offs, along with a \$271 decline in revenue due to lower permits prices and issuance. Rents and concessions decreased by \$83 or 10.1% mainly due to a decrease of \$345 from three terminated leases offset by increases in rental income of \$189 from tenants with 3.5% consumer price index average rate increase, \$70 from short-term conference room rentals at Southeast Community Center and \$3 related to leases.

Total expenses were \$555,180, reflecting an increase of \$212,162 or 61.9% compared to prior year. This was primarily due to increases of \$201,741 in operating expenses, \$43,363 in interest expenses mainly due to higher bond and WIFIA principal debt and arbitrage rebate liability, offset by an increase of \$32,912 in amortization of premium, refunding loss, and issuance cost and \$30 decrease in City grants program expenses due to \$195 decrease in expenditures for community based organization services for the Youth Employment & Environment Project, offset by \$165 increase in floodwater grant for the UC Wastewater Collection Project. The increase of \$201,741 in operating expenses was primarily driven by several factors: a \$178,078 rise in general and administrative and other operating expenses largely attributed to judgments and claims expenses based on actuarial report, along with increased project costs associated with the WIFIA Headworks New Grit Removal/Influent Pump and Biosolids Digester projects; a \$17,157 increase in personnel services, mainly due to a \$15,239 rise related to the GASB 68 pension adjustment and a 4.75% cost-of-living adjustment (COLA); a \$4,683 increase in depreciation and amortization expenses resulting from more assets being placed in service, a \$3,108 rise in contractual services primarily due to higher maintenance costs for service equipment at the Southeast Treatment Plant and leasing activities; and a \$168 increase in materials and supplies for sewage treatment at the Southeast Treatment Plant, all offset by a \$1,453 decrease in expenses for services of other departments mainly in electric services provided by Hetch Hetchy Power at the Southeast Treatment Plant.

Capital contributions of \$48,080 were for the Developer Built Infrastructure transferred to capital assets, comprised of \$25,923 for the Pier 70 Phase 1, \$17,550 for the Treasure Island Stage 1, and \$4,607 for the Yerba Buena Island Street Improvements projects. Transfer out of \$209 included \$177 transfers to Culture and Recreation Fund for art enrichment allocation and \$32 to the Office of the City Administrator for the Surety Bond Program.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Capital Assets

The following table summarizes changes in the Enterprise's capital assets.

Table 3
Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2025, 2024, and 2023

	2025	2024	2023	2025-2024 Change	2024-2023 Change
Facilities, improvements, machinery, and equipment	\$ 3,365,635	2,549,177	2,393,051	816,458	156,126
Intangible assets	5,090	6,373	7,333	(1,283)	(960)
Land and rights-of-way	44,572	44,572	44,572	—	—
Land Improvements	7,630	9,311	6,733	(1,681)	2,578
Construction work in progress	2,855,921	2,878,789	2,232,963	(22,868)	645,826
Right-to-use lease and subscription assets	6,005	188	1,694	5,817	(1,506)
Total	<u>\$ 6,284,853</u>	<u>5,488,410</u>	<u>4,686,346</u>	<u>796,443</u>	<u>802,064</u>

Capital Assets, Fiscal Year 2025

The Enterprise has capital assets of \$6,284,853 net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2025 (see Table 3). This amount represents an increase of \$796,443 or 14.5% from prior fiscal year. As of June 30, 2025, the Enterprise had capital commitments of \$547,063. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Facilities, improvements, machinery, and equipment increased by \$816,458 or 32.0%. Right-to-use lease and subscription assets increased by \$5,817 or 3,094.1% due to lease and subscriptions additions in current year, net of amortization. Construction work in progress decreased by \$22,868 or 0.8%. Land improvements decreased by \$1,681 or 18.1% due to depreciation. Intangible assets decreased by \$1,283 or 20.1% due to amortization.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress during the year ended June 30, 2025 include the following:

Southeast Plant Biosolids Digester Facilities Project	\$ 507,033
New Treasure Island Wastewater Treatment Plant Capital Improvements	85,564
Southeast Plant New Headworks (Grit) Replacement	43,824
Large Diameter Sewer Projects and Channel Force Main Intertie	25,430
Oceanside Plant Digester Gas Handling Utilization Upgrade	12,729
WW-753 Hayes Valley Sewer Improvements	12,386
WW-748 As Needed Spot Sewer Replacement Number 45	11,788
Southeast Plant Power Feed and Primary Switchgear Upgrades	9,962
Southeast Plant Facility-Wide Distributed Control System Upgrades	6,837
WW-726 Various Locations Sewer Replacement Number 15	6,549
Westside Pump Station Reliability Improvements	6,525
Lower Alemany Area Stormwater Improvement Project	6,223
Southeast Plant / Southeast Community Heating Ventilation Air Conditioning & Mechanical Upgrades	5,806
Folsom Area Stormwater Improvement Project	5,720
Folsom Area Stormwater Phase 2	5,568
New Trades and Maintenance Buildings	5,469
Primary Treatment Southeast Plant Buildings 040 and 041	5,357
WW-725 Various Locations Sewer Replacement Number 14	5,336
Oceanside Plant Condition Assessment Improvements - Part 2	4,611
Channel Pump Station Improvements	4,301
Other project additions individually below \$4,000	94,001
	<u>\$ 871,019</u>

Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2025 include the following:

Southeast Plant New Headworks (Grit) Replacement	\$ 712,664
North Shore Pump Station Wet Weather Improvements	44,914
Large Diameter Sewer Projects and Channel Force Main Intertie	17,672
Taraval Sewer Improvements	17,481
WW-716 As-Needed Sewer Replacement Number 44	12,036
Folsom Area Stormwater Phase 2	10,454
Public Works Various Locations Number 55 Infrastructure Improvements	10,393
Public Works Various Location Number 53 Infrastructure Improvements	7,849
WW-705 Sewer Replacement Number 10	7,082
Oceanside Plant Condition Assessment Improvements - Part 2	6,229
Southeast Plant Facility-Wide Distributed Control System Upgrades	4,944
Other project additions individually below \$4,000	45,340
	<u>\$ 897,058</u>

See Note 4 for additional information about capital assets.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2024

The Enterprise has capital assets of \$5,488,410, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2024 (see Table 3). This amount represents an increase of \$802,064 or 17.1% from prior fiscal year. As of June 30, 2024, the Enterprise had capital commitments of \$667,703. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Construction work in progress increased by \$645,826 or 28.9%. Facilities, improvements, machinery, and equipment increased by \$156,126 or 6.5%. Land improvements increased by \$2,578 or 38.3% relating to improvements for the Ocean Beach Project. Right-to-use lease and subscription assets decreased by \$1,506 or 88.9% due to termination of leases and subscriptions and amortization. Intangible assets decreased by \$960 or 13.1% due to amortization.

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

Southeast Plant Biosolids Digester Facilities Project	\$ 486,344
Southeast Plant New Headworks (Grit) Replacement	91,920
New Treasure Island Wastewater Treatment Plant Capital Improvements	57,168
Large Diameter Sewer Projects and Channel Force Main Intertie	27,993
WW-716 As-Needed Sewer Replacement Number 44	11,693
Taraval Sewer Improvements	10,455
Southeast Plant Power Feed and Primary Switchgear Upgrades	9,968
Westside Pump Station Reliability Improvements	9,691
Southeast Plant / Southeast Community Heating Ventilation Air Conditioning & Mechanical Upgrades	9,117
45th Avenue, 46th Avenue, 47th Avenue, Vicente Street, Wawona Street, and Sloat Boulevard Sewer Replacement	7,810
Oceanside Plant Condition Assessment Improvements - Part 2	7,666
Oceanside Plant Digester Gas Handling Utilization Upgrade	7,173
North Shore Pump Station Wet Weather Improvements	6,278
WW-715 As-Needed Sewer Replacement Number 43	6,272
Lower Alemany Area Stormwater Improvement Project	5,983
Southeast Plant Facility-Wide Distributed Control System Upgrades	5,583
Folsom Area Stormwater Improvement Project	5,578
Folsom Area Stormwater Phase 2	4,825
Green Infrastructure Grant Projects	4,716
Public Works Various Location Number 53 Infrastructure Improvements	4,377
Public Works Various Locations Number 55 Infrastructure Improvements	4,194
Other project additions individually below \$4,000	94,639
	<u>\$ 879,443</u>

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

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

Wawona Area Stormwater Improvement Project	\$ 27,262
Contributed Capital: Pier 70 Phase 1	25,923
Contributed Capital: Treasure Island Stage 1	17,550
Public Works 19Th Avenue Infrastructure Improvements	14,755
WW-715 As-Needed Sewer Replacement Number 43	11,292
Large Diameter Sewer Projects And Channel Force Main Intertie	11,141
45th Avenue, 46th Avenue, 47th Avenue, Vicente Street, Wawona Street, and Sloat Boulevard Sewer Replacement	8,940
Public Works Various Locations Infrastructure Improvements Number 48	6,998
Public Works Number 56 Infrastructure Improvements	6,668
16th Street Sewer Replacement (Segment 2)	6,528
As-Needed Main Sewer Replacement Number 9 (WW-713)	6,416
Public Works Various Locations Pavement Improvements Number 38	6,240
Public Works Golden Gate Ave And Laguna Street Project	6,051
Public Works Various Locations Number 57 Infrastructure Improvements	5,711
WW-707 Various Locations Number 11	5,171
WW-704 Sewer Replacement Number 9	4,946
WW-708 Various Locations Number 12	4,772
Public Works Richmond Residential Streets Pavement Renovation	4,753
Contributed Capital: Yerba Buena Island Street Improvements	4,607
Public Works Various Locations Pavement Renovations Number 59	4,245
Public Works Various Locations Number 54 Infrastructure Improvements	4,136
Public Works Various Locations Number 52 Infrastructure Improvements	4,066
Other project additions individually below \$4,000	40,791
	<u>\$ 238,962</u>

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

The Sewer System Improvement Program (SSIP) is a SFPUC's wastewater capital improvement program which includes multiple projects to improve the existing wastewater system. The implementation of the SSIP projects were originally phased over 20 years to maintain ratepayer affordability and minimize impacts to communities throughout the City. On March 22, 2016, the refined program scope and budget for \$7.0 billion was endorsed by the Commission along with the baseline for scope, schedule, and budget for Phase 1 projects totaling \$2.9 billion. The revised program is referred to as the "2016 SSIP Baseline". The SSIP Phase 1 Baseline Budget and Schedule were revised starting in 2018, resulting in an approved budget of \$4.7 billion as of June 30, 2025.

SSIP, Fiscal Year 2025

As of June 30, 2025, SSIP Phase 1 includes 70 projects in various stages: 54 projects or 77.1% totaling \$570 million were completed, 2 projects in multiple phases, 4 projects in pre-construction phase, 7 projects in construction phase, and 3 projects in close-out phase. The Mariposa Dry-Weather Pump Station & Force Main Improvements Project was completed on December 31, 2024 with reported project expenditures of \$31.3 million. The project scope consists of demolishing the existing pump station building, underground structure, wet well, electrical system, and associated assets to make room for a new pump station. The

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)

June 30, 2025 and 2024

(Dollars in thousands, unless otherwise stated)

existing dry weather force main downstream of the pump station was also replaced to accommodate the increased flows. Additionally, construction at the Southeast Plant on the New Headworks (Grit) Replacement is progressing, with the New Headworks Facility reaching substantial completion and demolition of the old headworks facility underway. The project is currently over 90% complete, with project completion forecasted for Fall 2027. As of June 30, 2025, total SSIP program expenditures totaled \$3.9 billion. Additional details regarding the SSIP are available at <https://sfpuc.gov/construction-contracts/sewer-system-improvement-program>.

SSIP, Fiscal Year 2024

As of June 30, 2024, 49 projects or 70.0% totaling \$525 million were completed, 1 project in multiple phases, 5 projects in pre-construction phase, 7 projects in construction phase, and 8 projects in close-out phase. The Central Bayside System Improvement Project (CBSIP) was completed on June 30, 2023 with reported project expenditures of \$36.7 million. The CBSIP provides collection system enhancement to the Channel and Islais Creek urban watersheds, including needed redundancy for the existing Channel Force Main, infrastructure improvements to sewers/pump stations, and stormwater management through elements of both green and grey infrastructure. Major components of the project consist of a tunnel to transport, via gravity, dry and wet-weather flows from the Channel and North Shore watersheds to the Southeast Water Pollution Control Plant (SEP), a large all-weather pump station to lift the flows into the SEP, improvements to Channel Pump Station, and green/gray infrastructure improvements within the watersheds. The New Headworks (Grit) Replacement Project is on-going construction. The project is reported at 86.8% complete and forecasted final completion is on May 30, 2025. As of June 30, 2024, total SSIP program expenditures totaled \$3.2 billion. Additional details regarding the SSIP are available at <https://sfpuc.gov/construction-contracts/sewer-system-improvement-program>.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited) June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2025, 2024, and 2023, the Enterprise's outstanding debt comprising revenue bonds, revenue notes, commercial paper, certificates of participation, SRF, and WIFIA loans were \$5,532,799, \$4,290,112, and \$3,551,970, respectively, as shown in Table 4. Additional information about the Enterprise's debt activity is provided in Notes 6, 7, and 8 to the financial statements.

Table 4
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2025, 2024, and 2023

		2025	2024	2023	2025-2024 Change	2024-2023 Change
Revenue bonds	\$	3,748,846	2,685,051	2,736,910	1,063,795	(51,859)
Revenue notes		—	—	349,556	—	(349,556)
Commercial paper		—	341,373	—	(341,373)	341,373
Certificates of participation		22,695	23,595	24,458	(900)	(863)
State revolving fund loans		366,606	317,662	318,689	48,944	(1,027)
Water Infrastructure Finance and Innovation Act (WIFIA) loans		1,394,652	922,431	122,357	472,221	800,074
Total	\$	5,532,799	4,290,112	3,551,970	1,242,687	738,142

The increase of \$1,242,687 was mainly due to \$1,217,971 new issuances of 2024 Series ABCD revenue bonds, including \$74,996 original issue premium, \$472,221 in new WIFIA loans including \$16,324 capitalized interest for the Biosolids Digester Facilities Project, the Southeast Treatment Plant Improvement Project, and the Wastewater Capital Plan Resilience Program – Project 1, \$55,221 in new SRF loans for the OSP Digester Gas Utilization Upgrade and SEP New Headworks (Grit) Replacement projects, and commercial paper additions. The increase in outstanding debt was offset by \$342,021 in defeasance of commercial paper by the 2024 Series C and D revenue bonds issuance, \$81,405 in defeasance of 2023 Series B and 2018 Series B revenue bonds by the 2024 Series B revenue bonds issuance, principal repayments of \$35,370 in bonds, \$5,629 in SRF loans, \$900 in COP, and \$37,401 in revenue bonds premium amortization and defeasance.

Credit Ratings and Bond Insurance – As of June 30, 2025 and 2024, the Enterprise carried underlying ratings of “Aa2” and “AA” from Moody's and S&P Global Ratings (S&P), 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 2025 and 2024, 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 of June 30, 2025, the Enterprise had \$8,052,607 in combined debt issuance authorization from the Board of Supervisors under Proposition E, with \$5,625,155 issued against this authorization. The Enterprise has a \$1,250,000 authorized interim funding program, with \$0 in tax-exempt commercial paper outstanding as of June 30, 2025 and \$341,373 in tax-exempt commercial paper outstanding as of June 30, 2024.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Cost of Debt Capital – The coupon interest rates on the Enterprise's outstanding revenue bonds and revenue notes ranged from 1.0% to 5.8%, net of federal interest subsidy receipts on Build America Bonds at June 30, 2025. The 2009 Series D certificates of participation carried coupon interest rates from 6.4% to 6.5% in fiscal years 2025 and 2024, respectively. Short-term debt instruments bore interest rates between 3.6% to 3.8% in both fiscal years 2025 and 2024. The State revolving fund loans (CWSRF loans) carried original interest rates ranging from 0.8% to 1.8% during fiscal year 2025. In certain agreements, the State opted to apply administrative service and grant charges in lieu of interest payments; these charges do not affect the installment payments or increase total repayment amounts. The WIFIA loan carried interest rate of 1.5% during fiscal year 2025 and capitalized interest added to the principal balance of the WIFIA loan on each Semi-Annual Payment Date occurring during the Capitalized Interest Period.

Rates and Charges

Rate Setting Process

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIII B, entitled "Public Utilities," which established the Commission's authority to issue new revenue bonds and set wastewater rates. 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 water and wastewater rate study were completed in May 2023. The Commission subsequently adopted three years of wastewater 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-sewer-rates/rates>.

SAN FRANCISCO WASTEWATER ENTERPRISE

Management's Discussion and Analysis (Unaudited)
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments	
Effective Date	Adjustment
July 1, 2016	7.0 ¹
July 1, 2017	11.0 ¹
July 1, 2018	7.0 ²
July 1, 2019	7.0 ²
July 1, 2020	8.0 ²
July 1, 2021	8.0 ²
July 1, 2022	— ³
July 1, 2023	9.0 ⁴
July 1, 2024	9.0 ⁴
July 1, 2025	9.0 ⁴

¹ Four-year rate increases adopted and effective July 1, 2014.

² Four-year rate increases adopted and effective July 1, 2018.

³ No retail rate adjustment.

⁴ Three-year rate increases adopted and effective July 1, 2023.

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, Financial Services, 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 WASTEWATER ENTERPRISE

Statements of Net Position

June 30, 2025 and 2024

(In thousands)

	2025	Restated* 2024
Assets		
Current assets:		
Cash and investments with City Treasury	\$ 396,961	376,658
Cash and investments outside City Treasury	45	152
Receivables:		
Charges for services (net of allowance for doubtful accounts of \$12,045 as of June 30, 2025 and \$12,865 as of June 30, 2024)	50,300	48,338
Due from other City departments, current portion	70	82
Interest	3,619	3,896
Leases receivable, current portion	241	226
Restricted due from other governments	30,301	—
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of \$383 as of June 30, 2025 and \$345 as of June 30, 2024)	6,889	689
Total current receivables	91,420	53,231
Prepaid charges, advances, and other receivables, current portion	729	8,142
Inventory	4,052	3,657
Restricted cash and investments outside City Treasury, current portion	83,614	41,778
Total current assets	576,821	483,618
Non-current assets:		
Restricted cash and investments with City Treasury	398,588	31,613
Restricted cash and investments outside City Treasury, less current portion	35,514	59,930
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of \$0 as of June 30, 2025 and as of June 30, 2024)	371	388
Charges for services, less current portion (net of allowance for doubtful accounts of \$333 as of June 30, 2025 and \$351 as of June 30, 2024)	343	342
Leases receivable, less current portion	777	1,019
Prepaid charges, advances, and other receivables, less current portion	1,160	1,087
Capital assets, not being depreciated and amortized	2,903,540	2,926,407
Capital assets, net of accumulated depreciation and amortization	3,381,313	2,562,003
Total non-current assets	6,721,606	5,582,789
Total assets	7,298,427	6,066,407
Deferred outflows of resources		
Pensions	44,997	42,685
Other postemployment benefits	11,099	12,816
Total deferred outflows of resources	\$ 56,096	55,501

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Net Position

June 30, 2025 and 2024

(In thousands)

	2025	Restated* 2024
Liabilities		
Current liabilities:		
Accounts payable	\$ 21,325	18,841
Accrued payroll	9,782	8,119
Accrued compensated absences, current portion	14,531	13,705
Accrued workers' compensation, current portion	1,602	1,685
Due to other City departments, current portion	115	114
Damage claims liability, current portion	15,885	28,742
Unearned revenues, refunds, and other	8,346	9,623
Arbitrage rebate payable, current portion	290	—
Bond, loan, lease, and subscription interest payable, current portion	42,174	30,300
Revenue bonds, current portion	38,460	35,370
Certificates of participation, current portion	937	900
State revolving fund loans payable, current portion	6,419	5,629
Lease liability, current portion	1,766	—
Subscription liability, current portion	503	93
Current liabilities payable from restricted assets	99,247	135,740
Total current liabilities	<u>261,382</u>	<u>288,861</u>
Long-term liabilities:		
Net other postemployment benefits liability	50,552	49,260
Net pension liability	74,339	67,299
Accrued compensated absences, less current portion	12,726	12,187
Accrued workers' compensation, less current portion	7,299	7,327
Due to other City departments, less current portion	176	291
Damage claims liability, less current portion	63,216	86,341
Bond, loan, lease, and subscription interest payable, less current portion	3,898	2,106
Arbitrage rebate payable, less current portion	4,254	8,521
Commercial paper	—	341,373
Revenue bonds, less current portion	3,710,386	2,649,681
Certificates of participation, less current portion	21,758	22,695
State revolving fund loans payable, less current portion	360,187	312,033
Water Infrastructure Finance and Innovation Act (WIFIA) loans	1,394,652	922,431
Lease liability, less current portion	3,722	—
Subscription liability, less current portion	94	93
Pollution remediation obligation	6,123	6,451
Total long-term liabilities	<u>5,713,382</u>	<u>4,488,089</u>
Total liabilities	<u>5,974,764</u>	<u>4,776,950</u>
Deferred inflows of resources		
Unamortized gain on refunding of debt	15,217	10,255
Leases	954	1,203
Pensions	2,172	4,055
Other postemployment benefits	6,477	5,809
Total deferred inflows of resources	<u>24,820</u>	<u>21,322</u>
Net position		
Net investment in capital assets	1,039,359	1,148,814
Restricted for debt service	2,112	—
Restricted for capital projects	140,768	31,782
Unrestricted	172,700	143,040
Total net position	<u>\$ 1,354,939</u>	<u>1,323,636</u>

* Restatement due to implementation of GASB 101- *Compensated Absences*.

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2025 and 2024
(In thousands)

	2025	Restated** 2024
Operating revenues:		
Charges for services	\$ 427,493	392,040
Rents and concessions	875	739
Capacity fees	2,823	2,262
Total operating revenues	<u>431,191</u>	<u>395,041</u>
Operating expenses:		
Personnel services	128,217	106,883
Contractual services	24,527	23,885
Materials and supplies	15,673	14,474
Depreciation and amortization	86,476	82,722
Services provided by other departments	44,213	39,546
General and administrative and other	(6,625)	195,581
Total operating expenses	<u>292,481</u>	<u>463,091</u>
Operating (loss) income	<u>138,710</u>	<u>(68,050)</u>
Non-operating revenues (expenses):		
Federal and state grants	562	12,256
Interest and investment income	44,065	25,528
Interest expenses*	(154,566)	(91,584)
Net gain from sale of assets	18	77
Other non-operating revenues	4,066	11,964
Other non-operating expenses	(225)	(505)
Net non-operating expenses	<u>(106,080)</u>	<u>(42,264)</u>
Change in net position before capital contributions and transfers	<u>32,630</u>	<u>(110,314)</u>
Capital contributions	145	48,080
Transfers to the City and County of San Francisco	(1,472)	(209)
Capital contributions and net transfers	<u>(1,327)</u>	<u>47,871</u>
Change in net position	<u>31,303</u>	<u>(62,443)</u>
Net position at beginning of year:		
Beginning of year, as previously reported	1,323,636	1,398,834
Cumulative effect of accounting change	<u>—</u>	<u>(12,755)</u>
Beginning of year as restated	<u>1,323,636</u>	<u>1,386,079</u>
Net position at end of year	<u>\$ 1,354,939</u>	<u>1,323,636</u>

* Net of amortization of premium, refunding loss/gain, and issuance costs.

** Restatement due to implementation of GASB 101 - *Compensated Absences*.

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(In thousands)

	2025	2024
Cash flows from operating activities:		
Cash received from customers, including cash deposits	\$ 428,084	380,336
Cash received from tenants for rent	829	496
Cash received from miscellaneous revenues	7,904	6,648
Cash paid to employees for services	(116,892)	(104,126)
Cash paid to suppliers for goods and services	(105,702)	(116,262)
Cash paid for judgments and claims	(7,046)	(6,851)
Cash paid for rebates and program incentives	(225)	(505)
Net cash provided by operating activities	<u>206,952</u>	<u>159,736</u>
Cash flows from non-capital financing activities:		
Cash received from grants	591	13,688
Cash refund of grant	(1,459)	—
Transfers to the City and County of San Francisco	(1,472)	(209)
Net cash (used in) provided by non-capital financing activities	<u>(2,340)</u>	<u>13,479</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	14	79
Proceeds from bond issuance, net of premium	786,743	—
Proceeds from commercial paper borrowings	648	341,373
Proceeds from State revolving fund loans	24,273	13,942
Proceeds from WIFIA loans, net of premium and interest	455,896	811,356
Receipts from leases	260	250
Principal paid on revenue notes	—	(347,465)
Principal paid on long-term debt	(36,270)	(28,933)
Principal paid on State revolving fund loans	(5,629)	(2,525)
Lease interest payment	(198)	(6)
Subscription interest payment	(22)	(4)
Interest paid on long-term debt	(146,305)	(112,460)
Interest paid on commercial paper	(647)	(1,372)
Interest paid on State revolving fund loans	(2,727)	(1,479)
Issuance cost paid on long-term debt	(3,291)	(195)
Acquisition and construction of capital assets	(914,791)	(873,239)
Federal interest income subsidy for Build America Bonds	2,144	3,911
Net cash provided by (used in) capital and related financing activities	<u>160,098</u>	<u>(196,767)</u>
Cash flows from investing activities:		
Interest income received	33,389	17,963
Proceeds from sale of investments outside City Treasury	1,476,445	1,860,653
Purchase of investments outside City Treasury	(1,463,839)	(1,898,189)
Net cash provided by (used in) investing activities	<u>45,995</u>	<u>(19,573)</u>
Increase (decrease) in cash and cash equivalents	<u>410,705</u>	<u>(43,125)</u>
Cash and cash equivalents:		
Beginning of year	<u>479,099</u>	<u>522,224</u>
End of year	<u>\$ 889,804</u>	<u>479,099</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and investments with City Treasury:		
Unrestricted	\$ 396,961	376,658
Restricted	398,588	31,613
Add: Unrealized loss on investments with City Treasury	862	6,504
Cash and investments outside City Treasury:		
Unrestricted	45	152
Restricted	119,128	101,708
Less: Restricted (with maturity more than 90 days - see table in Note 3)	(24,663)	(37,269)
Less: Unrealized (gain) on investments outside City Treasury	(1,117)	(267)
Cash and cash equivalents at the end of year on statements of cash flows	<u>\$ 889,804</u>	<u>479,099</u>

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(In thousands)

	<u>2025</u>	<u>Restated**</u> <u>2024</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ 138,710	(68,050)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	86,476	82,722
Lease revenue amortization	(249)	(250)
Miscellaneous revenues	7,904	6,647
Provision for uncollectible accounts	(800)	2,807
Write-off of capital assets	1,309	47,795
Rebates and program incentives	(225)	(505)
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(1,125)	(10,835)
Prepaid charges, advances, and other	(418)	(7,452)
Inventory	(395)	(317)
Accounts payable	2,484	(4,366)
Accrued payroll	1,663	488
Net other postemployment benefits obligations liability*	3,677	(3,575)
Net pension liability*	2,845	1,689
Accrued compensated absences	1,365	1,475
Accrued workers' compensation	(111)	1,014
Due to other City departments	—	(2,101)
Pollution remediation obligation	(328)	(1,349)
Damage claims liability	(35,982)	110,733
Unearned revenues, refunds, and other liabilities	152	3,166
Total adjustments	<u>68,242</u>	<u>227,786</u>
Net cash provided by operating activities	<u>\$ 206,952</u>	<u>159,736</u>
Noncash transactions:		
Accrued capital asset costs	\$ 99,247	135,740
Leases and subscription assets additions	11,630	—
Interfund payable	291	405
Unrealized loss on investments with City Treasury	862	6,504
Unrealized (gain) on investments outside City Treasury	(1,117)	(267)
Capital contribution	145	48,080
Commercial paper refunded	344,246	—
Bond proceeds paid to refunding escrow	86,982	—

* Includes related deferred outflows/inflows.

** Restatement due to implementation of GASB 101 - *Compensated Absences*.

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(1) Description of Reporting Entity

The San Francisco Wastewater Enterprise (the Enterprise), formerly known as the San Francisco Clean Water Program (the Program), was established in 1977 following the transfer of all sewage system-related assets and liabilities of the City and County of San Francisco (the City) to the Program.

In 1976, the electorate of the City approved a proposition authorizing the City to issue \$240,000 in revenue bonds pursuant to the Revenue Bond Law of 1941 of the State of California for the purpose of acquiring, constructing, improving, and financing improvements to the City's municipal sewage treatment and disposal system. Since then, the City's Board of Supervisors has adopted resolutions (Wastewater Resolutions) providing for the issuance of various sewer revenue and refunding bond series. The Wastewater Resolutions require the City to keep separate books of records and accounts of the Enterprise.

The Enterprise was placed under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC or the Commission) in 1996. The Commission, established in 1932, is responsible for providing operational oversight of the public utility enterprises of the City, which includes the Enterprise along with the City's power and water utilities (i.e., Hetch Hetchy Water and Power and CleanPowerSF, of which the Power Enterprise is a component, and the San Francisco Water 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 the 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 Water Enterprise 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, 2025 and 2024, 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).

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(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, specifically 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 operations are included on the statements 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. When both restricted and unrestricted resources are available for use, it is the Enterprise's policy to use restricted resources first, then unrestricted resources as they are needed.

The Enterprise applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) *Cash and Cash Equivalents*

The Enterprise considers its pooled deposits 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 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 upon 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 \$10 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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 assets, which range from 1 to 100 years for equipment and 1 to 200 years for building, 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, and right-to-use capital assets for 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 construction projects that are discontinued 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 are offset against the related debt and are also amortized using the effective interest method.

(i) Deferred Inflow of Resources and Deferred Outflow of Resources

Deferred inflows of resources represent an acquisition of net assets that applies to future periods. Deferred outflows of resources represent a consumption of net assets that applies to future periods.

(j) Accrued Compensated Absences

City employees may accumulate earned, but unused leave benefits up to a specified maximum, as outlined in their applicable leave policies. In accordance with GASB Statement No. 101, *Compensated Absences*, the Enterprise recognizes liabilities for leaves that are attributable to services already rendered, will be paid upon separation or usage, and are more likely than not to be used or paid. Compensated absences that meet these criteria consist of vacation, sick, compensatory time, and other holidays and leaves. The Enterprise records the compensated absences liability, including employer payroll taxes and the employer's share of social security and Medicare taxes, as both current and noncurrent liabilities in the Statement of Net Position. The Enterprise applies the current pay rates of active employees to leave balances in effect at fiscal year-end.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(k) Workers' Compensation

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 12(b)).

(l) General Liability

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. As of June 30, 2025, the Enterprise estimated its liability for pending and threatened lawsuits based on the Office of the City Attorney's assessment of probable claims and historical trends for incurred but not reported losses. The recorded liability represents management's best estimate of the Enterprise's potential exposure based on currently available information (see Note 12(a)).

During Fiscal Year 2025, the Enterprise changed its methodology for estimating claims liability. The Enterprise's claims liability had historically been actuarially determined. The revised measurement methodology aligns more closely with the Office of City Attorney's judgment of the Enterprise's potential exposure based on currently available information. This prospective change in accounting estimate is intended to enhance the understandability, relevance, and timeliness of the financial information.

Affected financial statement items include: current and noncurrent estimated claims payables; and general and administrative expenses in the Enterprise's statement of revenues, expenses, and changes in fund net position.

(m) Arbitrage Rebate Payable

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The arbitrage liability due as of June 30, 2025 and 2024 was \$4,544 and \$8,521, respectively (see Note 7).

(n) Refunding of Debt

Gains or losses occurring from refunding of debt prior to maturity are reported as deferred outflows and deferred inflows of resources from refunding of debt. Deferred outflows and deferred inflows of resources are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(o) Income Taxes

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

(p) Revenue Recognition

Sewer service charges are based on water usage as determined by the San Francisco Water Enterprise. The majority of residential and non-residential customers are billed on a monthly basis

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

except for building and contractor customers which are billed on a bi-monthly basis. Revenues earned but unbilled are accrued as charges for services and reflected as a receivable on the statements of net position. The unbilled amounts for the fiscal years ended June 30, 2025 and 2024 were \$19,103 and \$23,256, respectively.

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

(r) Accounting and Financial Reporting for Pollution Remediation Obligations

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as amended, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the design phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include but are not limited to: asbestos or lead paint removal, leaking of sewage in underground pipes or neighboring areas, chemical spills, removal, and disposal of known toxic waste, harmful biological and chemical pollution of water, or contamination of surrounding soils by underground storage tanks (see Note 13(d)).

(s) Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability (asset) and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retiree Healthcare Trust Fund (RHCTF) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value (see Note 10(b)).

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(t) Pensions

For purposes of measuring the net pension liability (asset) and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Francisco Employees' Retirement System (SFERS) plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value (see Note 10(a)).

(u) New Accounting Standards Adopted in Fiscal Year 2025

- 1) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. GASB Statement No. 101 requires that liabilities for compensated absences be recognized if the leave is attributable to services rendered and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means and establishes definitions, guidance, and disclosure requirements related to compensated absences. The new standard is effective for periods beginning after December 15, 2023. Application of this statement is effective for the Enterprise's year ending June 30, 2025. In accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections*, the Enterprise reported the implementation of GASB 101 as a change in accounting principle. The cumulative effect of applying the new recognition and measurement guidance as of July 1, 2023 was recorded as a restatement of beginning balances for the following accounts. The impact is presented in the following table.

	7/1/2023 As Previously Reported	Changes in Accounting Principle	7/1/2023 As Restated
Net Position	\$ 1,398,834	(12,755)	1,386,079

- 2) In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement requires state and local governments to disclose significant risks related to concentrations or constraints that could lead to substantial impacts. The new standard is effective for periods beginning after June 15, 2024. Application of this statement is effective for the Enterprise's year ending June 30, 2025. Application of this statement did not have a significant effect on its financial statements.

(v) GASB Statements Implemented 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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

- 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.

(w) Future Implementation of New Accounting Standards

- 1) 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.
- 2) 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. Certain other operating revenues, specifically charges to City municipal departments have been reclassified to charges for services for fiscal year 2024. In addition, the cash paid for rebates and program incentives in the direct cashflows statement has been reclassified under operating activities, lease receipts were reclassified from operating activities to capital and related financing activities in the direct cash flow, and lease and subscription payments were reclassified to acquisition and construction of capital assets under cash flows from capital and related financing activities for fiscal year 2024. 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

average daily cash balances. The primary objectives of the Enterprise's investment policy are consistent with the City's policy.

The restricted cash and investments for bond reserves are held by an independent trustee outside the City investment pool. The balances as of June 30, 2025 and 2024 were \$119,128 and \$101,708, respectively. Funds held by the trustee established under the 2003 Indenture are invested in "Permitted Investments" as defined in the Indenture. "Permitted Investments" include money market funds, registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by S&P of "AAAm-G," "AAAm," or "AAm" and a rating by Moody's of "Aaa-mf," "Aa1," or "Aa2." "Permitted Investments" also include commercial paper, and US treasury and agency securities.

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.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Enterprise will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The California Government Code requires California banks and savings loan associations to secure the Enterprise's deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance by pledging government and/or local agency securities as collateral. The fair value of such pledged securities must equal at least 110% and be of the type authorized in California Government Code, Section 53561 (a) through (i). The collateral must be held the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the Enterprise's name. At June 30, 2025, all banks with funds deposited by the Treasurer secured deposits with sufficient collateral or FDIC insurance.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. Information about the sensitivity to the fair values of the Enterprise's investments to interest rate fluctuations is provided by the tables below, which show the distribution of the Enterprise's investments by maturity.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to pay the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The ratings for each of the investment types are provided by the table below.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Enterprise will not be able to recover that value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments, however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the Enterprise's name. The Enterprise also has investments with trustees related to the issuance of bonds that are uninsured, unregistered and held by the counterparty's trust departments but not in the Enterprise's name. These amounts are included in the investments outside City Treasury and are provided by the tables below.

The following is a summary of 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, 2025 and 2024.

Cash and Investments outside City Treasury					
Investments	Credit Ratings (S&P/Moody's)	June 30, 2025		Investments exempt from fair value	Fair Value Measurements Using
		Maturities	Fair Value		Quoted prices in active markets for identical assets (Level 1)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 51,443	51,443	—
Money Market Funds	A-1/P-1	< 90 days	53	53	—
Commercial Paper - Royal Bank of Canada	A-1+/P-1	< 90 days	24,765	—	24,765
U.S. Treasury Bonds & Notes	A-1+/P-1	< 90 days	18,180	—	18,180
U.S. Treasury Bonds & Notes	A-1+/P-1	March 31, 2026	24,663	—	24,663
Cash and Cash Equivalents	N/A		24	24	—
Total Restricted Cash and Investments outside City Treasury			\$ 119,128	51,520	67,608
Cash and Cash Equivalents	N/A		\$ 45	45	—
Total Unrestricted Cash and Investments outside City Treasury			\$ 45	45	—

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2024		Investments exempt from fair value	Fair Value Measurements Using
		Maturities	Fair Value		Quoted prices in active markets for identical assets (Level 1)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 37,830	37,830	—
Money Market Funds	A-1/P-1	< 90 days	52	52	—
Commercial Paper - Toyota Motor Corp	A-1+/P-1	< 90 days	6,935	—	6,935
Commercial Paper - Toronto-Dominion Bank	A-1+/P-1	< 90 days	19,342	—	19,342
Commercial Paper - Toyota Motor Corp	A-1+/P-1	October 11, 2024	1,859	—	1,859
U.S. Agency Securities	AA+/Aaa	March 21, 2025	17,538	—	17,538
U.S. Treasury Bonds & Notes	A-1+/P-1	September 15, 2025	17,872	—	17,872
Cash and Cash Equivalents	N/A		280	280	—
Total Restricted Cash and Investments outside City Treasury			\$ 101,708	38,162	63,546
Cash and Cash Equivalents	N/A		\$ 152	152	—
Total Unrestricted Cash and Investments outside City Treasury			\$ 152	152	—

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, 2025 and 2024 included an unrealized gain due to changes in fair values on Commercial Paper, U.S. Treasury Bonds & Notes, and U.S. Agency Securities of \$1,117 and \$267, respectively.

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

	2025	2024
Current assets:		
Cash and investments with City Treasury	\$ 396,961	376,658
Cash and investments outside City Treasury	45	152
Restricted cash and investments outside City Treasury	83,614	41,778
Non-current assets:		
Restricted cash and investments with City Treasury	398,588	31,613
Restricted cash and investments outside City Treasury	35,514	59,930
Total cash, cash equivalents, and investments	\$ 914,722	510,131

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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

Fiscal years ended June 30	Investment maturities (in months)			
	Under 1	1 to less than 6	6 to less than 12	12 to 60
2025	20.8%	18.9%	17.5%	42.8%
2024	22.2%	19.5%	16.3%	42.0%

As of June 30, 2025, 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
Royal Bank of Canada	\$ 24,765	20.8%

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
Toronto Dominion Holding	\$ 19,342	19.1 %
Toyota Motor Corp	8,794	8.7

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets as of June 30, 2025 and 2024 consisted of the following:

	2024	Increases	Decreases	2025
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 44,572	—	—	44,572
Intangible assets	3,046	—	—	3,046
Construction work in progress	2,878,789	871,019	(893,887) *	2,855,921
Total capital assets not being depreciated and amortized	2,926,407	871,019	(893,887)	2,903,539
Capital assets being depreciated and amortized:				
Facilities and improvements	4,153,796	892,722	—	5,046,518
Land improvements	10,712	—	—	10,712
Intangible assets	11,029	—	—	11,029
Machinery and equipment	109,914	4,336	(501)	113,749
Right-to-use lease assets	—	10,362	(2,902)	7,460
Right-to-use subscription assets	522	1,269	(64)	1,727
Total capital assets being depreciated and amortized	4,285,973	908,689 *	(3,467)	5,191,195
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,626,208)	(75,629)	—	(1,701,837)
Land improvements	(1,401)	(1,681)	—	(3,082)
Intangible assets	(7,702)	(1,283)	—	(8,985)
Machinery and equipment	(88,325)	(4,971)	501	(92,795)
Right-to-use lease assets	—	(2,052)	—	(2,052)
Right-to-use subscription assets	(334)	(860)	64	(1,130)
Total accumulated depreciation and amortization	(1,723,970)	(86,476)	565	(1,809,881)
Total capital assets being depreciated and amortized, net	2,562,003	822,213	(2,902)	3,381,314
Total capital assets, net	\$ 5,488,410	1,693,232	(896,789)	6,284,853

* Decrease in construction work in progress is less than increase in capital assets being depreciated is due to additions of \$11,630 to right-to-use lease and subscription assets, direct additions of \$4,336 to machinery and equipment, and contributed capital of \$145 to buildings structures, offset by \$1,309 in capital project write-offs, mainly related to the Interim Sidestream Nutrient Removal Project.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 44,572	—	—	44,572
Intangible assets	3,046	—	—	3,046
Construction work in progress	2,232,963	879,443	(233,617) *	2,878,789
Total capital assets not being depreciated and amortized	2,280,581	879,443	(233,617)	2,926,407
Capital assets being depreciated and amortized:				
Facilities and improvements	3,923,910	229,886	—	4,153,796
Land improvements	6,965	3,747	—	10,712
Intangible assets	10,760	269	—	11,029
Machinery and equipment	105,661	5,060	(807)	109,914
Right-to-use lease assets	8,247	—	(8,247)	—
Right-to-use subscription assets	1,487	—	(965)	522
Total capital assets being depreciated and amortized	4,057,030	238,962 *	(10,019)	4,285,973
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,551,767)	(74,441)	—	(1,626,208)
Land improvements	(232)	(1,169)	—	(1,401)
Intangible assets	(6,473)	(1,229)	—	(7,702)
Machinery and equipment	(84,753)	(4,379)	807	(88,325)
Right-to-use lease assets	(6,975)	(1,272)	8,247	—
Right-to-use subscription assets	(1,065)	(232)	963	(334)
Total accumulated depreciation and amortization	(1,651,265)	(82,722)	10,017	(1,723,970)
Total capital assets being depreciated and amortized, net	2,405,765	156,240	(2)	2,562,003
Total capital assets, net	\$ 4,686,346	1,035,683	(233,619)	5,488,410

* Decrease in construction work in progress is less than increase in capital assets being depreciated is due to direct additions to buildings structures and machinery and equipment by \$48,080 and \$5,060, respectively, offset by \$47,795 in capital project write-offs, mainly related to the Channel Tunnel/Bayside Drainage Project. It was decided to shelve this project by management and expense the design costs due to higher than expected costs, reprioritization of other various projects and uncertain future regulatory requirements.

(5) Restricted Assets

The Bond indenture is a legally binding agreement between the SFPUC and U.S. Bank, N.A. (trustee) regarding the issuance of bonds and requires all net revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Wastewater revenue bonds. Accordingly, the net revenues of the Enterprise shall not be used for any other purpose while any of its revenue bonds are outstanding except as expressly permitted by the indenture. Further, all net revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Revenue Fund, which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statements of net position of the Enterprise as cash and investments. Deposits in the Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes and only in accordance with the following priority:

1. The payment of operation and maintenance costs of the Enterprise;
2. The payment of bonds, parity State revolving and Federal fund loans, policy costs, and amounts due as reimbursement under any letter of credit agreement; and
3. Any other lawful purpose of the Enterprise.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

In accordance with the indenture, the Enterprise maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and investments with City Treasury:		
Wastewater revenue bond construction fund	\$ 398,588	31,613
Cash and investments outside City Treasury:		
2009 Series C Certificates of Participation - 525 Golden Gate	2	255
2009 Series D Certificates of Participation - 525 Golden Gate	2,267	1,942
2010 Series A Wastewater revenue bond fund	151	145
2010 Series B Wastewater revenue bond fund	7,318	9,027
2013 Series B Wastewater revenue bond fund	2	1
2016 Series A Wastewater revenue bond fund	4	3
2016 Series B Wastewater revenue bond fund	2	1
2018 Series A Wastewater revenue bond fund	9	3
2018 Series B Wastewater revenue bond fund	15	4
2018 Series C Wastewater revenue bond fund	3	2
2021 Series A Wastewater revenue bond fund	8	2,239
2021 Series B Wastewater revenue bond fund	1	397
2022 Series B Wastewater revenue bond fund	46	43
2023 Series A Wastewater revenue bond fund	18,169	43,212
2023 Series B Wastewater revenue bond fund	6,936	15,998
2023 Series C Wastewater revenue bond fund	10	8
2021 Series A Wastewater revenue note fund	228	218
2021 Series B Wastewater revenue note fund	1	1
Commercial Paper - Tax Exempt	77	76
2020 WIFIA Biosolids Digester	15,981	15,248
2020 WIFIA Southeast Treatment Plant	13,509	12,885
2024 Series A Wastewater revenue bond	21,269	—
2024 Series B Wastewater revenue bond	7	—
2024 Series C Wastewater revenue bond	28,621	—
2024 Series D Wastewater revenue bond	4,492	—
Total cash and investments outside City Treasury	<u>119,128</u>	<u>101,708</u>
Interest and other receivables:		
Wastewater revenue bond construction fund including interest, prepaid, and other receivables	7,260	1,077
Due from other government for State Revolving Fund	30,301	—
	<u>37,561</u>	<u>1,077</u>
Total restricted assets	<u>\$ 555,277</u>	<u>134,398</u>

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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(6) Short-Term Debt

The Commission and Board of Supervisors have authorized the overall Interim Funding Program issuance of up to \$750,000, pursuant to the voter-approved 2002 Proposition E. In December 2024, the Board of Supervisors approved an expansion of the Wastewater Enterprise Interim Funding Program by \$500,000 for a total Wastewater Enterprise Interim Funding Program size of \$1,250,000. The program is made up of three components: (1) five series totaling \$675,000 (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 \$75,000 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; and (3) unused authority totaling \$500,000 as of June 30, 2025. The Enterprise had \$0 and \$341,373 in commercial paper outstanding as of June 30, 2025 and 2024, respectively. The \$341,373 was repaid by the 2024 Series CD Wastewater Revenue Bonds issued in July 2024 and was reclassified to long-term liabilities on the financial statements as of June 30, 2024.

The commercial paper notes can be issued or direct loan draws in the aggregate principal amounts of up to \$750,000, and may be marketed and re-marketed with maturities up to 270 days (or if directly drawn, subject to repayment provisions per the respective agreements) and are secured by six separate bank credit facilities, as set forth below. The commercial paper notes are payable from revenues and are secured on a parity lien basis with each other, collectively the "Subordinate Obligations". The Subordinate Obligations are secured on a subordinate basis to the payment of debt service on the Wastewater Revenue Bonds.

As of June 30, 2025, the Commercial Paper Notes are secured by the following series: Series A-1 secured by a \$150,000 letter of credit from Sumitomo Mitsui Bank expires on March 2, 2029. The agreement for the Series A-1 facility stipulates a commitment fee of 0.30%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-2 secured by a \$150,000 letter of credit facility stipulates a commitment fee of 0.27%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-4 secured by a \$150,000 liquidity facility from TD Bank expires on July 3, 2028. The agreement for the Series A-4 facility stipulates a commitment fee of 0.25% on the maintenance of ratings of at least "Aa2" by Moody's and "AA" by S&P. Series A-6 secured by a \$125,000 liquidity facility from Bank of America expires on August 2, 2027. The agreement for the Series A-6 facility stipulates a commitment fee of 0.42%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-7 secured by a \$100,000 letter of credit from Sumitomo Mitsui Bank expires on May 31, 2027. The agreement for the Series A-7 facility stipulates a commitment fee of 0.30%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P.

Series R-1 secured by a \$75,000 revolving credit agreement with U.S. Bank National Association expires on July 31, 2027. The revolving credit agreement stipulates an unutilized quarterly commitment fee of 0.21%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. The revolving credit agreement had \$0 outstanding as of June 30, 2025.

Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, and U.S. Bancorp Investments, Inc. serve as dealers for the commercial paper notes. The annual fee is 0.05% paid to Morgan Stanley & Co. LLC, and U.S. Bancorp Investments, Inc. and 0.045% paid to RBC Capital Markets, LLC.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

The commercial paper reimbursement agreements 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.

The Enterprise had \$1,250,000 and \$408,627 in unused authorization as of June 30, 2025 and 2024, 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, 2025 and 2024, there were no such events described herein.

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2025 and 2024 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated* 2024	Additions	Reductions	2025	Due within one year
Revenue Bonds:							
2010 Series B (Build America)	4.65% - 5.82%	2040	\$ 177,730	—	(7,745)	169,985	8,000
2013 Series B	4.00 - 5.00	2042	93,095	—	—	93,095	—
2016 Series A	4.00 - 5.00	2046	235,105	—	(5,760)	229,345	6,055
2016 Series B	4.00 - 5.00	2046	66,275	—	(1,625)	64,650	1,705
2018 Series A	4.00 - 5.00	2043	214,175	—	(6,580)	207,595	6,915
2018 Series B	5.00	2043	173,880	—	(11,690)	162,190	5,610
2021 Series A	4.00 - 5.00	2051	260,835	—	—	260,835	—
2021 Series B	5.00	2051	37,045	—	—	37,045	—
2022 Series B	5.00	2034	137,080	—	(8,325)	128,755	10,175
2023 Series A	5.00 - 5.25	2042	530,565	—	—	530,565	—
2023 Series B	4.00 - 5.00	2042	278,155	—	(75,050)	203,105	—
2023 Series C	4.00	2048	165,660	—	—	165,660	—
2024 Series A	4.65	2027	—	431,110	—	431,110	—
2024 Series B	4.65	2037	—	87,250	—	87,250	—
2024 Series C	5.00	2054	—	539,720	—	539,720	—
2024 Series D	5.00	2054	—	84,895	—	84,895	—
For issuance premiums			315,451	74,996	(37,401)	353,046	—
Total revenue bonds and notes payable			2,685,051	1,217,971	(154,176)	3,748,846	38,460
Bond, loan, lease, and subscription interest payable			32,406	165,565	(151,899)	46,072	42,174
Commercial Paper	3.57 - 3.75		341,373	648	(342,021)	—	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	23,595	—	(900)	22,695	937
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2056	317,662	54,573	(5,629)	366,606	6,419
Water Infrastructure Finance and Innovation Act (WIFIA) Loans	1.45 - 3.65	2062	922,431	472,221	—	1,394,652	—
Arbitrage rebate payable			8,521	—	(3,977)	4,544	290
Net other postemployment benefits liability			49,260	1,292	—	50,552	—
Net pension liability			67,299	7,040	—	74,339	—
Accrued compensated absences			25,892	1,365 **	—	27,257	14,531
Accrued workers' compensation			9,012	1,886	(1,997)	8,901	1,602
Due to other City departments			405	—	(114)	291	115
Lease liability			—	5,488	—	5,488	1,766
Subscription liability			186	411	—	597	503
Damage claims liability			115,083	4,968	(40,950)	79,101	15,885
Pollution remediation obligation			6,451	—	(328)	6,123	—
Total			\$ 4,604,627	1,933,428	(701,991)	5,836,064	122,682

* Restated due to the implementation of GASB 101- *Compensated Absences*.

** Compensated absences activities are shown as net.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2023	Additions	Reductions	Restated** 2024	Due within one year
Revenue Bonds:							
2010 Series B (Build America)	4.65% - 5.82%	2040	\$ 185,235	—	(7,505)	177,730	7,745
2013 Series A	1.00 - 5.00	2025	575	—	(575)	—	—
2013 Series B	4.00 - 5.00	2042	93,095	—	—	93,095	—
2016 Series A	4.00 - 5.00	2046	240,580	—	(5,475)	235,105	5,760
2016 Series B	4.00 - 5.00	2046	67,820	—	(1,545)	66,275	1,625
2018 Series A	4.00 - 5.00	2043	221,335	—	(7,160)	214,175	6,580
2018 Series B	5.00	2043	179,690	—	(5,810)	173,880	5,335
2021 Series A	4.00 - 5.00	2051	260,835	—	—	260,835	—
2021 Series B	5.00	2051	37,045	—	—	37,045	—
2022 Series B	5.00	2034	137,080	—	—	137,080	8,325
2023 Series A	5.00 - 5.25	2042	530,565	—	—	530,565	—
2023 Series B	4.00 - 5.00	2042	278,155	—	—	278,155	—
2023 Series C	4.00	2048	165,660	—	—	165,660	—
For issuance premiums			339,240	—	(23,789)	315,451	—
Revenue Notes:							
2021 Series A - Biosolids	1.00	2025	218,355	—	(218,355)	—	—
2021 Series B - SEP Headworks	1.00	2026	129,110	—	(129,110)	—	—
For issuance premiums			2,091	—	(2,091)	—	—
Total revenue bonds and notes payable			3,086,466	—	(401,415)	2,685,051	35,370
Bond, loan, lease, and subscription interest payable			—	32,406	—	32,406	30,300
Commercial Paper*	3.15 - 3.74	2024	—	341,373	—	341,373	—
2009 Series D COPS (Build America)	6.36 - 6.49	2041	24,458	—	(863)	23,595	900
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2056	318,689	1,498	(2,525)	317,662	5,629
Water Infrastructure Finance and Innovation Act (WIFIA) Loans	1.45	2062	122,357	800,074	—	922,431	—
Arbitrage rebate payable			188	8,333	—	8,521	—
Net other postemployment benefits liability			49,035	225	—	49,260	—
Net pension liability			49,549	17,750	—	67,299	—
Accrued compensated absences			11,662	14,230 ***	—	25,892	13,705
Accrued workers' compensation			7,998	2,680	(1,666)	9,012	1,602
Due to other City departments			2,620	—	(2,215)	405	114
Lease liability			1,297	—	(1,297)	—	—
Subscription liability			429	—	(243)	186	93
Damage claims liability			4,350	112,467	(1,734)	115,083	28,742
Pollution remediation obligation			7,800	—	(1,349)	6,451	—
Total			\$ 3,686,898	1,331,036	(413,307)	4,604,627	116,455

* As of June 30, 2024, the Enterprise had \$341,373 in outstanding commercial paper which were repaid by 2024 Series CD Wastewater Revenue Bonds in July 2024. The \$341,373 has been reclassified to long-term liabilities on the financial statements.

** Restated due to the implementation of GASB 101- *Compensated Absences*.

*** Compensated absences activities are shown as net.

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

(a) Wastewater Revenue Bonds 2010 Series B

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment) in the amount of \$192,515 with interest rates ranging from 4.7% to 5.8%. Proceeds from the bonds were used to redeem \$53,500 in outstanding commercial paper notes, provide funding for capital projects in the amount of \$112,429, fund a cash debt service reserve fund, and pay financing costs for the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2040. The true interest cost is 3.7%. As of June 30, 2025 and 2024, the 2010 Series B bonds’ principal amount outstanding was \$169,985 and \$177,730, respectively.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(b) Wastewater Revenue Bonds 2013 Series A

In January 2013, the Enterprise issued tax-exempt revenue bonds 2013 Series A in the amount of \$193,400 for the purpose of refunding the remaining portion of the outstanding 2003 Series A bonds maturing on and after October 1, 2013. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively, at the time of issuance. The 2013 Series A refunding bonds include serial bonds with interest rates varying from 1.0% to 5.0% and have a final maturity in October 2025. The Series A bonds had a true interest cost of 1.2% at issuance. The 2013 Series A bonds also refunded the remaining portion of the outstanding state revolving fund loans. The refunding resulted in the recognition of a deferred accounting loss of \$2,986, gross debt service savings of \$35,107 over the next 13 years, and an economic gain of \$32,783 or 15.4% of the refunded principal.

A portion of the proceeds of the 2022 Series B refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated July 1, 2022 to refund and legally defease a portion of the outstanding 2013 Series A bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. As of June 30, 2025 and 2024, the principal amount outstanding of the 2013 Series A bonds was \$0.

(c) Wastewater Revenue Bonds 2013 Series B

In February 2013, the Enterprise issued revenue bonds 2013 Series B in the amount of \$331,585 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, pay off all outstanding Wastewater commercial paper notes, and pay the costs of issuing the bonds. The bonds were rated "Aa3" and "AA-" by Moody's and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2042. The true interest cost was 3.6% at issuance.

A portion of the proceeds of the 2022 Series B and 2023 Series B refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, date July 1, 2022 and April 1, 2023, respectively to refund and legally defease a portion of the outstanding 2013 Series B bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The 2013 Series B bonds were defeased by the 2022 Series B and 2023 Series B bonds for \$147,920 and \$90,570, respectively. The remaining bonds mature through October 1, 2042. As of June 30, 2025 and 2024, the principal amount outstanding of the 2013 Series B bonds was \$93,095.

(d) Wastewater Revenue Bonds 2016 Series A

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of \$240,580 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$53,439 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2025 and 2024, the principal amount outstanding of the 2016 Series A bonds was \$229,345 and \$235,105, respectively.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(e) Wastewater Revenue Bonds 2016 Series B

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of \$67,820 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$20,560 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of “AA” and “Aa3” from S&P and Moody’s, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2025 and 2024, the principal amount outstanding of the 2016 Series B bonds was \$64,650 and \$66,275, respectively.

(f) Wastewater Revenue Bonds 2018 Series A

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series A (SSIP) (Green Bonds) in the amount of \$229,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects in furtherance of the SFPUC’s Sewer System Improvement Program (“SSIP”), to pay off \$25,000 of outstanding commercial paper notes, to fund capitalized interest, and to pay the costs of issuing the bonds. The bonds carried ratings of “AA” and “Aa3” from S&P and Moody’s, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.4%. As of June 30, 2025 and 2024, the principal amount outstanding of the 2018 Series A bonds was \$207,595 and \$214,175, respectively.

(g) Wastewater Revenue Bonds 2018 Series B

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series B (Non-SSIP) in the amount of \$185,950 with 5.0% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of “AA” and “Aa3” from S&P and Moody’s, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.5%. A portion of the proceeds of the 2024 Series B Bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated July 1, 2024, to refund and legally defease a portion of the outstanding 2018 Series B bonds. This deposit was held by the escrow agent under the Escrow Agreement and invested in non-callable federal securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2018 Series B bonds starting on October 1, 2026 and thereafter. As of June 30, 2025 and 2024, the principal amount outstanding of the 2018 Series B bonds was \$162,190 and \$173,880, respectively.

(h) Wastewater Revenue Bonds 2021 Series AB

In November 2021, the Enterprise issued tax-exempt revenue bonds, 2021 Series AB in the aggregate amount of \$297,880. The purpose of the 2021 Series AB Bonds was to refund approximately \$340,000 aggregate principal amount of commercial paper notes which funded various capital projects of the Wastewater Enterprise. The bonds carried “Aa2” and “AA” ratings from Moody’s and S&P, respectively.

The \$260,835 2021 Series A Bonds were issued as tax-exempt Green Bonds to refund approximately \$296,000 of commercial paper notes for SSIP capital projects. The Series A bonds were issued as serial bonds with coupons of 4.0% and 5.0% and a final maturity of 2051. The 2021 Series A bonds have a true interest cost of 3.0%. As of June 30, 2025 and 2024, the principal amount of the 2021 Series A bonds outstanding was \$260,835.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

The \$37,045 2021 Series B bonds were issued as tax-exempt bonds to refund approximately \$44,000 of commercial paper notes for Wastewater capital projects. The Series B bonds were issued as serial bonds with coupons of 5.0% and have a final maturity of 2051. The Series B bonds have a true interest cost of 3.2%. As of June 30, 2025 and 2024, the principal amount of the 2021 Series B bonds outstanding was \$37,045.

(i) Wastewater Revenue Notes 2021 Series AB

In November 2021, the Enterprise issued tax-exempt revenue (Green) notes, 2021 Sub-Series A and Sub-Series B together with an aggregate principal of \$347,465 to finance a portion of the design, acquisition and construction of the Biosolids Digester Facility Project and Southeast Water Pollution Control Plant improvements. The SFPUC intends to pay principal of the 2021A Notes and 2021B Notes from the proceeds of one or more draws under WIFIA Loan Agreements for the Biosolids Digester Facility Project and Southeast Treatment Plant Improvements, respectively, or from the proceeds of future obligations.

The \$218,355 2021 Series A Notes were issued as tax-exempt Green Notes to fund a portion of the Biosolids Digester Facilities Project. The Series A Notes were issued with 1.0% coupons and a final maturity of 2025. The 2021 Series A Notes have a true interest cost of 0.8%. As of June 30, 2025 and 2024, the principal amount of 2021 Series A Notes outstanding was \$0.

The \$129,110 2021 Series B Notes were issued as tax-exempt Green Notes to fund a portion of Southeast Water Pollution Control Plant improvements. The Series B Notes were issued with 1.0% coupons and a final maturity of 2026. The 2021 Series B Notes have a true interest cost of 0.8%. As of June 30, 2025 and 2024, the principal amount of 2021 Series B Notes outstanding was \$0.

In March 2024, the Enterprise deposited a portion of WIFIA disbursements with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated March 1, 2024 to refund and legally defease the outstanding 2021 Series A Notes and 2021 Series B Notes. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent were sufficient to redeem 2021 Series A Notes and 2021 Series B Notes with maturities October 1, 2025 and October 1, 2026, respectively. The defeased principal amount outstanding for 2021 Series A Notes and 2021 Series B Notes were \$218,355 and \$129,110, respectively, as of June 30, 2025. The refunding resulted in the recognition of an accounting gain in an aggregate amount of \$22,212.

(j) Wastewater Revenue Refunding Bonds 2022 Series B

In July 2022, the Enterprise issued tax-exempt revenue bonds, 2022 Series B in the aggregate principal amount of \$137,080 on a forward delivery basis. The 2022 Series B bonds were issued for the purpose of refunding a portion of the outstanding 2013 Series A bonds maturing on October 1, 2024 and October 1, 2025 and a portion of the outstanding 2013 Series B bonds maturing on October 1, 2024 through October 1, 2034. The 2013 Series A bonds were defeased by 2022 Series B bonds for \$1,870 in July 2022. The bonds carried "Aa2" and "AA" ratings from Moody's and S&P, respectively.

The 2022 Series B bonds include serial bonds, each with an interest rate of 5% and have a final maturity in 2034. The Series B bonds have a true interest cost of 3.2%. The refunding resulted in the recognition of a deferred accounting gain of \$6,868, gross debt service savings of \$12,446, and

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

an economic gain of \$12,012 or 8.0% of refunded bonds. As of June 30, 2025 and 2024, the principal amount of the 2022 Series B bonds outstanding was \$128,755 and \$137,080, respectively.

(k) Wastewater Revenue Refunding Bonds 2023 Series ABC

In April 2023, the Enterprise issued tax-exempt revenue bonds, 2023 Series ABC in the aggregate principal amount of \$974,380. The purpose of the 2023 Series ABC bonds was to refund approximately \$557,845 aggregate principal amount of commercial paper notes, finance various capital projects of the Enterprise, and refund certain outstanding revenue bonds. The bonds carried "Aa2" and "AA" ratings from Moody's and S&P, respectively.

The \$530,565 2023 Series A bonds were issued as tax-exempt Green Bonds to refund approximately \$400,900 of commercial paper notes for SSIP capital projects and finance certain capital projects benefitting the Enterprise. The Series A bonds were issued as serial bonds with coupons of 5.0% and 5.3% and a final maturity of 2042. The 2023 Series A bonds have a true interest cost of 2.9%. As of June 30, 2025 and 2024, the principal amount of the 2023 Series A bonds outstanding was \$530,565.

The \$278,155 2023 Series B bonds were issued as tax-exempt bonds to refund a portion of the outstanding 2013 Series B bonds maturing on October 1 2035 through October 1, 2039, refund approximately \$156,900 of commercial paper notes for certain capital projects benefitting the Enterprise and finance certain capital projects benefitting the Enterprise. The Series B bonds were issued as serial bonds with coupons of 4.0% and 5.0% and a final maturity of 2042. The Series B bonds have a true interest cost of 3.0%. The refunding resulted in the recognition of a deferred accounting gain of \$5,316, gross debt service savings of \$10,626, and an economic gain of \$7,647 or 8.4% of refunded bonds. A portion of the proceeds of the 2024 Series B Bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated July 1, 2024, to refund and legally defease a portion of the outstanding 2023 Series B bonds. This deposit was held by the escrow agent under the Escrow Agreement and invested in non-callable federal securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2023 Series B bonds starting on October 1, 2026 and thereafter. As of June 30, 2025 and 2024, the principal amount of the 2023 Series B bonds outstanding was \$203,105 and \$278,155, respectively.

The \$165,660 2023 Series C bonds were issued as tax-exempt Green Bonds to refund all of the outstanding 2018 Series C bonds. The Series C bonds were issued as serial bonds with a coupon of 4.0% and a final maturity of 2048. The 2023 Series C bonds have a true interest cost of 3.5%. The refunding resulted in the recognition of a deferred accounting gain of \$963, gross debt service savings of \$24,606, and an economic gain of \$15,785 or 8.8% of refunded bonds. As of June 30, 2025 and 2024, the principal amount of the 2023 Series C bonds outstanding was \$165,660.

(l) Wastewater Revenue Refunding Bonds 2024 Series ABCD

In July 2024, the Enterprise issued taxable and tax-exempt, 2024 Series ABCD, in the total aggregate principal amount of \$1,142,975. The purpose of the 2024 Series ABCD bonds were issued to retire approximately \$342,021 aggregate principal amount of commercial paper notes, finance various capital projects of the enterprise, and refund certain outstanding revenue bonds.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

The \$431,110 2024 Series A Bonds were issued as taxable Green Bonds for the Sewer System Improvement Program (SSIP) to fund the Biosolids Digester Facility Project. The Series A were issued with a coupon rate of 4.7% and have a single maturity of 2027. The Series A have a true interest cost of 4.7%. The bonds carried a Aa2 rating from Moody's. As of June 30, 2025, the principal amount of the 2024 Series A bonds outstanding was \$431,100.

The \$87,250 2024 Series B bonds were issued as taxable bonds for non-SSIP projects. The bonds were issued to defease a portion of the outstanding 2018 Series B bonds maturing on October 1, 2026 through October 1, 2043, and a portion of outstanding 2023 Series B bonds maturing October 1, 2026. The 2024 Series B bonds were issued as serial bonds with coupons of 4.6% to 5.1% and have a final maturity of 2037. The Series B bonds have a true interest cost of 5.0%. The refunding resulted in the recognition of a deferred accounting gain/loss of \$8,135 of refunded bonds. The Series B bonds carried of "AA" and "Aa2" ratings from S&P and Moody's, respectively. As of June 30, 2025, the principal amount of the 2024 Series B bonds outstanding was \$87,250.

The \$539,720 2024 Series C bonds were issued as tax-exempt Green Bonds to retire approximately \$270,189 of commercial paper notes for SSIP capital projects and finance certain capital projects benefitting the Enterprise. The Series C bonds were issued as serial bonds and term bonds with coupons of 5.0% and final maturity of 2054. The Series C bonds have a true interest cost of 4.2%. The bonds carried of "AA" and "Aa2" ratings from S&P and Moody's, respectively. As of June 30, 2025, the principal amount of the 2024 Series C bonds outstanding was \$539,720.

The \$84,895 2024 Series D bonds were issued as tax-exempt bonds to retire approximately \$71,832 of commercial paper for non-SSIP projects and to finance certain capital project benefiting the Enterprise. The Series D were issued as serial bonds and term bonds with 5.0% coupons and a final maturity of 2054. The 2024 Series D bonds have a true interest cost of 4.2%. The bonds carried "Aa2" and "AA" ratings from Moody's and S&P, respectively. As of June 30, 2025, the principal amount of the 2024 Series D bonds outstanding was \$84,895.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(m) Future Annual Debt Service of Revenue Bonds and Refunding Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2025. The interest before subsidy amounts includes the interest for 2010 Series B, 2013 Series B, 2016 Series A and B, 2018 Series A and B, 2021 Series A and B bonds, 2022 Series B, 2023 Series A, B, and C bonds, and 2024 Series A, B, C, and D bonds. The federal interest subsidy amounts represent 35.0% of the interest, excluding sequestration, for the 2010 Series B revenue bonds.

	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:				
2026	\$ 38,460	161,374	(3,105)	158,269
2027	59,895	158,944	(2,968)	155,976
2028	528,685	144,966	(2,822)	142,144
2029	112,720	129,667	(2,668)	126,999
2030	118,370	123,857	(2,506)	121,351
2031-2035	592,025	529,328	(9,771)	519,557
2036-2040	565,485	384,154	(4,393)	379,761
2041-2045	560,520	248,782	(133)	248,649
2046-2050	456,425	135,701	—	135,701
2051-2055	363,215	41,859	—	41,859
	<u>3,395,800</u>	<u>2,058,632</u>	<u>(28,366)</u>	<u>2,030,266</u>
Less: Current portion	(38,460)			
Add: Unamortized bond premiums	353,046			
Long-term portion as of June 30, 2025	<u>\$ 3,710,386</u>			

* The SFPUC received an IRS notice, dated April 8, 2025, that the federal interest subsidy on the 2010 Series B bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of \$1,715, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2025.

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

(n) 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 matured 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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. There are no events of default stated in this MOU.

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

The future annual debt service relating to the certificates of participation 2009 Series D outstanding as of June 30, 2025 is 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:				
2026	\$ 937	1,436	(474)	962
2027	977	1,375	(454)	921
2028	1,019	1,312	(433)	879
2029	1,061	1,246	(411)	835
2030	1,105	1,177	(388)	789
2031-2035	6,276	4,723	(1,559)	3,164
2036-2040	7,740	2,458	(811)	1,647
2041-2042	3,580	234	(78)	156
Total	22,695	13,961	(4,608)	9,353
Less: Current portion	(937)			
Long-term portion as of June 30, 2025	\$ 21,758			

* The SFPUC received an IRS notice dated April 8, 2025, that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of \$278, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2025.

(o) Lake Merced Green Infrastructure Project CWSRF Loan

In January 2016, then amended in May 2016, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund ("CWSRF") Loan to fund the Lake Merced Green Infrastructure Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is \$7,435. The loan bears an interest rate of 1.6% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; completion was in October 2020. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling \$6,116 and a construction period interest of \$166 transferred to principal. As of June 30, 2025 and 2024, the principal amount outstanding of the loan was \$5,602 and \$5,775, respectively.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(p) Southeast Plant (SEP) 521/522 and Disinfection Upgrade Project CWSRF Loan

In September 2017, then amended in December 2017 and May 2018, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP 521/522 and Disinfection Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is \$40,007. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in July 2019. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$39,741. As of June 30, 2025 and 2024, the principal amount outstanding of the loan was \$34,272 and \$35,350, respectively.

(q) North Point Facility Outfall Rehabilitation Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the North Point Facility Outfall Rehabilitation Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is \$20,199. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in February 2018. The CWSRF loans is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$17,706. As of June 30, 2025 and 2024, the principal amount outstanding of the loan was \$14,247 and \$14,744, respectively.

(r) Southeast Plant (SEP) Primary/Secondary Clarifier Upgrade Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Primary/Secondary Clarifier Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is \$34,446. The loan bears an interest rate of 0.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in June 2018. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$29,197. As of June 30, 2025 and 2024, the principal amount outstanding of the loan was \$23,622 and \$24,445, respectively.

(s) Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the OSP Digester Gas Utilization Upgrade Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of \$54,388, which includes \$4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term,

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

with loan repayment beginning one year after substantial completion of each project's construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$45,103, which included a loan forgiveness grant of \$4,000 and a receivable for reimbursement of \$9,285. As of June 30, 2025 and 2024, the principal amount outstanding of the loan including capitalized interest was \$50,411 and \$30,067, respectively.

(t) Southeast Plant (SEP) Biosolids Digester Facilities Project

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Biosolids Digester Facilities Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of \$132,000, which includes \$4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in May 2026. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$132,000, which includes a \$4,000 loan forgiveness grant. As of June 30, 2025 and 2024, the principal amount outstanding of the loan was \$128,000.

(u) Southeast Plant (SEP) New Headworks (Grit) Replacement Project

In May 2021, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP New Headworks (Grit) Replacement Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of \$112,036. The loan bears an interest rate of 1.1% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in August 2027. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling \$91,020 and a receivable for reimbursement of \$21,016. As of June 30, 2025 and 2024, the principal amount outstanding of the loan including capitalized interest was \$110,452 and \$79,281, respectively.

(v) New Treasure Island Wastewater Treatment Plant

In June 2025, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the New Treasure Island Wastewater Treatment Plant. The CWSRF loan is in the amount of \$110,000. The loan bears an interest rate of 1.7% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in February 2027. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. As of June 30, 2025 the Enterprise has not submitted any reimbursement requests to date and the principal amount outstanding of the loan was \$0.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(w) Folsom Area Stormwater Improvement Project

In June 2025 the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the Folsom Area Stormwater Improvement Project. The CWSRF loan is in the amount of \$50,000. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in September 2028. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. As of June 30, 2025 the Enterprise has not submitted any reimbursement requests to date and the principal amount outstanding of the loan was \$0.

(x) Future Annual Debt Service of State Revolving Fund Loans (CWSRF Loans)

The future annual debt service relating to the SRF Loans to fund the Lake Merced Green Infrastructure Project, the North Point Facility Outfall Rehabilitation Project, the SEP Primary/Secondary Clarifier Upgrade Project, the SEP 521/522 and Disinfection Upgrade Project, the OSP Digester Gas Utilization Upgrade Project, the SEP Biosolids Digester Facilities Project, and the SEP New Headworks (Grit) Replacement Project outstanding as of June 30, 2025 is as follows:

California Clean Water State Revolving Fund Loans	Principal	Interest and Fees*	Total
Fiscal years ending June 30:			
2026	\$ 6,419	3,172	9,591
2027	10,884	5,009	15,893
2028	11,036	4,856	15,892
2029	11,191	4,701	15,892
2030	11,348	4,544	15,892
2031-2035	59,182	20,281	79,463
2036-2040	63,469	15,994	79,463
2041-2045	68,077	11,385	79,462
2046-2050	68,944	6,467	75,411
2051-2055	50,874	2,195	53,069
2056	5,182	73	5,255
	366,606	78,677	445,283
Less: Current portion	(6,419)		
Long-term portion as of June 30, 2025	\$ 360,187		

* Interest and Fees included debt administrative fees for the North Point Facility and SEP Clarifier Upgrade SRF loans.

(y) WIFIA Loan Agreement-Biosolids Digester Facility Project

In July 2018, the SFPUC entered into a WIFIA Loan Agreement with the United States Environmental Protection Agency (EPA) in the amount of \$699,242. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water SRF Loans entered into with the California State Water Resources Control Board.

The original 2018 loan bore a fixed interest rate of 3.09% for a 35-year term, with loan repayment expected to begin in fiscal year 2026, after substantial completion of project construction. In June 2020 the SFPUC re-executed the WIFIA Loan Agreement to have a fixed interest rate of 1.45% for a 35-year term. All other terms of WIFIA Loan Agreement are unchanged.

In March of 2023, the SFPUC received disbursement of \$122,283 in respect to eligible project costs and a capitalized interest of \$74 added to principal. In January of 2024, the SFPUC received a second disbursement of \$439,995 in respect to eligible project costs. In February 2025, the SFPUC received a final disbursement of \$136,964. As of June 30, 2025 and 2024, the principal amount outstanding of the loan including capitalized interest was \$713,314 and \$567,511, respectively.

(z) WIFIA Loan Agreement-Southeast Treatment Plant Improvements

In June 2020, another WIFIA Loan agreement with the United States Environmental Protection Agency in the amount of \$513,862 was executed. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's SEP New Headworks Replacement Project and additional costs of the revised Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water SRF Loans entered into with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 1.45% for a 35-year term, with loan repayment expected to begin in fiscal year 2025, after substantial completion of project construction.

In January of 2024, the SFPUC received disbursement of \$352,573 in respect to eligible project costs. In February 2025, the SFPUC received a final disbursement of \$161,289. As of June 30, 2025 and 2024, the principal amount outstanding of the loan including capitalized interest was \$522,056 and \$354,920, respectively.

(aa) WIFIA Master Loan Agreement and Project 1 Loan Agreement

In April 2023, the SFPUC entered into a WIFIA Master Agreement and Project 1 Loan Agreement with the United States Environmental Protection Agency. The WIFIA Master Agreement and Project 1 Loan was entered into pursuant to the WIFIA authorized by Congress in 2014. The SFPUC entered the WIFIA Master Loan Agreement with the EPA in an amount not to exceed \$791,337 to provide partial funding for projects in the Wastewater Enterprise Capital Plan. The Master Agreement defines the general terms for funding a series of WIFIA loans, the first of which is the "Project 1 Loan Agreement". The incurrence of the Project 1 Loan Agreement, in an aggregate initial principal amount not to exceed \$369,335, will provide partial funding for six Wastewater Enterprise capital improvement projects. Those projects are Westside Pump Station Reliability Improvements, North Shore Pump Station Wet Weather Improvements, Wawona Area Stormwater Improvement, New Treasure Island Wastewater Treatment Plant, Folsom Area Stormwater Improvement, and Yosemite Creek Daylighting. Proceeds of the loan will fund 49% of project costs plus eligible expenses. The Project 1 Loan is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water SRF Loans entered into with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 3.65% for a 32-year term, with loan repayment expected to begin in fiscal year 2033. In February 2025, the SFPUC received disbursement of \$157,643. As of

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

June 30, 2025 and 2024 the principal amount outstanding of the loan including capitalized interest was \$159,282 and \$0, respectively.

(ab) Future Annual Debt Service of WIFIA Loans

The future annual debt service relating to the WIFIA Loan to fund the Biosolids Digester Facility Project and the Southeast Treatment Plant Project outstanding as of June 30, 2025 is as follows:

Water Infrastructure Finance and Innovation Act (WIFIA) Loans	Principal	Interest	Total
Fiscal years ending June 30:			
2026	\$ —	5,190	5,190
2027	—	10,381	10,381
2028	—	10,381	10,381
2029	—	10,380	10,380
2030	—	10,380	10,380
2031-2035	—	101,652	101,652
2036-2040	—	118,820	118,820
2041-2045	111,009	116,086	227,095
2046-2050	332,557	96,741	429,298
2051-2055	441,799	64,130	505,929
2056-2060	436,539	25,487	462,026
2061-2062	72,748	1,423	74,171
	<u>1,394,652</u>	<u>571,051</u>	<u>1,965,703</u>
Less: Current portion	—		
Long-term portion as of June 30, 2025	\$ <u>1,394,652</u>		

(ac) Events of Default and Remedies

Significant events of default as specified in the Wastewater Enterprise Indenture (applicable to Wastewater Revenue Bonds, SRF Loans, and WIFIA 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, 2025 and 2024, there were no such events described herein.

(ad) Leases

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

Variable Lease Payments

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded for 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

variable lease payments not included in the measurement of the lease liability were \$211 and \$4 during the years ended June 30, 2025 and 2024, respectively.

Future annual lease payments as of June 30, 2025:

Year ending June 30:	Principal amount	Interest amount	Total
2026	\$ 1,766	135	1,901
2027	1,817	84	1,901
2028	1,209	37	1,246
2029	696	11	707
	5,488	267	5,755
Less: Current portion	(1,766)		
Long-term portion as of June 30, 2025	\$ 3,722		

There were no future lease payments or balances as of June 30, 2024.

(ae) Subscription-Based Information Technology Arrangements

Wastewater 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 vary, which ranges between 1-5 years.

Future annual subscription payments as of June 30, 2025 and 2024 are as follows:

Year ending June 30:	Principal amount	Interest amount	Total
2026	\$ 503	13	516
2027	94	3	97
	597	16	613
Less: Current portion	(503)		
Long-term portion as of June 30, 2025	\$ 94		

Year ending June 30:	Principal amount	Interest amount	Total
2025	\$ 93	2	95
2026	93	1	94
	186	3	189
Less: Current portion	(93)		
Long-term portion as of June 30, 2024	\$ 93		

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds, SRF, and WIFIA loans. Proceeds from the revenue bonds, revenue notes, SRF, and WIFIA loans provided financing for various

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

capital construction projects, and to refund previously issued bonds. The bonds, SRF, and WIFIA loans are payable through fiscal years 2055, 2056, and 2062, respectively, and are solely from revenues of the Enterprise.

The outstanding amount of revenue bonds issued, revenue notes issued, SRF loans, and WIFIA loans, total principal and interest remaining, principal and interest paid during fiscal years 2025 and 2024, applicable net revenues, and funds available for debt service are as follows:

	2025	2024
Bonds issued with revenue pledge	\$ 3,395,800	2,369,600
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	366,606	317,662
WIFIA loans with revenue pledge	1,394,652	922,431
Principal and interest remaining due at the end of the year	7,865,418	5,462,786
Principal and interest paid during the year	114,350	91,601
Net revenues for the year ended June 30	239,391	188,709
Funds available for debt service	416,307	354,681

(9) Leases

Wastewater 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, 2025 and 2024 were \$23 and \$37, respectively.

Principal and interest requirements to maturity for the lease receivable on June 30, 2025 are as follows:

Year ending June 30:	Principal	Interest	Total
2026	\$ 241	26	267
2027	257	19	276
2028	214	12	226
2029	105	8	113
2030	112	4	116
2031-2035	89	1	90
	<u>\$ 1,018</u>	<u>70</u>	<u>1,088</u>

(10) Employee Benefits

(a) Pension Plan

The Enterprise participates in a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). The SFERS Plan is administered by the San Francisco City and County Employees' Retirement System (SFERS). Contributions are recognized in the period in which they are due pursuant to legal requirements. For purposes of measuring the net pension liability, deferred outflows/inflows of

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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. 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.

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

Fiscal Year 2025	
Valuation Date (VD)	July 1, 2023 updated to June 30, 2024
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023 to June 30, 2024
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

SFERS Plan – The City is an employer of the SFERS Plan with a proportionate share of 94.70% as of June 30, 2024 (measurement date), and 94.85% as of June 30, 2023 (measurement date), a 0.15% 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 2024 and 2023. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. The Enterprise's allocation of the City's proportionate share was 1.97% as of June 30, 2024 and 1.95% as of June 30, 2023 (measurement dates).

Plan Description – The SFERS Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost of living adjustments (COLA) after retirement. The SFERS 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 SFERS Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the SFERS Plan. That report may be obtained on the Retirement System's website <https://mysfers.org> or by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the SFERS 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 SFERS Plan members are:

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The SFERS Plan provides for a Supplemental COLA in years when there are sufficient “excess” investment earnings in the SFERS 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 fair 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 SFERS Plan is fully funded on a fair 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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Funding and Contribution Policy

SFERS Plans – 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 11.0% and 7.5% to 11.5%, as a percentage of gross covered salary in fiscal years 2025 and 2024. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The Enterprise is required to contribute at an actuarially determined rate. Based on the July 1, 2023 actuarial report, the required employer contribution rates for fiscal year 2025 ranged from 14.91% to 16.91%. Based on the July 1, 2022 actuarial report, the required employer contribution rates for fiscal year 2024 ranged from 15.24% to 18.24%.

Employer contributions and employee contributions made by the employer to the SFERS 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 years ended June 30, 2024 and 2023 (measurement periods) was \$636,991 and \$638,003, respectively. The Enterprise's allocation of employer contributions for fiscal years 2024 and 2023 was \$12,402 and \$12,383, respectively.

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

Fiscal Year 2025

As of June 30, 2025, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of \$3,775,717. The City's net pension liability 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, 2024 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 rolled forward to June 30, 2024 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, 2025 was \$74,339.

For the year ended June 30, 2025, the City's recognized pension expense was \$734,019 including amortization of deferred outflows/inflows related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflows/inflows related pension items was \$15,675. Pension expense increased from the prior year, largely due to the amortization of deferrals.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

As of June 30, 2025, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2025 Schedule of Deferred Outflows and Inflows of Resources		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 12,829	—
Differences between expected and actual experience	11,719	—
Changes in assumptions	5,863	1,788
Net difference between projected and actual earnings on pension plan investments	13,735	—
Change in employer's proportion	851	384
Total	\$ 44,997	2,172

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

Fiscal years	Deferred Outflows/(Inflows) of Resources
2026	\$ (2,281)
2027	26,486
2028	4,718
2029	1,073
Total	\$ 29,996

At June 30, 2025 the Enterprise's reported \$12,829 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 ended June 30, 2026.

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 of \$3,456,687. The City's net pension liability 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 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 was \$67,299.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(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 outflows/inflows related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflows/inflows related pension items was \$14,091. 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		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 12,402	—
Differences between expected and actual experience	7,231	—
Changes in assumptions	8,710	3,974
Net difference between projected and actual earnings on pension plan investments	12,736	—
Change in employer's proportion	1,606	81
Total \$	42,685	4,055

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	Deferred Outflows/(Inflows) of Resources
2025	\$ 769
2026	(3,318)
2027	25,168
2028	3,609
Total	\$ 26,228

Actuarial Assumptions

Fiscal Year 2025

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2024 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2023 actuarial valuation. Refer to July 1, 2023 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <https://mysfers.org>.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions		SFERS Plan			
Valuation Date		July 1, 2023 updated to June 30, 2024			
Measurement Date		June 30, 2024			
Actuarial Cost Method		Entry-Age Normal Cost			
Expected Rate of Return		7.20% net of investment expenses			
Municipal Bond Yield		3.93% as of June 30, 2024			
		3.65% as of June 30, 2023			
		Bond Buyer 20-Bond GO Index, June 29, 2023 and June 27, 2024			
Inflation		2.50%			
Projected Salary Increases		3.25% plus merit component based on employee classification and years of service			
Discount Rate		7.20% as of June 30, 2024			
		7.20% as of June 30, 2023			
Administrative Expenses		0.60% of payroll as of June 30, 2024			
		0.60% of payroll as of June 30, 2023			
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, 2024	2.00%	1.90%	2.50%	3.60%
	June 30, 2023	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, 2024. The municipal bond yield increased from 3.65% to 3.93%.

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, 2024 measurement date were based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and a review of economic assumptions as of July 1, 2023.

Fiscal Year 2024

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability 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 July 1, 2022 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <https://mysfers.org>.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (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 29, 2023				
Inflation	2.50%				
Projected Salary Increases	3.25% plus merit component based on 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%.

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.

Discount Rate

Fiscal Year 2025

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, 2024 and 2023 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2024 was 7.20%. The projection of cash flows used to determine the discount rate assumed that SFERS 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, 2023 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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. 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 fair 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.

A 0.50% Supplemental COLA is expected to be payable as of July 1, 2024 for most non-Prop C members due to the favorable investment returns for fiscal year 2024. 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

<u>Fiscal years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96</u>
		<u>or After Prop C</u>
2026+	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 future benefit payments for current members through 2106. 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 3.93% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2024 was 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

experienced by the Retirement System. Expected future returns were determined by using best-estimate of expected future nominal rates of return for each major asset class over 10 and 30-year horizons. These estimates were combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return by the target asset allocation percentage. Target allocation and best estimates of geometric long-term expected real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset Class	Target Allocation from January 2021 - June 2024	Target Allocation effective as of July 2024	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	32.0 %	4.2 %
Private Equity	23.0	20.0	7.2
Private Credit	10.0	10.0	5.9
Real Assets	10.0	10.0	5.5
Absolute Return	10.0	10.0	4.4
Treasuries	8.0	8.0	1.8
Liquid Credit	5.0	12.0	3.9
Cash	0.0	1.0	1.2
Leverage	-3.0	-3.0	1.6
Total	<u>100.0</u>	<u>100.0</u>	

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 and 2022 (measurement date).

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 SFERS 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

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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.

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 was 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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Asset Class	Target Allocation	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 Returns	10.0	4.4
Treasuries	8.0	1.7
Liquid Credit	5.0	3.5
Leverage	-3.0	1.4
Total	100.0	

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 for the SFERS Plan, calculated using the discount rate, as well as what the Enterprise's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2025

Employer	June 30, 2024 (measurement date)		
	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Wastewater	\$ 171,127	74,339	(5,412)

Fiscal Year 2024

Employer	June 30, 2023 (measurement date)		
	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Wastewater	\$ 157,852	67,299	(7,362)

(b) Other Postemployment Benefits (OPEB)

The Enterprise participates in the City's 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. The plan 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 benefits plan.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(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 2025

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

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

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, 2024 and 2023. The Enterprise's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Enterprise's allocated percentage. The Enterprise's proportionate share of the City's OPEB elements as of June 30, 2024 and 2023 was 1.29% and 1.26%, respectively, as of the measurement date.

Benefits

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

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

¹ Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012, under charter Section 8.603.

² No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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, 2025 and 2024, the City’s funding was based on “pay-as-you-go” plus a contribution of \$52,126 and \$48,779 to the Retiree Healthcare Trust Fund, respectively. The “pay-as-you-go” portion paid by the City was \$248,806 for a total contribution of \$300,932 for the fiscal year ended June 30, 2025, and \$229,922 for a total contribution of \$278,701 for the fiscal year ended June 30, 2024. The Enterprise’s proportionate share of the City’s contributions for fiscal year 2025 was \$3,879, and for fiscal year 2024 was \$3,498.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2025

As of June 30, 2025, the City reported net OPEB liability related to the Plan of \$3,921,799. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2025 was \$50,552.

For the year ended June 30, 2025, the City's recognized OPEB expense was \$259,579. 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/(income) was \$7,556.

As of June 30, 2025, the Enterprise reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 3,879	\$ -
Differences between expected and actual experience	1,524	4,736
Changes in assumptions	2,151	-
Net difference between projected and actual earnings on plan investments	-	566
Change in proportion	3,545	1,175
Total	\$ 11,099	\$ 6,477

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:

2026	\$ 565
2027	434
2028	(352)
2029	390
2030	(147)
Thereafter	(147)
Total	\$ 743

At June 30, 2025, the Enterprise reported \$3,879 as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net OPEB liability in the reporting year ending June 30, 2026.

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 \$49,260.

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/(income) was (\$647).

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

As of June 30, 2024, the Enterprise reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 3,498	\$ -
Differences between expected and actual experience	2,116	5,711
Changes in assumptions	1,432	-
Net difference between projected and actual earnings on plan investments	377	-
Change in proportion	5,393	98
Total	\$ 12,816	\$ 5,809

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	\$ 1,056
2026	956
2027	829
2028	42
2029	626
Total	\$ 3,509

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

Fiscal Year 2025

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2024 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2024
Measurement Date	June 30, 2024
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.87% trending down to ultimate rate of 3.94% in 2075 Medicare trend starts at 6.87% trending down to ultimate rate of 3.93% 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-Annuityants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

	Published Table	Adjustment Factor	
		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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements June 30, 2025 and 2024 (Dollars in thousands, unless otherwise stated)

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

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

	Published Table	Adjustment Factor	
		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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(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 2025		Healthcare Cost		
Employer	-1.00%	Trend Rate	1.00%	
Wastewater	\$ 42,605	\$ 50,552	\$ 60,406	

Fiscal Year 2024		Healthcare Cost		
Employer	-1.00%	Trend Rate	1.00%	
Wastewater	\$ 41,892	\$ 49,260	\$ 58,404	

Discount Rate

Fiscal Year 2025

The discount rate used to measure the Total OPEB Liability as of June 30, 2024 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:

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	25.0%	5.5%
U.S. Small Cap	2.0%	6.4%
Developed Market Equity (non-U.S.)	13.0%	5.9%
Emerging Market Equity	10.0%	5.9%
Credit		
Bank Loans	3.0%	3.7%
High Yield Bonds	3.0%	3.9%
Rate Securities		
Investment Grade Corporate Bonds	7.0%	1.9%
Short-term Treasury Inflation-Protected Securities (TIPS)	5.0%	0.9%
Private Markets		
Private Equity	10.0%	6.9%
Private Debt	5.0%	6.2%
Core Private Real Estate	5.0%	5.2%
Infrastructure (Core Private)	2.0%	6.0%
Risk Mitigating Strategies		
Global Macro	10.0%	1.6%
Total	<u>100.0%</u>	

The following presents the Enterprise's proportionate share of the City's net OPEB liability (NOL) 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:

Employer	June 30, 2024 (measurement period)		
	1% Decrease Share of NOL @ 6.00%	Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	\$ 59,592	\$ 50,552	\$ 43,134

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:

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(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 Corporate 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	<u>100.0%</u>	

The following presents the Enterprise's proportionate share of the City's net OPEB liability (NOL) 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:

June 30, 2023 (measurement period)					
Employer		1% Decrease Share of NOL @ 6.00%		Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	\$	57,654	\$	49,260	\$ 42,377

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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(11) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water 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 \$45,226 or 32.0%, which included COVID-19 Project expenses, and \$35,943 or 28.8% were allocated to the Enterprise for the years ended June 30, 2025 and 2024, 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 electricity from Hetch Hetchy Power at market rates. This amount, totaling \$14,841 and \$12,377 for the years ended June 30, 2025 and 2024, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise purchases water from Water Enterprise at retail rates. This amount, totaling \$1,890 and \$1,701 for the years ended June 30, 2025 and 2024, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise provides sewer services to other City departments at non-residential rates established by the Commission, and through the Customer Services Bureau, bills and collects sewer service charges on behalf of the Enterprise.

The City's Department of Public Works provides certain engineering and other services to the Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. These amounts totaling approximately \$8,547 and \$8,711 for the years ended June 30, 2025 and 2024, respectively, have been included in services provided by other departments in the accompanying financial statements.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges totaling approximately \$18,935 and \$16,757 for the years ended June 30, 2025 and 2024, respectively, have been included in services provided by other departments in the accompanying financial statements.

As of June 30, 2025 and 2024, the Enterprise has payables in the amount of \$291 and \$405, respectively, which is associated with the SFPUC Headquarters Living Machine system.

As of June 30, 2025 and 2024, the Enterprise has interfund receivable from DPW for the Mission Bay South custom work project of \$70 and \$82, respectively.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. 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, 2025, the Enterprise's allocable shares of expenses and prepayment were \$22 and \$1,081, respectively, and as of June 30, 2024 were \$21 and \$1,103, respectively.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

SFPUC's 30-year lease agreement with the San Francisco Port Commission, for the use of approximately 4,833 square feet of land located within Seawall Lot 345 and within the public right-of-way on Terry A. Francois Boulevard and on Illinois Street, commenced on September 1, 2018. SFPUC intends to use the premises for the reconstruction of the Mariposa Pump Station and Force Main Improvements. Total payment under this agreement is \$502, which was fully made as of fiscal year 2019. As of June 30, 2025, the Enterprise's expenses and prepayment were \$17 and \$388, respectively, and as of June 30, 2024 were \$17 and \$405, respectively.

(12) Risk Management

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

Risk Types	Coverage Approach
(a) General Liability	Self-Insured
(b) Workers' Compensation	Self-Insured through City-wide 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	Contractual Risk Transfer
(j) Errors and Omissions	Contractual Risk Transfer
(k) Builders' Risk	Contractual Risk Transfer
(l) Tenants' and Users' Liability Insurance Policy	Purchased Insurance
(m) Active Assailant Policy	Purchased Insurance

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(a) General Liability

The Enterprise's liability as of June 30, 2025, was estimated based on professional judgement regarding probable claims exposure provided by the City Attorney's Office and includes an estimate of incurred but not reported losses. The recorded liability represents management's best estimate of the City's potential exposure based on currently available information.

The changes for the general liability (damage claims) for the years ended June 30, 2025, 2024, and 2023 were as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid and changes in estimates</u>	<u>End of year</u>
2025	\$ 115,083	4,968	(40,950)	79,101
2024	4,350	112,467	(1,734)	115,083
2023	12,045	2,716	(10,411)	4,350

(b) Workers' Compensation

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

The changes in the liabilities for workers' compensation for the years ended June 30, 2025, 2024, and 2023 were as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid and changes in estimates</u>	<u>End of year</u>
2025	\$ 9,012	1,886	(1,997)	8,901
2024	7,998	2,680	(1,666)	9,012
2023	7,546	2,976	(2,524)	7,998

(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.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(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.

(l) Tenants' and Users' Liability Insurance Policy

A policy is retained to provide coverage for injuries and property damage to third parties relating to injuries sustained on premises and scheduled events, purchased for the Southeast Community Center.

(m) Active Assailant Policy

A policy is retained to protect against third party injuries, first party property damage, business interruption, and crises management for events occurring on premise, purchased for the Southeast Community Center.

SAN FRANCISCO WASTEWATER ENTERPRISE

Notes to Financial Statements
June 30, 2025 and 2024
(Dollars in thousands, unless otherwise stated)

(13) Commitments and Litigation

(a) Commitments

As of June 30, 2025 and 2024, the Enterprise has outstanding commitments with third parties of \$554,307 and \$675,849, respectively, for various capital projects and other purchase agreements for materials and services.

(b) Grants

Grants that the Enterprise received 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 these 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, 2025, and 2024, the Enterprise recorded \$6,123 and \$6,451 in pollution remediation liability, respectively for the Yosemite Creek toxic sediments. The decrease of \$328 in pollution remediation liability in fiscal year 2025 is due to payment made for the remediation costs related to Yosemite Creek.

**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 Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2025.

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.

A handwritten signature in black ink that reads "Macias Gini E O'Connell LEP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 5, 2025

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

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

Follow Us **@MySFPUC**

Cover photo: Treasure Island Water
Resource Recovery Facility

Back cover photo: Southeast Wastewater
Treatment Plant, Biosolids Digester

Photos by: Robin Scheswohl, Sabrina Wong

Date of Publication:
November 2025