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

Financial Strategy

San Francisco Public Utilities Commission 10-Year Financial Plan

A discussion of key policies, strategic goals, and assumptions that guide the 10-Year Plan

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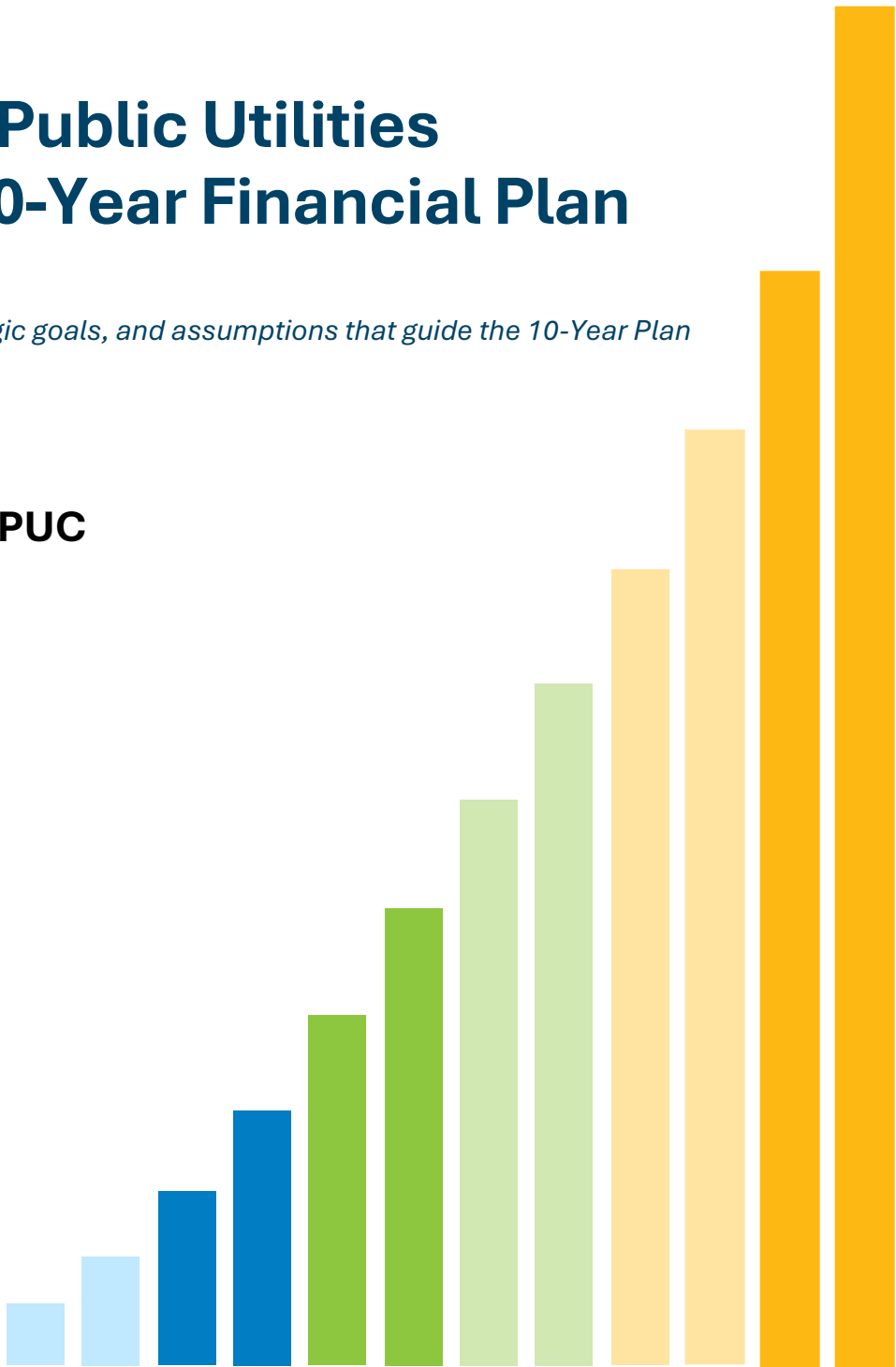
Financial Planning, SFPUC



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Introduction

SFPUC Overview

The San Francisco Public Utilities Commission (SFPUC) is a department of the City and County of San Francisco and is responsible for utility services associated with operating and maintaining three enterprises: the Water Enterprise, the Wastewater Enterprise, and the Power Enterprise, which includes Hetch Hetchy Power and CleanPowerSF. The Enterprises are operated and managed as separate financial entities with separate enterprise funds.

As the largest water purveyor in Northern California, the Water Enterprise serves a population of nearly 2.8 million people in over 30 cities, providing water directly to customers in San Francisco and wholesale water service to 27 water agencies. Within San Francisco, the Wastewater Enterprise provides wastewater and stormwater collection, treatment, and disposal services, managing its combined sewer system and three water pollution control plants (Southeast Treatment Plant, Oceanside Treatment Plant, and the North Point Wet Weather Facility).

To meet the electricity needs of San Francisco's municipal, business, residential, and wholesale customers, the Power Enterprise operates two retail electricity programs: Hetch Hetchy Power, San Francisco's publicly owned utility (POU), and CleanPowerSF, San Francisco's community choice aggregation program (CCA). Hetch Hetchy Power generates, schedules, purchases, sells, transmits, distributes, meters, and bills electricity to retail and wholesale customers, responds to outages, and owns, operates, and maintains the majority of the City's streetlight system. Hetch Hetchy Power customers include City and County agencies and a growing number of commercial and residential customers, including those associated with the buildout of redevelopment areas (such as Treasure and Yerba Buena Islands, Candlestick/Hunter's Point, and Mission Rock). CleanPowerSF schedules, purchases, and sells electricity to residential and commercial customers located exclusively in the City, and is the power provider for the majority of San Francisco's energy supply.

Purpose

The 10-Year Financial Plan is a summary of projected revenues, expenditures, fund balances, and financial metrics for each SFPUC enterprise over a 10-year period. As required by the San Francisco Charter Section 8B.125, these long-term projections are updated annually to reflect changes in operating budgets, capital spending, and revenue generation. The financial plan concludes with a projection of the rate revenue adjustments needed to fund the ongoing activities of the enterprises. In line with SFPUC's Strategic Plan goal of Financial Sustainability, the plan serves as an opportunity to transparently evaluate the financial challenges facing each enterprise and develop strategies to meet their financial goals and obligations. In addition, it is the primary method to assess future compliance with the targets set in the agency's adopted financial policies. Consolidating these key financial indicators into the 10-Year Plan serves to inform the SFPUC's long-term planning decisions, such as the biennial operating and capital budgets, long-range capital planning, and capital financing strategies. As with all forecasts, the plan represents the best available information, but actual expenses, revenues, and financial metrics will change both based on SFPUC's future budget choices and actual results.

It is important to recognize that the adoption of the financial plan does not constitute adoption of the projected rates; unless noted, rates presented in this plan are solely forecasts. Future rate adoption follows the approval process governed by state and local laws, including separate Commission action. Commission rate hearings will take place in Spring 2026 to approve one-to-two years of rates for all customers and enterprises. Retail rate adjustments are informed by comprehensive rate studies, which occurs at least every five years as required by the San Francisco Charter Section 8B.125.

Methodology

The financial plan is informed by the latest available financial and operational data and guided by City and Commission policies, goals, and objectives. The forecasts in this report are developed in financial models created by the Financial Planning team to address the complex financial planning needs facing the enterprises. These models allow the agency to evaluate the impact on rates of different capital and operating budgets, financing assumptions, expenditure plans, and customer sales volumes. As discussed in the FY 2026-27 Capital Plan report, this year's budget development process included extensive alternatives analysis, with the projected rate increases and financial metrics resulting from each proposal used to inform changes to the capital plan's magnitude and schedule.

The proposed plans incorporate historic actual revenues and expenditures, the proposed operating budget, the proposed capital plan, capital project spending schedules, updated debt service schedules for new debt issued in the latest fiscal year, customer growth and sales forecasts, assumptions regarding capital financing costs, and cost escalations for years beyond the operating budget. Based on these inputs, staff then calculate what rates increases would be necessary to fund the proposed budgets and confirm compliance with financial performance metrics in the agency's financial policies.

Executive Summary

Expenses

Over the next 10-year period, costs are anticipated to go up for each of the enterprises. For Water and Wastewater, capital investments are the primary driver for cost growth. Power supply costs are the main cost for CleanPowerSF, whereas both power supply and delivery and capital projects contribute to increased costs for Hetch Hetchy Power.

Table 1: Total Annual Operating and Capital Expenses by Enterprise, FY 2026-27 Through FY 2035-36 (Million Dollars)

($M)	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual Growth
Water	$825	$886	$910	$951	$1,011	$1,069	$1,131	$1,174	$1,228	$1,250	**4.4%**
Wastewater	$588	$655	$709	$805	$892	$962	$1,029	$1,118	$1,173	$1,225	**8.4%**
Hetch Hetchy Power	$468	$515	$570	$589	$568	$607	$655	$707	$842	$932	**9.6%**
CleanPowerSF	$399	$397	$425	$431	$463	$489	$512	$539	$585	$645	**5.4%**

In Water and Wastewater, operating expenditure projections escalate across the 10-year planning horizon at projected inflationary rates, while Hetch Hetchy Power and CleanPowerSF's operating expenditures are largely driven by anticipated growth in power supply costs and delivery charges. For all Enterprises, salary and fringe benefit escalation in the near-term is projected to grow slightly above inflation, reflecting both approved City employee union memoranda of understanding (MOUs) and estimates from the San Francisco Mayor's Budget Office.

Capital expenditures in the financial plan reflect the projected cash need for each enterprise. The cash need is comprised of the appropriations for all revenue-funded capital and debt service payments for all debt-funded projects. To lower the costs for debt-funded projects, the SFPUC uses low-cost interim financing (such as commercial paper or revolving lines of credit) that is later retired by long term debt. Because of this, and because debt repayment is spread out over many years, there is a lag between when funds are appropriated for debt-funded capital and when those costs begin to impact the cash flow of each enterprise. Wastewater's growing Capital Improvement Program and subsequent increases in revenue-funded capital, bond issuance, and annual debt service are the primary drivers of its high annual expense growth.

Revenues

As an Enterprise department, the SFPUC receives no tax revenues and relies on utility rates as its primary source of revenue. In addition to rates, the enterprises also generate a modest amount of income from miscellaneous sources such as interest income earned on reserves, rental revenues, and non-rate penalties and fees. Table 2 summarizes the projected total revenues by Enterprise over the 10-year planning period. Utility sales comprise the majority of revenues for each of the enterprises. Sales volumes are influenced by many external factors including weather, the economy, emergencies, conservation efforts and mandates, new uses for electricity, and long-

term trends such as population growth and price elasticity. Updates in the current plan reflect the best available information and are conservatively low so as not to "bank on growth"; the agency will continually monitor actual sales and adjust future forecasts as needed.

In FY 2025-26, we project no additional recovery from the recent drought which ended in FY 2022-23 or the COVID-19 pandemic on water sales and wastewater billable volumes. Current-year baselines represent a "new normal" with modest ongoing adjustments to account for population and account growth, ongoing conservation, and reductions in consumption due to growing utility costs. In Hetch Hetchy Power, significant growth is forecasted due to new customer acquisition and electrification, though these projects primarily occur during the outer years of the plan. CleanPowerSF's growth assumes minimal impact of electrification in the short-term, but a more moderate long-run trendline.

Table 2: Total Revenues by Enterprise, FY 2026-27 Through FY 2035-36 (Million Dollars)

($M)	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual Growth
Water	$812	$866	$916	$959	$1,015	$1,077	$1,138	$1,189	$1,240	$1,274	**5.2%**
Wastewater	$564	$639	$716	$804	$894	$964	$1,038	$1,119	$1,174	$1,230	**9.4%**
Hetch Hetchy Power	$420	$459	$504	$605	$578	$614	$673	$732	$890	$967	**10.2%**
CleanPowerSF	$349	$375	$412	$443	$479	$514	$540	$571	$605	$643	**4.3%**

Proposed Financial Plan

Table 3 provides a summary of the projected rate adjustments necessary to pay for the proposed budgets and to comply with all financial policies. All rates shown below have yet to be adopted. In Spring 2026, we anticipate adoption of two years of rates (FY 2026-27 and FY 2027-28) for retail water and wastewater, and one year of rates (FY 2026-27) for wholesale water, Hetch Hetchy Power and CleanPowerSF. Especially outside of this timeframe, forecasted rates may change before adoption.

Table 3: Forecasted Rate Changes, FY 2026-27 Through FY 2035-36

Enterprise	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Annual Avg.
Retail Water	7.0%	7.0%	7.5%	7.5%	7.5%	7.0%	6.0%	6.0%	4.5%	4.5%	**6.4%**
Wholesale Water	7.9%	6.9%	3.9%	2.0%	4.5%	5.1%	5.3%	2.8%	3.6%	0.6%	**4.2%**
Wastewater	15.0%	14.5%	13.0%	13.0%	12.0%	8.0%	8.0%	8.0%	5.0%	5.0%	**10.1%**
Hetch Hetchy Power[1]	7.0%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	2.5%	2.5%	**5.8%**

[1] Hetch Hetchy Power rates shown are for retail, non-municipal customers.

Enterprise	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Annual Avg.
CleanPowerSF Generation[2]	-23.1%	8.5%	8.0%	5.5%	5.5%	4.5%	3.0%	3.0%	3.0%	3.0%	**2.1%**

Power Rates

SFPUC is forecasting power rate increases meaningfully lower than prior projections in the short-term. CleanPowerSF's supply costs have decreased from prior projections and the program's fund balance reserve currently exceeds its policy targets. To pass these savings on to customers as quickly as possible and remain competitive with PG&E's recent rate and fee changes, a 20-25% generation rate decrease (depending on customer class) is planned for March 1, 2026, with top-line rates expected to remain flat through the end of FY 2026-27. Moderate rate increases of 5.5-8.5% are anticipated in FY 2027-28 and beyond to keep pace with supply cost increases.

In Hetch Hetchy Power, retail rates are expected to increase by 6.5-7.0% annually over the next several years, lower than prior projections of 5.0-9.5%. Rate increases are largely driven by the cost of purchased wholesale power supply and transmission and distribution costs, as well as strategic capital investments that will expand the customer base and increase revenues, bringing down rate increases in the longer term. Despite increases, the 8,000 current Hetch Hetchy Power ratepayers will continue to pay the lowest electricity rates in San Francisco.

Water and Wastewater Rates

Consistent with last year's 10-Year Financial Plan, SFPUC forecasts significant short-term rate increases for customers' combined retail water and wastewater bill. In Wastewater Enterprise, these increases are mainly driven by capital spending and associated increases in debt service costs related to the replacement and modernization of the core functions of San Francisco's Southeast Treatment Plant, which was built in 1952 and handles 80% of the City's combined wastewater and stormwater flows. Current investments include construction of a new Headworks Facility, improvement of the Bruce Flynn Wet Weather Pump Station, and replacement of the Biosolids Digester Facilities – work that is largely completed. Planned investments in the 10-Year CIP include projects necessary to meet regulatory requirements and to renew other aging infrastructure, such as the construction of Nutrient Reduction facilities and replacement of the Southeast Outfall. Together, these projects at the Southeast Treatment Plant are estimated to cost over $7 billion.

Other major cost drivers for water and wastewater rates include projects such as the new wastewater treatment plant on Treasure Island, flooding mitigation projects in low-lying areas of the city, ongoing repair and replacement of sewer and water mains, and major pipeline and tunnel rehabilitation in the Hetch Hetchy Water system. In addition to replacement and renewal of aging infrastructure, many of these investments are driven by regulatory requirements. SFPUC

[2] CleanPowerSF rate increases refer to the generation portion of the bill. CleanPowerSF customers also pay PG&E delivery charges and fees. A 25% generation rate decrease represents an approximate 8.3% total bill decrease.

thoroughly evaluated opportunities to reduce these expenditures and/or extend them over longer periods of time to minimize the impact on ratepayers.

Maintaining our strong financial position while simultaneously making the large capital investments needed to meet regulatory obligations, responsibly manage our system, and improve our resilience to climate change necessitates raising utility rates. Our current forecasts indicate that, without further adjustments, the average combined water and wastewater bill could slightly exceed our Affordability Policy targets beginning in FY 2033-34, coming back under the targets in FY 2044-45. This rate trajectory does, however, improve on the prior 10 Year Financial Plan. Rate increases in the next few years are slightly lower than previously projected; however, higher expenditure projections in this timeframe mean that rates beginning in FY 2030-31 – five years from now – are higher. Despite this increase, the agency's extensive efforts to reduce the capital plan and defer all but the highest-priority projects mean that the projected combined bill in FY 2044-45 is now $482 vs. $505 in last year's projection, *an almost 5% improvement*, and is under our affordability target. The majority of the rate increases in the first two years of the plan, which are projected to be adopted in Spring 2026, are necessary to pay for debt service on bonds already issued for critical capital investment needs, limiting the ability for further short-term rate reductions. Affordability was a central value in our budget development process, leading to significant reductions in the Capital Improvement Plan. The agency remains committed to pursuing all additional opportunities to reduce costs and customer bills towards meeting the agency's affordability targets.

Planning for the Future

SFPUC is committed to long-term financial sustainability through conservative planning, strong financial policies, and transparent forecasting to protect ratepayers and maintain high bond ratings. The agency faces significant cost pressures driven primarily by its capital improvement program, which addresses aging infrastructure, climate change impacts, and increasingly complex regulatory requirements—particularly in wastewater. High local construction costs and limited federal funding contribute to rate growth. Greater regulatory certainty has improved capital planning accuracy, while proactive investments in climate resilience, water supply reliability, and regulatory compliance are fully reflected in long-term plans.

To manage these pressures, SFPUC applied stringent prioritization and affordability-focused decision-making. Capital plans were reduced from initial estimates by approximately $3.4 billion through project deferrals and tradeoffs while preserving reliability and compliance. Robust financial policies—including Debt Service Coverage, Capital Financing, Fund Balance Reserve, Affordability, and Ratepayer Assurance policies—guide responsible stewardship. The agency exceeds policy minimums for debt service coverage, fund balance reserves, and balanced capital financing, strengthening financial resilience and balancing long-term debt reliance. Despite economic uncertainty and declining federal support, SFPUC's enterprises remain financially strong, have outperformed conservative projections, achieved refinancing savings for ratepayers, and continue to balance critical infrastructure investment with affordability goals.

Responsible Financial Management

Financial Policy Background

SFPUC remains committed to financial sustainability, recognizing that a strong financial foundation and responsible, proactive financial management are crucial to serving ratepayers into perpetuity and ensuring we keep promises to bond investors. This careful, conservative financial planning is central to sustain the vital infrastructure entrusted to our care. Moreover, it saves ratepayers money in the long term. Because the SFPUC relies heavily on debt to manage the impact on ratepayers of funding its capital plans, demonstrating a strong fiscal position to financial markets and creditors reduces borrowing costs – and customer bills.

Adopted financial policies, including the Debt Service Coverage Policy, Fund Balance Reserve Policy, and Capital Financing Policy set targets for our long-term financial planning, while the San Francisco Charter requires the agency to establish rates sufficient to maintain "high" bond ratings. Prudent financial planning is all the more important since the utility industry as a whole faces growing challenges, including a history of federal disinvestment, aging infrastructure, regulatory complexity, climate change, and high construction cost inflation.

SFPUC Key Financial Policies

- ✓ Debt Service Coverage Policy
- ✓ Capital Financing Policy
- ✓ Fund Balance Reserve Policy
- ✓ Affordability Policy
- ✓ Ratepayer Assurance Policy

Key Financial Drivers

Economic Context Holds Stable

Recent economic trends and the post-COVID impact on employment have created credit concerns about many large cities, including San Francisco. The City & County of San Francisco's General Obligation Bonds were downgraded by Moody's from Aaa to Aa1, and by S&P from AAA to AA+, in late 2024 and early 2025, respectively, reflecting concerns at the time about a weakened local economy's impact on General Fund revenues. The SFPUC is an Enterprise department with revenue streams distinct from the City's General Fund. While changes in where employees work and where residents shop have negatively impacted "downtown" and the City's General Fund, the SFPUC has been relatively more stable. Decreases to utility usage from fewer commuters into San Francisco represent a small percentage of total sales and have been or soon will be mitigated with one-time increases to utility rates to compensate. At this time we do not forecast either improvement or worsening of revenues due to economic factors.

Other large-scale factors that may impact the national economy – geopolitical instability, tariffs, US interest rate concerns – are challenging to project. Where possible, we have incorporated higher cost estimates to account for these issues. For example, capital project budgets have been adjusted to reflect the impact of tariffs, and employee health care costs are projected to escalate at a higher rate than in prior years' plans. We will continue to monitor these cost impacts and revise as more information becomes available.

Federal Disinvestment

An important driver of rate growth nationwide is the dwindling federal support for water and wastewater infrastructure investments, leaving local ratepayers to shoulder the costs of replacing aging assets and meeting regulatory obligations. San Francisco's modern utility infrastructure, particularly its wastewater treatment, emerged during an era of substantial federal investment in utility systems. From the 1940s through the 1980s, the federal government recognized water and wastewater infrastructure as fundamental to public health and economic prosperity, channeling significant resources to support local utilities and fund critical infrastructure development. The Clean Water Act established unprecedented federal construction grant programs that enabled the SFPUC and utilities nationwide to modernize wastewater treatment plants and dramatically reduce pollution in receiving waters like the San Francisco Bay. These massive federal grants transformed what would have been prohibitively expensive local investments into achievable projects, distributing costs across the broader tax base rather than concentrating them on local ratepayers.

The Southeast Treatment Plant, originally constructed in 1952, exemplifies this partnership. Over the years of its construction and expansion, San Francisco used both local bonds and federal grants to modernize treatment facilities and expand conveyance systems to serve a growing city.

Beginning in the mid-1980s, federal policy fundamentally shifted. Direct construction grants transitioned to State Revolving Fund loans, requiring repayment with interest, albeit typically lower interest than market rates for debt. While these loan programs provide some cost advantages over traditional financing, they represent a categorical change from the grant programs that had characterized the previous decades. Increasingly, local ratepayers shouldered responsibility for infrastructure costs that had previously been shared broadly across the federal tax base.

This is not a challenge unique to San Francisco. Utilities nationwide face the same fundamental issue: infrastructure built with federal support must now be replaced with local resources. In January 2025, the US Environmental Protection Agency's Environmental Finance Advisory Board stated that "*Affordability issues are exacerbated by the fact that water is paid for primarily at the local level; local ratepayers shoulder the burden for about 95% of the nation's drinking water and wastewater infrastructure as federal spending on water has declined substantially since the 1970s.... affordability is one of the more difficult and multifaceted issues facing EPA and the nation today.*"[3]

Aging Infrastructure & Deferred Maintenance

This transition in funding availability coincided with another critical development in San Francisco. Following seven years of double-digit annual rate increases in the late 1980s and early 1990s, ratepayers expressed their concerns through Proposition H in June 1998, which enacted a freeze on water and sewer rates through 2006. While this freeze provided immediate relief to customers, it led to material long-term consequences. During the rate freeze period, the SFPUC's ability to maintain and upgrade aging assets was severely constrained. With revenues declining and

[3] U.S. Environmental Protection Agency Office of Water, Environmental Financial Advisory Board Affordability Working Group, *Advancing Water Affordability Nationwide: A Framework for Action*, 2025, epa.gov/system/files/documents/2025-01/efab-water-affordability-report.pdf.

expenses growing, credit rating agencies downgraded the agency, increasing borrowing costs, further deferring critical maintenance, and limiting the agency's financial capacity to respond. The rate freeze was lifted by Proposition E in 2002, which also created many new Charter requirements for rate oversight and bond issuance – including the requirement to produce this 10-Year Financial Plan.[4]

However, the years of the rate freeze had a lingering impact, as infrastructure that was approaching the end of its design life during this period did not receive the attention it required. The combination of reduced federal support and constrained local resources created an infrastructure sustainability gap that would eventually demand attention. Today, the SFPUC faces the need to catch up to these years of disinvestment while simultaneously confronting modern challenges to its operations.

Proactively Planning for Climate Change Adaptation

The impacts of climate change, including droughts, sea level rise, flooding from large storms, and increased wildfire risk, are already impacting utility systems across the world. The SFPUC is an industry leader in planning to address the impact of climate change. The SFPUC and the entire City launched our first Climate Action Plan in 2004 and update it every five years. Environmental stewardship is embedded in our mission statement, and the SFPUC is investing across multiple fronts to safeguard San Francisco's water, wastewater, and power systems against climate change. System resiliency projects strengthen essential infrastructure facing increasing risks from extreme weather and sea level rise, the impacts of which are already being felt today.

Our enterprises have a history of managing wildfire risks in the Sierras and have built valuable lessons from the Great Fire that accompanied the 1906 Earthquake. For example, SFPUC already proactively invests in wildfire mitigation measures for our Hetch Hetchy upcountry assets and regional watershed that long predates the Los Angeles wildfires, including substantial technical investments and capital improvements, controlled burns, and vegetation management. Within San Francisco, a separate city-wide fire water system provides dedicated fire protection with unique capabilities, including delivering water even if the potable water system were to fail and the ability to use unlimited water from the Bay.

To address worsening harmful algal blooms in the San Francisco Bay, SFPUC is developing the Southeast Plant Nutrient Reduction Project, which will help meet regulatory requirements and protect Bay water quality as climate-driven temperature changes and hydrologic variability intensify nutrient-related impacts. The SFPUC is one of a number of agencies working to address their nutrient impacts on the San Francisco Bay's water quality.

Another major example of our efforts is the $252.9 million Ocean Beach Climate Adaptation Project, which protects critical wastewater assets threatened by coastal erosion—including the Lake Merced Tunnel, Westside Pump Station, and Oceanside Treatment Plant—through a combination of buried seawalls, improved coastal access, and roadway and safety enhancements.

[4] City & County of San Francisco, 2002 Proposition E, https://sfgov.legistar.com/View.ashx?M=F&ID=10519269&GUID=CCCFFE0B-C5FC-4C84-8C40-A402506BEE45.

SFPUC is also expanding green infrastructure to manage stormwater using natural systems rather than traditional pipes alone. These projects reduce flooding, improve water quality, and create community amenities while enhancing climate resilience.

Finally, SFPUC is advancing purified water, a new drinking water supply that will build resilience to drought and diversify our water supplies in the face of a changing climate and regulatory uncertainty.

The SFPUC's capital plans do not only reflect climate change *adaptation*, but play a crucial role in *preventing* greenhouse gas emissions. Through CleanPowerSF and Hetch Hetchy Power, the SFPUC provides 100% greenhouse-gas free electricity to over 75% of the City's electricity supply. Clean energy investments—including carbon-free steam generation and improvements to the Hetch Hetchy hydropower system such as rehabilitation of the Moccasin Penstocks—will further reduce greenhouse gas emissions and strengthen long-term energy reliability. The Power Enterprise supports San Francisco's climate action plan goals while generating long-term value for ratepayers and the broader community.

Wastewater Enterprise Regulatory Compliance Costs

Like many other utilities, SFPUC is facing increasingly complex regulatory requirements, particularly within the Wastewater Enterprise, that we are proactively addressing. The current plan includes more certainty regarding these obligations. Many of these requirements relate to discharges to the Pacific Ocean and the San Francisco Bay. Other priorities driven by regulatory and permit requirements include modernizing aging wastewater and stormwater infrastructure to enhance its resiliency to seismic events and climate change and to ensure efficient and reliable transport of combined flows to the treatment facilities. An example of these investments is the Ocean Beach Climate Adaption project ($252.9 million).

The SFPUC is actively working with federal and state regulators to identify the specific investments required. Over time, this collaboration has provided increasing clarity around the scope and cost of these necessary investments. The Wastewater Enterprise's capital budget was carefully compiled with this context in mind and has allowed us to approach this year's capital plan with more certainty about our obligations than in prior years. In cases where there is still some uncertainty, we have included placeholder projects to ensure we are actively and conservatively planning around these potential future costs.

In many cases, the path forward is now clear. Compliance with the Clean Water Act and California Water Code regulatory orders issued by the San Francisco Bay Regional Water Quality Control Board are major cost drivers in our capital plan. Examples of these projects include:

- Planning, designing, and constructing new nutrient reduction facilities ($1.5 billion) at the Southeast Treatment Plant to benefit water quality in the Bay by reducing wastewater nutrients that contribute to algal blooms.
- Planning, designing, and constructing projects to increase collection system capacity and reduce the risk of flooding in the low-lying neighborhoods near 17th and Folsom ($402.5 million) and near the Lower Alemany Farmer's Market/Interstate 280 interchange ($364.1 million).

Additionally, there are certain other projects that have been included to both ensure that SFPUC's existing facilities continue to be operated and maintained in compliance with the requirements set forth in the permits issued by the Regional Water Board and EPA and to fulfill SFPUC's overarching mission to provide our customers with high quality, efficient and reliable water, power, and sewer services in a manner that is inclusive of environmental and community interests, and that sustains the resources entrusted to our care. These projects and project placeholders have been identified through extensive evaluation and assessment of the condition of the City's combined wastewater and stormwater infrastructure taking into consideration multiple factors including physical condition, age, location, risk, public safety, paving schedules, and other elements. SFPUC thoroughly evaluated opportunities to reduce these expenditures and/or extend them over longer periods of time to minimize the impact on ratepayers, however it was necessary to include them to avoid a risk to the continuity and quality of the City's services. By completing these projects, SFPUC will also help sustain a resilient stormwater and wastewater system that protects public health and the local environment.

High Construction Costs & Inflation

As discussed above, for Water and Wastewater Enterprises, the SFPUC's Capital Improvement Plan is the SFPUC's largest cost driver and the key cause of rate growth. The SFPUC's systems are among the most complex and largest public utilities in the region. In fact, with assets totaling $13.3B in Net Book Value, the SFPUC is responsible for over 37% of the City and County of San Francisco's total net assets, about equal to SF International Airport (SFO) and the SF Municipal Transport Agency (SFMTA) combined. Much of the SFPUC's underlying infrastructure, including pipelines, powerhouses, pump stations, and treatment facilities, is decades old, with many components exceeding their expected service lives. As environmental regulations expand, operational costs rise, and climate pressures intensify, the financial resources required to maintain system reliability have grown substantially.

For Power, much of the cost increase is driven by the cost of purchased wholesale power supply and transmission and distribution costs, as well as strategic capital investments. These investments address aging transmission infrastructure, support grid modernization, and position the City's growing publicly-owned utility to reliably meet the City's expanding clean energy needs, especially as the local economy rebounds and more housing is built.

All this capital investment is made even more challenging because San Francisco ranks as the second most expensive city in the world for construction, just behind New York.[5] Construction costs in San Francisco are approximately double those in cities like Atlanta, Denver, and Austin, and have increased 24% since 2019, faster than the national average. The city's construction sector faces persistent labor shortages, rising material costs, and regulatory requirements that intensify market pressures. Ongoing construction cost inflation of 4.0% annually during the first 10 years is factored into our capital plans – which, over the decade-plus lifespan of some projects, leads to high, conservative cost estimates.

[5] Turner & Townsend, *Global Construction Cost Performance 2025,* https://publications.turnerandtownsend.com/global-construction-market-intelligence-2025/global-construction-cost-trends.

Cost Driver Summary

The present situation reflects decades of converging pressures. Much of the utility infrastructure serving San Francisco was constructed 40 to 100 years ago with substantial federal assistance. These systems are all now reaching the end of their useful lives simultaneously, creating unprecedented replacement needs. The federal funding that enabled their original construction has largely disappeared, with extremely limited availability of grants and declining access to federal loans. Meanwhile, costs have escalated dramatically. Construction inflation has far outpaced general inflation, regulatory compliance requirements have expanded substantially, and climate change adaptation demands investments in resilience that were not contemplated when the original systems were designed. SFPUC operates as an enterprise agency and must therefore rely on rate revenue, not the City's General Fund, to meet capital, operational, debt service, and regulatory obligations.

This financial plan, and the process to develop it, is a key tool to tackle these pressures. Public, decade-long financial forecasts of capital expenditures, associated operating cost increases, rates, and customer bills are rare in the utility sector, and this annual exercise provides a robust framework for our agency to share our proactive responses to these challenges. While we take our responsibility to customer affordability seriously, we also hold ourselves to high standards for transparently presenting the significant costs needed to continue serving our customers and maintaining reliable utility systems. This careful balancing act informs all our budget and financial decision-making.

Constraining Costs through Stringent Prioritization

A defining commitment of this capital planning process has been the prioritization of ratepayer affordability alongside infrastructure reliability. The SFPUC's Affordability Policy, adopted in 2023, establishes agency-wide performance metrics that measure the impact of capital investments on residential bills as a percentage of household income (See the *Financial Policies* section below for more detail). This policy reflects the Commission's unwavering commitment to balancing vital infrastructure investments with ratepayer affordability, especially for the SFPUC's most economically vulnerable ratepayers.

Throughout the capital planning process, affordability considerations informed every decision. Thanks to sophisticated financial models, the Financial Strategy team was able to model the implications of different funding levels and their impact on average monthly residential bills. This granular affordability analysis empowered informed decision-making at every stage of plan development, ensuring that the long-term affordability of generational investments remained at the forefront of capital budget deliberations. Despite unavoidable cost pressures from regulatory mandates, aging infrastructure, and elevated Bay Area construction costs, the SFPUC implemented rigorous cost-containment measures throughout the planning process.

When enterprises initially submitted capital proposals totaling approximately $15.9 billion, there was an agency-wide effort to make strategic tradeoffs and project deferrals, reducing the Capital Improvement Plan to $12.5 billion. This represents a reduction of roughly $3.4 billion while maintaining essential service reliability and regulatory compliance.

Through phased implementation strategies, optimized financing approaches, and continuous focus on project deliverability, the SFPUC aims to minimize rate impacts while delivering the infrastructure investments essential for reliable, compliant, and sustainable utility services.

Extensive detail on the 10 Year Capital Plan development is available in the FY 2026-27 Capital Plan Report published alongside this document.

Sustainable Financial Management Practices

The projected revenues in the 10-Year Financial Plan meet and exceed all financial policy requirements with a cushion, so that the agency has the financial resources to bolster against unforeseen events. Long-term financial forecasts are presented transparently and are based on extensive capital plans that have been rigorously developed, including the costs of responding to regulatory requirements and climate change, and factoring in construction cost inflation.

The City's Charter Section 8B.125 requires the SFPUC to "establish rates… sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise," and the SFPUC's senior leadership has further articulated its commitment to maintaining high ratings. Because high bond ratings allow the agency to access lower interest rates on its revenue bonds, maintaining the SFPUC's current high ratings has significant financial benefits for SFPUC ratepayers, especially considering the agency's very large Capital Improvement Plan, which is largely funded by future debt issuances.

In the last version of our Financial Plan, adopted in February 2025, we took proactive steps to improve our forecasted debt service coverage and reserves across our enterprises, demonstrating a strong commitment to financial sustainability. This improved outlook is maintained in this year's Financial Plan. Rate forecasts have been deliberately set to target financial metrics higher than our policy minimums. This includes higher debt service coverage and exceeding the target revenue-funded portion of the Capital Improvement Plan, balancing long-term reliance on debt and allowing for a more sustainable balance of capital financing.

Sales volumes, inflation in salary, benefits, and non-labor costs, and debt assumptions are conservatively projected. This reduces the risk of budget overruns and revenue shortfalls. Due to the inherent volatility of interest rates over a 10-year period, we have included an assumption of 6.0% interest on future bond issuance (higher than the enterprises have incurred on recent bond sales). Transactions for the two upcoming budget years assume interest rates closer to current levels, namely 4.75% and 5.0% in FY 2026-27 and FY 2027-28, respectively. Any savings due to lower bond rates and refinancings will translate into reduced ratepayer costs. In fact, SFPUC always strives to outperform its financial projections. The actual FY 2024-25 current debt service coverage significantly exceeded the conservative projection in the last annual financial plan (see Table 4, below) and allowed the SFPUC to devote more revenues to revenue-funded capital and use reserves to reduce future rates.

Table 4: FY 2024-25 Current Debt Service Coverage Projection vs. Actual Performance

FY 2024-25 Current Debt Service Coverage	February 2025 Financial Plan Projection[6]	Actual Performance[7]
Water	1.27	1.57
Wastewater	2.02	2.09
Hetch Hetchy Power	4.87	6.96

We are always pursuing opportunities to refinance or restructure our debt, take advantage of low-cost federal loans and grants, apply for renewable tax credits available under the Inflation Reduction Act, and otherwise bring down costs. However, we do not assume any of these uncertain upsides in our plan, making it more likely that we will outperform our projections. Ongoing efforts around drought surcharges, increases to the fixed portion of customer bills, and adopting rates for shorter time-period periods are making our revenues more resilient to future droughts, recessions, and associated demand reductions. Additional details are available in the *Revenue Forecasts* and *Expenditure Forecasts* sections.

Ahead of two Water bond sales in 2025, the SFPUC successfully worked with our financial advisors and investment bankers to develop a rating strategy that helped us to maintain the Water Enterprise's strong Aa2/AA- rating with a Stable outlook. This allowed our Capital Finance team to execute $1.07 billion in refinancings over two separate bond transactions in 2025, generating $81.8 million in future ratepayer savings. A portion of these refinancings included refunding of a portion of the SFPUC's outstanding Build America Bonds to reduce the impact of any potential future loss of federal subsidy payments. Our Wastewater bond rating was most recently affirmed in Fall 2025 in conjunction with closing new credit facilities; however, while affirming their AA Wastewater Enterprise rating in Summer 2024, S&P Global Ratings lowered the Wastewater Enterprise bond Outlook from Stable to Negative, strongly signaling that the FY 2024-25 10-Year Financial Plan's projected weakening of debt service coverage was a primary factor in the change. A Negative Outlook signals to the market that, absent corrective action by the SFPUC, a downgrade in the rating is possible. It is our hope that our strengthened financial position reflected in both the subsequent 2025-26 and this 2026-27 10-year plans, and history of outperforming our forecasts since that rating, together with the other credit strengths of our Wastewater Enterprise, reflect positively on future ratings and credit outlooks.

The projected financial performance of each enterprise and the forecast of our metrics are discussed below in the *10-Year Financial Plan* section.

[6] San Francisco Public Utilities Commission, *10-Year Financial Plan FY 2025-26 to FY 2034-35*, February 2025, https://www.sfpuc.gov/sites/default/files/about-us/policies-reports/FY-2026-10-Year-Plan-Report.pdf.

[7] San Francisco Public Utilities Commission, *FY 2025-26 Quarter 1 Budget Variance Report*, December 2025, https://sfpuc.sharefile.com/share/view/se061c3e9b5f4453a8e53b4c13006da9a.

Financial Policies

The Commission has adopted various policies that set requirements and parameters guiding SFPUC financial activities and decision-making. These policies demonstrate to ratepayers, credit markets, investors, and rating agencies that SFPUC is committed to financial sustainability and prudent stewardship of resources. The primary purpose of these policies is to ensure each enterprise retains sufficient funds for future infrastructure needs, replacement of aging facilities, bond reserves, and various operating expenses in a manner that mitigates unexpected disruptions to revenue or emergency expenditures. The SFPUC's Financial Policies can be found on its website, at https://sfpuc.org/about-us/policies-plans/financial-plans-and-policies.

Debt Service Coverage Policy

Adopted by the Commission in March 2017, the Debt Service Coverage Policy requires the SFPUC to maintain sufficient revenue to pay its annual debt service obligations. Debt service coverage ratios measure annual net revenues[8] as a fraction of annual debt service. For example, a debt service ratio of 1.00x means that an issuer generates exactly enough in net revenues to pay its debt service obligations, with no excess funds left. Debt service ratios higher than 1.00x indicate the issuer has additional debt capacity. Note that when funds are generated in excess of net debt payments, these funds can then be applied to repair and replacement and other recurring capital projects to reduce the need to issue future debt.

Pursuant to covenants with bondholders, enterprise revenues pledged for debt service repayment must meet minimum requirements for two different coverage ratios:

1) Indenture Coverage, which includes the Enterprise's unrestricted fund balance in net revenues, must equal a minimum of 1.25x annual debt service and;
2) Current Coverage, which includes only current year annual revenues in the sources for calculation of net revenues. SFPUC's current coverage requirement is a minimum of 1.00x annual debt service.

The unrestricted fund balance included in Indenture Coverage includes funds available to minimize risk, not meant to be used for debt repayment. Current Coverage, a more standardized measurement used by credit analysts, is a better indicator of the agency's ability to sustainably pay its debt service obligations. Based on guidance from bond counsel, the Commission's Indenture documents allow for the inclusion of fund balances that have been appropriated for current year expenditures in its calculation of Current Coverage, which differs from the standard methodology for calculating Current Coverage. Therefore, SFPUC's Current Coverage is evaluated using both calculations including and excluding such appropriated balances, for planning purposes.

Financial policies that impose higher standards than the minimum indenture requirements are essential to ensuring SFPUC maintains access to low-cost capital and retains financial flexibility to manage unanticipated economic impacts. Therefore, the Debt Service Coverage policy requires each SFPUC enterprise to adopt budgets, rates, and financial plans that generate net revenues

[8] Net revenue is calculated by subtracting operating expenses from total revenues.

such that **Indenture Coverage shall equal a minimum of 1.35x annual debt service** and **Current Coverage shall equal a minimum of 1.10x annual debt service**.

Historically, the SFPUC's current debt service coverage without any use of appropriated fund balance has been a key indicator referenced by rating agencies and other parties to assess the Enterprises' financial health. To reflect management's commitment to maintaining high ratings – as required by the Charter – and strong financial resilience, as discussed above, this Plan focuses on this key metric and targets coverage higher than required policy minimums.

During the 10-year planning period (and based on planning rates which have not yet been adopted), the Water Enterprise is forecasting rates sufficient to meet current debt service coverage of at least 1.25x in all years and averaging 1.27x, while Wastewater Enterprise forecasts current coverage of at least 1.26x in all years and an average of 1.31x. Hetch Hetchy Power's rate plan achieves a current debt service coverage of at least 1.77x in all years and averaging 3.25x.[9] Refer to the *10-Year Financial Plan* section for details.

Capital Financing Policy

Adopted by the Commission in March 2017, the Capital Financing Policy requires that a minimum ranging between **15 percent to 30 percent of each enterprise's capital budget be revenue-funded** (or cash funded capital) over the 10-year planning period. Use of cash funded capital reduces the need to pay interest on debt and reduces debt burdens on future ratepayers. On the other hand, cash funding causes current ratepayers to bear the full cost of projects appropriated in any one year. This may limit the capacity to undertake capital costs or may result in current ratepayers bearing the full cost of facilities that will be used for generations. Therefore, using revenue funding for recurring infrastructure repair and replacement projects is a prudent and sustainable approach to funding ongoing capital investments. Similarly, financing projects that will be built and then used over many years with debt helps to spread the rate burden to create intergenerational equity. The appropriate mix of revenue versus debt financing varies based on the capital investment lifecycle of each enterprise.

The 10-Year Capital Plan is forecast to be 70% debt funded and 30% revenue funded, representing a strategic balance of debt versus revenue funding. We are planning a mix that exceeds our policy minimum, balancing reliance on debt vs. revenues over time.

Fund Balance Reserve Policy

The Fund Balance Reserve Policy was adopted by the Commission in April 2022. The SFPUC faces several risks to revenue stability, including multi-year rate setting, economic recession, volatility in power purchase costs, regulatory changes, weather variability, drought, and rate structures that collect most revenues from volumetric rates. To ensure SFPUC can manage these risks and reduce susceptibility to emergency rate increases, each enterprise adopts budgets and establishes rates such that a reserve of undesignated fund balances provides sufficient capacity to bridge shortfalls in cash flow and cover unanticipated expenditures.

[9] Reported figures include fund balances appropriated for current year expenditures as discussed above. Current coverage figures without this revenue source are shown in the *10-Year Financial Plan* section.

The policy requires that Water, Wastewater, and Hetch Hetchy Power maintain a Fund Balance Reserve **minimum equal to 90 days or 25 percent of annual Operations and Maintenance Expenses**[10] in each year of the 10-year planning period. CleanPowerSF is required to maintain an operating reserve fund with a **minimum equal to 150 days cash on hand or 41 percent of annual operating expenditures and a target equal to 180 days cash on hand or 49 percent of annual operating expenditures**[11] in each year of the 10-year planning period.

While CleanPowerSF operates under much of the same legal and policy framework as the SFPUC's other utility services, the program is also uniquely reliant on a volatile power supply market and faces competitive pressures that reduce its flexibility for rate increases. Moreover, CleanPowerSF's credit impacts not only lending terms, but also third-party power supply contracts, a key tool to mitigate market exposure. As such, the Fund Balance Reserve Policy was revised and adopted by the Commission in April 2022 for CleanPowerSF's reserves to be higher than in other utilities. If CleanPowerSF's fund balance reserve ends the fiscal year below the target equal to 180 days cash on hand or 49 percent of annual operating expenditures, it must set budgets and rates to build back up to the target within three fiscal years.

As part of the update of this year's plan and commitment to financial resiliency, the agency is targeting higher fund balance reserves than policy minimums. During the 10-year financial planning period, we are projected to maintain at least 125 days or 34 percent of annual operating expenses in Water, Wastewater, and Hetch Hetchy Power. CleanPowerSF is compliant with its reserve policy and projects dropping to a minimum of 160 days cash on hand in the near-term to support its competitive position, rising to exceed the 180 days cash on hand target within three years.

Budgetary Basis Fund Balance vs. Unrestricted Cash & Investments

It is important to note that the "budgetary basis fund balance" used when assessing compliance with this policy for Water, Wastewater, and Hetch Hetchy Power refers only to our *unappropriated* fund balance. It excludes funds appropriated in prior budgets but not yet spent, despite the fact that this cash is "on hand" at a given time. Because the SFPUC's capital financing and budget practices require the up-front appropriation of funds often years before they will be actually spent, "days cash on hand," including these appropriated but unspent funds, is a significantly higher value.

For example, in Water Enterprise in FY 2024-25, ending budgetary basis fund balance reserve was $204 million, but total unrestricted cash, including appropriated but unspent funds, was $436 million – more than double (see Table 5). Notably, unrestricted cash has increased year over year across all SFPUC enterprises, in total going from $1.2 billion to $1.4 billion, demonstrating increasing liquidity over time.

[10] Inclusive of programmatic projects, but excluding all capital related expenditures

[11] Including operations and maintenance and personnel costs in annual funds, as well as power supply costs and related expenditures, but excluding contributions to the reserve fund

Table 5: FY 2024-25 and FY 2023-24 Budgetary Basis Fund Balance vs. Unrestricted Cash & Investments (Million Dollars)

($M)	FY 2024-25 Ending Available Fund Balance and % of Operating Expenses[12]	FY 2024-25 Unrestricted Cash and Investments[13]	FY 2023-24 Unrestricted Cash and Investments[14]
Water	$204 *(69%)*	$436	$380
Wastewater	$177 *(87%)*	$396	$376
Hetch Hetchy Water and Power	$218 *(90%)*	$358	$262
CleanPowerSF	$150 *(44%)*	$222	$160
Total SFPUC	**$749**	**$1,414**	**$1,179**

The SFPUC's financial statements and credit rating agencies generally reference "days cash on hand" when assessing the agency's financial strength, meaning that comparisons to projections of the budgetary basis fund balance alone are not apples-to-apples and may understate the agency's financial health.

Affordability Policy

The proposed 10-Year Plan balances affordability goals with the need to appropriately fund each enterprise's operations and to maintain long-term financial stability in the face of aging infrastructure, cost uncertainty, changing regulatory requirements, climate change, and the need for 24/7 reliable operations. As a self-sufficient City Department, the SFPUC acknowledges that its proposed capital plans and budgets rely on ratepayer dollars as its primary source of revenue.

Adopted by the Commission in November 2023, the Affordability Policy establishes agency-wide, retail performance metrics to evaluate the impact of the SFPUC's operating and capital budget on future residential rates. Each enterprise is required to measure its average individually-metered residential bill as a percentage of the 40th percentile income (Typical Customer Affordability Metric) and as a percentage of the 20th percentile income (Low Income Customer Affordability Metric) within a 20-year planning horizon. These metrics were chosen based on industry standards used by regulators, industry thought leaders, and other utilities, but adapted to fit San Francisco's local economy and policy priorities.

In the policy, the typical household is defined as the 40th percentile income, rather than the 50th percentile (median) household income so that the typical household being monitored better reflects San Francisco's high cost of living and the lower median incomes of San Francisco's Black,

[12] San Francisco Public Utilities Commission, *FY 2025-26 Quarter 1 Budget Variance Report*, https://sfpuc.sharefile.com/share/view/se061c3e9b5f4453a8e53b4c13006da9a

[13] San Francisco Public Utilities Commission, *FY 2024-25 Annual Comprehensive Financial Report*, Statements of Cash Flows, https://www.sfpuc.gov/sites/default/files/about-us/policies-reports/ACFR-2025.pdf

[14] San Francisco Public Utilities Commission, *FY 2024-25 Annual Comprehensive Financial Report*, Statements of Cash Flows, https://www.sfpuc.gov/sites/default/files/about-us/policies-reports/ACFR-2025.pdf

Indigenous, and People of Color communities. The low-income household is defined by the 20th percentile household income, in line with affordability standards currently used by the Environmental Protection Agency. The addition of the low-income customer affordability metric aims to center customers who are most heavily burdened by San Francisco's high cost of living and widening income inequality. For the low-income household, bills are calculated both at retail rates and at retail rates after accounting for applicable discount or assistance programs.

Water and Sewer bills will **target less than 3% of the Typical Customer's income, less than 7% of the Low-Income Customer's income using standard rates, and less than 5% of Low-Income Customer's income after accounting for enrollment in applicable bill discount programs**.[15] The CleanPowerSF and Hetch Hetchy Power bills are evaluated and reported as a percentage of income under this policy, but the targets for power affordability will be developed and included in a future version of this policy.

The Affordability Policy is intended to prompt consideration of the impact of projected rate increases on customer bills and drive the development and execution of strategies to address identified problems well in advance. These metrics are not a rate cap or similar restriction. In any instance where rate increases associated with capital and operating budgets are projected to exceed the affordability targets, Enterprise representatives will include with their budget proposal to the Commission (1) an identification of which targets are exceeded, (2) the rationale for exceeding the targets, and (3) proposed strategies to address affordability.

The Affordability Policy reflects the Commission's commitment to consider the burden imposed by SFPUC bills on ratepayers and emphasizes customer rate affordability as a foundational priority in achieving all its Charter and other legal requirements, underlying its credibility with ratepayers and its authority to provide utility services.

Ratepayer Assurance Policy

Adopted by the Commission in February 2012 and revised in 2017, the Ratepayer Assurance Policy establishes SFPUC's guiding principles for prudent use of ratepayer funds, establishment of rates and charges, and transparency in budgeting and rate-setting processes. Prudent use of ratepayer funds ensures accountability to ratepayers regarding SFPUC's mission statement, asset and personnel management, operating cost containment, and social and environmental stewardship.

The Ratepayer Assurance Policy also ensures operating cost containment, to the extent that costs are determined by the SFPUC. Budget proposals that increase these costs above the level of inflation must be deemed necessary, as they impact prudent use of ratepayer funds. Information on this requirement is reported out in budget adoption documents. The Policy also supports this prudent use of ratepayer funds by managing assets in a cost-effective manner and structuring its workforce effectively and efficiently to minimize personnel costs.

[15] Notably, USEPA's standard metric for combined water/wastewater bill affordability is 4.5% of median (50th percentile) household income, so SFPUC's self-imposed affordability targets are relatively much more stringent.

While the Ratepayer Assurance Policy does not set any specific performance standards, its principles reinforce SFPUC's commitment to developing rates and charges that are affordable, predictable, easy to understand, based on cost of service, and that generate sufficient revenue for full cost recovery.

Revenue Forecasts

Volumetric Sales Assumptions

Context for Volumetric Projections

As the SFPUC's rate structures are currently highly volumetric in nature, future rate revenue calculations are sensitive to changes in projected volumetric sales. To partially mitigate revenue volatility, the SFPUC has made changes to its rate structure in recent years to recover a higher percentage of our fixed expenditures through monthly service charges instead of variable rates. For example, the bifurcation of the sewer rates into wastewater and stormwater components has the benefit of increasing the fixed portion of wastewater revenues, as the stormwater component is not dependent on billed wastewater flows. Once the phase-in of the stormwater component is complete, the fixed portion of wastewater bills will grow from approximately 5% of revenues in FY 2022-23 to 27% of revenues in FY 2029-30. The approved retail water rates for FY 2023-24 through FY 2025-26 maintained 15% of revenues recovered through the fixed monthly service charge, and proposed rates for FY 2026-27 and FY 2027-28 are expected to follow suit.

Additionally, both retail and wholesale water and sewer rates have mechanisms that allow rates to adjust if water usage drops unexpectedly. In retail Water and Wastewater, drought surcharges are automatically implemented when the Commission declares a water shortage emergency and calls for conservation. With recent emergencies – both environmental and economic – impacting sales volumes, the SFPUC is also currently adopting rates for a shorter timeframe, allowing the agency to revise rates to prevailing usage levels more frequently and ensure revenue stability. Wholesale water rates are revised annually and include a contractual true-up mechanism to account for the higher variability in wholesale water volumes.

Rate design is a balancing act, and the Ratepayer Assurance Policy directs the agency to consider the competing goals of revenue stability, environmental sustainability, and predictability for both customers and the agency. For example, a bill with high fixed charges that does not vary based on usage removes an incentive to conserve and can make customers feel as if they have no ability to control their costs. Tradeoffs like this one are addressed during the SFPUC's required periodic rate studies, and if usage continues to decline – either per capita or due to structural changes in the region's economic health – the agency has sufficient time and safeguards in place to adapt to the changing reality and ensure sufficient revenues for continued operation of the system.

When projecting account and volumetric sales projections, it is typical for utilities to use a conservative growth outlook. This approach is geared to minimize the risk of under-collection of rate revenue requirements – if usage is higher than forecasted, future projected rate increases can be reduced, while "counting on growth" runs the risk of under-representing the cost to customers. It is worth noting that other forecasts developed by the SFPUC, such as the Water Enterprise's Urban Water Management Plans or Power's Integrated Resource Plans, may use other projections. The differences between these projections reflect the different risks faced by the different planning initiatives and are the means to hedge against undesired outcomes for customers of the SFPUC. Demand forecasts developed for supply planning are conservative by estimating high potential growth to ensure reliable supply, while demand forecasts developed for financial projections are conservative by estimating low potential growth to ensure sufficient revenues.

Volumetric Sales Methodology

For retail Water and Wastewater, the SFPUC's 10-year financial model uses a bottom-up approach to calculating volumetric sales, building on historic changes in account growth and water usage behavior. First, account growth assumptions are calculated for each customer class to project the total number of accounts. Second, historic usage by customer class at the account level is adjusted by multiple factors, such as price elasticity and prolonged conservation efforts. The adjusted per-account volumes are multiplied by the calculated total number of accounts for each customer class and annualized to get the total projected water sales and billed wastewater discharge volumes.

Wholesale water sales are projected as a whole rather than the bottom-up approach used in retail water. For this year's plan, wholesale projections are based on draft forecasts provided by the Bay Area Water Supply & Conservation Agency (BAWSCA) as part of the SFPUC's update of its draft 2025 Urban Water Management Plan, along with data from BAWSCA's 2025 Regional Water Demand and Conservation Projections. [16] For conservatism, the financial plan projects wholesale sales using the average of a baseline scenario and a lower "historic growth" scenario.

For Hetch Hetchy Power, volumetric forecasts are more granular and are made at the level of individual divisions/departments or other aggregations. For most existing customers, next year's volume is set to last year's volume. Specific projects are layered in with volumetric forecast based on timing and expectations of ramping and full utilization of supplied power. These include redevelopment projects, as well as projects in the pipeline for various City departments such as Wastewater Enterprise, San Francisco International Airport, and SF Municipal Transit Agency.

This year's plan includes a complete overhaul of CleanPowerSF's volume forecasts. CleanPowerSF volumetric forecasts are constructed from regression models that quantify the relationship between energy demand and various demand drivers, including date characteristics and weather. Models were calibrated to align with growth rates derived from the California Energy Commission's Integrated Energy Policy Report (IEPR) Demand Forecast, which identifies expected year-over-year changes in local energy demand from demographic and economic impacts. To ensure the results capture energy demand under a range of weather conditions, separate forecasts were prepared for average, high, and extreme weather scenarios. These scenarios simulate demand based on actual historic weather conditions in San Francisco experienced over the last 20 years. The forecasts also include new energy demand from electrification, including expanded electric vehicle charging, replacement of gas facilities in existing buildings, and new construction.

The sections below discuss these factors included in the volumetric forecasts for each enterprise. During plan development, staff model alternative scenarios with different assumptions to ensure that the proposed schedule of expenditures and rate increase is resilient to a range of outcomes. Some of these are discussed in the *Sensitivities* section below.

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[16] Bay Area Water Supply & Conservation Agency, *Regional Water Demand and Conservation Projections Study*, 2025, https://bawsca.org/uploads/userfiles/files/2025%20BAWSCA%20Demand%20Study_Final%20Report%20+%20Appendices_submittal(1).pdf.

Account Growth Assumptions

In Water, Wastewater, and CleanPowerSF, modest annual growth in usage is assumed due to population and job growth. For retail Water and Wastewater, the 10-Year Plan begins from the assumed population and job growth assumptions in the draft 2025 Urban Water Management Plan for both retail and wholesale customers.[17] Because these forecasts are primarily developed for water supply planning, both wholesale and retail customers assume significant account growth; for conservatism, the financial plans adjust these forecasts downward to a scenario between historic trendlines and the higher water supply planning projections. In addition, these forecasts are applied to an independently-developed current-year projection of water sales (rather than the FY 2024-25 actuals), resulting in a different base from which to escalate to future years. Following the Urban Water Management Plan's methodology, all residential household growth is assumed to be in multi-family residential accounts, with no growth in single family residential. Forecasted account growth rates average around 1.03% annually for retail multi-family residential customers and 0.26% annually for retail non-residential and municipal customers during the 10-year period. In the short term, these account growth estimates are roughly similar to last year's 10-Year Financial Plan, though long-term forecasts have been revised downward.

CleanPowerSF's volume forecast includes all known future enrollments and accounts for additional growth by incorporating third-party forecasts which model increased electricity demand from population and economic growth. In particular, the plan begins from the 2025 baseline forecast from the California Energy Commission (CEC) Integrated Energy Policy Report Demand Forecast, which provides estimates disaggregated to CleanPowerSF's service area. To avoid double counting demand growth from new construction forecasts that are modeled separately, the CEC forecast, this forecast is halved, resulting in an average annual volume increase of 1.09% over the 10-year planning horizon. In addition, CleanPowerSF assumes that, beginning in FY 2029-30, new construction at half the average annual rate from 2022-2024 is added in San Francisco. Because these buildings are mandated to be all-electric (see *Electrification Assumptions* below), any new construction adds notable electric load.

In contrast, Hetch Hetchy Power is expanding its customer base significantly. This growth is defined by new facilities built by existing customers, as well as new customers and projects altogether. Projects are modeled individually based on information from the planning teams within Power Enterprise. To allow for a gradual ramp up of power growth and to account for potential delays in construction and tenant move-in to new buildings, staff have adjusted down total load forecasts, both inserting delays in when a project comes online and applying more conservative assumptions to the total power sales provided by project managers. In some cases, planned infrastructure investments such as substations are being designed larger than necessary to serve identified anchor customers. Speculative load from unidentified sources associated with the excess capacity is included in the plan with multi-year delays from the original feasibility estimates. As compared to last year's plan, we have both increased delays to projects coming

[17] Due to timing of deadlines to finalize projections for Commission approval, the data used in the Financial Plans is from an earlier draft of the water supply planning documents. The final Urban Water Management Plan incorporates various updates that were not possible to include in this year's Financial Plan.

online and decreased forecasted volumes as projects ramp-up to full load capacity to reflect potential weakness in the San Francisco economy and budget pressures on Hetch Hetchy Power's municipal customers. The significant growth remaining in the plan is a conservative estimate of the potential electricity sales enabled by the investments in Hetch Hetchy Power's Capital Improvement Plan.

The Hetch Hetchy Power municipal customers with the largest load increases include the San Francisco International Airport, SFPUC's Wastewater Enterprise, and the Port. Airport loads are expected to grow by about 4% annually over the projection period due to load growth from new terminals and associated facilities, electric vehicle and electrification projects, and other projects from the airport's master plan. Construction at the Southeast Wastewater Treatment Plant will also increase power consumption, growing Wastewater Enterprises' loads by about 3% annually over the planning period. Major activities by the Port, including significant waterfront development and ferry electrification projects, are driving annual growth forecasts of 27% for them over the 10-year period.

Retail non-municipal electric load growth is generally associated with large redevelopment projects and related customer growth in the southeastern portion of San Francisco, as well as some "infill" projects throughout the city, particularly affordable housing. Current redevelopment-area customers in the plan include Alice Griffith, Candlestick Point, HOPE SF (Potrero and Sunnydale), Hunters Point, Mission Rock, Pier 70, Treasure Island/Yerba Buena Island, and Transbay Transit Center. Over the 10-year planning period, retail non-municipal load is expected to grow by a cumulative 15%. This large increase is driven primarily by the Carbon Free Steam project, expected to come online in FY 2034-35, and the buildout of a new substation to serve a large customer that begins gradual load ramp-up in FYE 2034-35. Excluding these two projects, retail non-municipal load grows by 3% annually over the 10 years.

Drought Assumptions

In November 2021, the Commission declared a water shortage emergency. As governed by the San Francisco Water Shortage Contingency Plan, retail customers were requested to voluntarily conserve water by 5% compared to FYE 2020 actuals, while wholesale customers were requested to conserve water by 16%. Usage dropped across the service area in response to these voluntary calls. In April 2023, the Commission rescinded the Water Shortage Emergency Declaration, lifting the voluntary water reduction requests and removing the subsequent drought surcharge.

For the current and future fiscal years, customers are projected to be at a "new normal," with no additional recovery from the drought. For wholesale water customers in particular, current-year volume forecasts are lower than before the drought, reflecting conservation measures undertaken by customers during the drought that result in permanent water reductions.

While the financial plans assume normal water years going forward (i.e., no drought), mechanisms described above under *Context for Volumetric Projections* – including drought surcharges, growing fixed portions of customer bills, and adopting rates for shorter timeframes – allow the agency to recover potential revenue losses from water conservation should a drought occur.

Adjustment for Delayed Bills

During FY 2023-24, SFPUC experienced a large increase in the failure rate of water meter transmission units (MTUs) and experienced challenges with the procurement of replacement parts due to supply chain issues. In addition, the Customer Service Bureau experienced an unprecedented high staff turnover rate. As a result, SFPUC had a number of accounts that were not receiving regular water meter reads, delaying bills for approximately 7,800 retail water and wastewater customers.

The SFPUC is legally required to bill and collect the revenues from these delayed bills. To address this challenge, the SFPUC created a task force to strategically recover payments for the delayed bills in a way that balances the financial strain a large delayed bill might place on customers with the need to recover all costs of service and preserve the financial stability of the Water and Wastewater Enterprises. In Fiscal Year 2024-25, the SFPUC issued estimated bills for almost all customers with failed MTUs, scaled up repair and replacement of failed MTUs, established a new internal portal that accelerates processing of delayed bills, and brought on additional staff to support bill correction. Work to correct estimated bills based on updated meter reads from new MTUs is ongoing, but these adjustments on net are not expected to impact total billed volumes.

The delayed bills resulted in lower total sales volumes in FY 2023-24 and higher total sales volumes in FY 2024-25 due to inclusion of delayed billable usage from prior years. The plan incorporates adjustments to current-year forecasts to account for these data anomalies and project normal billing in subsequent years.

Conservation & Efficiency Assumptions

Beyond conservation associated with the drought, per-account utility usage is projected to decrease over time due to conservation. The draft 2025 Retail Water Conservation Plan divides conservation into active conservation, passive conservation, and onsite water reuse. Passive conservation results from the gradual replacement of fixtures to water-efficient ones required by new plumbing codes, active conservation is driven by SFPUC activities such as fixture replacements rebates and incentives, and onsite water reuse is either voluntary or required installation of water recycling systems that reduce the need for potable water. Following the methodology recommended in the draft 2025 Urban Water Management Plan, we assume that price elasticity (discussed below) captures the majority of passive conservation – i.e., many customers replace water fixtures with more efficient ones when rates increase in order to save money. As a result, passive conservation is not explicitly modeled to prevent double-counting. Active conservation and onsite reuse, however, are explicitly added into the per-account growth forecasts, reducing usage over time. These assumptions are sourced from the SFPUC's draft 2025 Retail Water Conservation Plan; the final plan was not yet available as of the time of this report. Over the 10-year forecast period, it is assumed that active conservation and onsite water reuse cumulatively reduce single family residential per-account usage by 0.87%, multi-family residential per-account usage by 4.51%, and non-residential per-account usage by 7.51%. These changes impact both water volumes and billed wastewater discharge volumes.

Less information is available regarding conservation's impact on power usage, and it may be offset by the growth in electric appliances and electrification. At this time, neither Hetch Hetchy Power

nor CleanPowerSF explicitly include assumptions about more efficient devices or customer conservation measures in their volume forecasts.

Electrification Assumptions

Many signs point to major growth in electricity usage; however, there is significant uncertainty about the pace of these increases. Regulatory mandates at the state and local level should increase the electricity's share of energy usage. California is targeting 100% of new vehicles being sold in 2035 being electric vehicles or plug-in hybrids (collectively referred to as PEVs), while San Francisco mandates all new construction be all-electric (as opposed to gas and electric). At the same time, many incentive programs aimed at supporting these transitions have been cancelled, especially those at the federal level. New incentives may be created at the state and local level (or federally under a future administration), and climate-conscious San Francisco residents may choose to invest in shifts to electric appliances and vehicles independently.

Since electrification growth is impacted by economic, regulatory, and political pressures, the SFPUC's volume forecasts take a conservative approach. CleanPowerSF uses a hybrid demand forecast that includes no impact of electrification and EV adoption through 2029, followed by a gradual ramp-up. Specifically, the plan assumes a moderate trajectory for adoption of new PEVs, with light-duty new vehicle purchases only reaching 100% PEV sales by 2040 (later than the state's targets), accounting for 63% of total vehicles in operation that year. Medium- and heavy-duty PEV adoption is assumed to be much lower, with under 15% PEV saturation by 2040. For replacement of gas appliances with all-electric in existing buildings, the plan models no change through 2029. Through the remainder of the plan, on average 0.6% of residential and small commercial buildings and 2.6% of large commercial buildings are assumed be swapped out each year.

While existing customers' growth is projected to be flat, many of the projects increasing Hetch Hetchy Power's sales are driven by electrification, including the transition to all-electric operations at the SF International Airport, new electric charging bus yards for SFMTA, and new EV charging stations. Moreover, some capital improvement projects are being planned with excess capacity beyond what is needed for specific identified customers in order to serve increased demands from electrification across the existing customer base. These increases are discussed in the *Account Growth Assumptions* section above.

Price Elasticity Assumptions

Basic supply and demand economics operate under the principal that as the price of a good or service increases, people will purchase less of it. Price elasticity is a measurement of the change in demand for a good or service in relation to changes in its price. Different goods can be more or less elastic, with demand for elastic goods decreasing more rapidly as prices increase and demand for inelastic goods holding steadier as prices change. Utility services are generally assumed to be a fairly inelastic good because they are necessary and do not have a readily available alternative. As such, increases in price typically do not have a significant impact on the amount of the utility volumes customers use. Moreover, San Francisco County's water and wastewater usage is already one of the lowest in the state of California, averaging 43 gallons per person per day for the 12-

month period ending September 2025.[18] With usage this low, there is a floor beyond which most households are unable to conserve without drastic reductions to their quality of life, a concept referred to as "demand hardening."

Despite these considerations, it is prudent to assume that the rate increases forecasted in the 10-Year Financial Plan will cause some customers to conserve water. Because most customers pay attention only to their total bill, we are forecasting the impact of price elasticity based on the combined water and wastewater bill increase for an average residential customer. Data from the SFPUC's draft 2025 Urban Water Management Plan calculated a price elasticity of -1.2% for single family residential customers, -1.4% for multi-family residential customers, -3.2% for non-residential customers. This means, for example, that a 10% increase in the combined water and wastewater retail rates would decrease single family residential usage by 1.2%.

There are several features of this analysis, which used historic data from 2015-2024, which might make these elasticities too high for future projections. First, the model attempted to isolate the impacts of the pandemic on non-residential water usage using a binary variable representing dates in which pandemic emergency declarations were in effect. However, San Francisco has experienced a lingering shift towards hybrid work and reduction in commuters into the city past the end of official pandemic restrictions.[19] This has kept non-residential water usage below pre-pandemic levels; without any variables accounting for this in the model, the shift to hybrid work may inaccurately inflate non-residential price elasticity. To account for this, the model uses the lower end of the draft UWMP's non-residential price elasticity confidence interval of -1.8% as its starting point.

Second, during the timeframe analyzed in the economic analysis, per-capita water usage was approximately 11% higher than it is today. As discussed above, with increased conservation and hardened demand, it would be more difficult and costly for customers to conserve today than in the past, even if rate increases motivate them to do so. This suggests that elasticity impacts going forward would be lower than they were in the past. To model this pattern, we have assumed that as per capita single family residential usage drops towards 40 gallons per person per day, demand for all customers becomes more inelastic. During the 10-year period, the adjusted elasticity ranges from -0.65% to -1.24%, depending on the customer class and year.

Again, less information is available on the impact of price elasticity on electricity usage. Moreover, electric rate schedules are much more complex than water and wastewater, with time-of-use periods, seasonality, and multiple rate schedule options for each customer class. Customers may respond to price increases by changing their usage patterns or rate choice rather than reducing total usage. At this time, CleanPowerSF and Hetch Hetchy Power volumetric forecasts do not incorporate price elasticity. We will continue to research this area to improve our forecasts.

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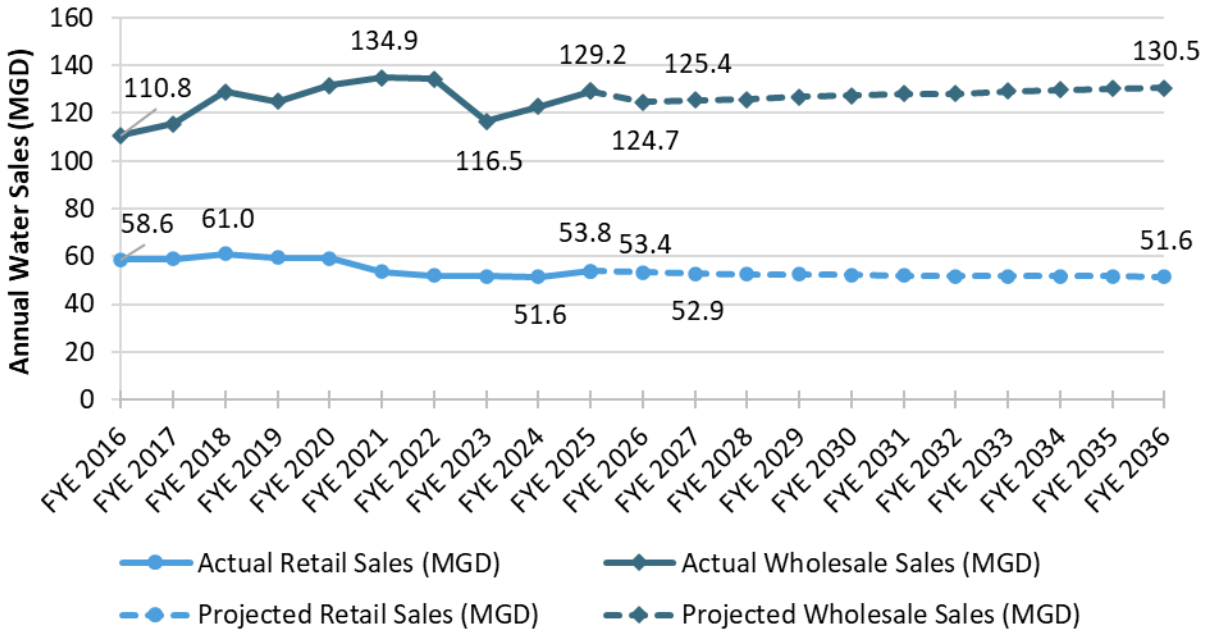
[18] State Water Resources Control Board, *Water Conservation and Production Reports – Statewide Use and Production*, September 2025, https://www.waterboards.ca.gov/conservation/conservation_reporting.html.
[19] Bay Area Council Economic Institute, *Bay Area Transit and Traffic Monthly Tracker*, December 2025, https://www.bayareaeconomy.org/bay-area-bridge-crossings-monthly-tracker/.

Water and Wastewater Sales Projections

Water sales are depicted in Figure 1, which shows the historic and projected retail and wholesale water sales for FYE 2016 through FYE 2036.

Figure 1: Historic and Projected Retail and Wholesale Water Sales Volumes (Millions of Gallons per Day)



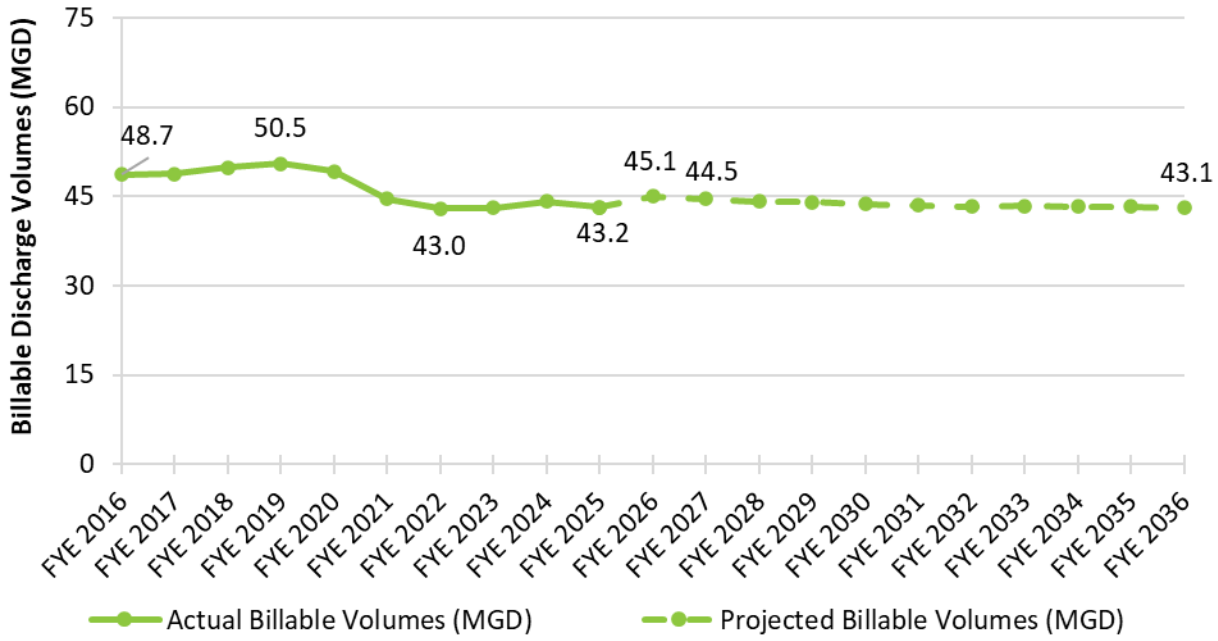
Overall, water sales are projected to remain relatively flat after partially recovering from recent lows in FYE 2023 and FYE 2024 caused by the combined impacts of the COVID-19 pandemic, drought, and delayed bills. The early years of the chart show the rebound in water use through FYE 2018 after the end of FYE 2016 during the last drought and the subsequent.

After reaching a relatively low total sales of 116.5 MGD in FYE 2023 during the drought, wholesale usage has gradually increased but is not projected to return to pre-drought and pre-COVID-19 levels. Over the remainder of the plan, wholesale usage is projected to grow slightly, driven by forecasted population and job growth. Wholesale projections are lower than in the prior year's plan, driven by revised water supply forecasts prepared by BAWSCA that show a range of potential outcomes that includes lower forecasts than in previous years.

Looking at historic retail sales, the most notable trend is the combined impact of the pandemic, recent drought, and billing delays (during FYE 2024) dropping retail water sales beginning to a low of 51.6 MGD in FYE 2024. Usage grew in FYE 2025 due to modest drought recovery and catch-up of delayed bills, but is forecasted to very gradually decline through the rest of the 10-year forecast period. This long-term trend reflects the impact of price elasticity and conservation compensating for assumed job and population growth and is consistent with the observed historic trendline.

As wastewater sales volumes are generally based on metered water usage,[20] the forecast of billable wastewater volumes shown in Figure 2 is similar to that of retail water sales.

Figure 2: Historic and Projected Billed Wastewater Discharge Volumes (Millions of Gallons per Day)



Wastewater volumes are forecasted to rebound from their all-time low of 43.0 MGD in FYE 2022 to 45.1 MGD in FY 2026 as usage recovers from the recent drought. As with retail water, volumes then decline slightly for the duration of the forecast period, driven by the impact of price elasticity and conservation compensating for assumed job and population growth.

[20] Exceptions include dedicated irrigation accounts, which do not have a wastewater component, and retail suburban customers, who receive wastewater service from other utilities. Changes in the usage patterns of this group of retail water-only customers and the much larger population of combined water and wastewater customers can cause deviations in water and wastewater volumes in a given year.

Hetch Hetchy Power Sales Projections

Hetch Hetchy Power volumetric growth is much more significant. Figure 3 shows the historic and forecasted change in Hetch Hetchy Power retail sales volumes over the past and future 10 years.

Figure 3: Historic and Projected Hetch Hetchy Power Retail Sales Volumes (Gigawatt Hours)

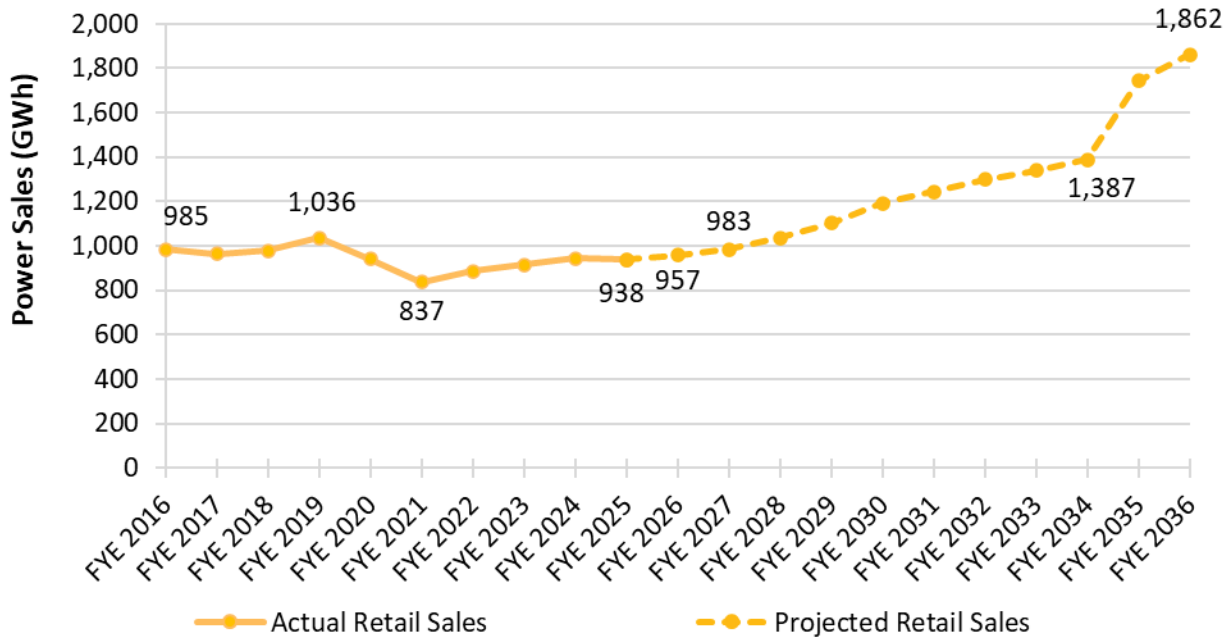


Figure 3 shows the drop in Hetch Hetchy Power sales due to the pandemic, with recovery to a "new normal" slightly below pre-pandemic levels by FYE 2024.

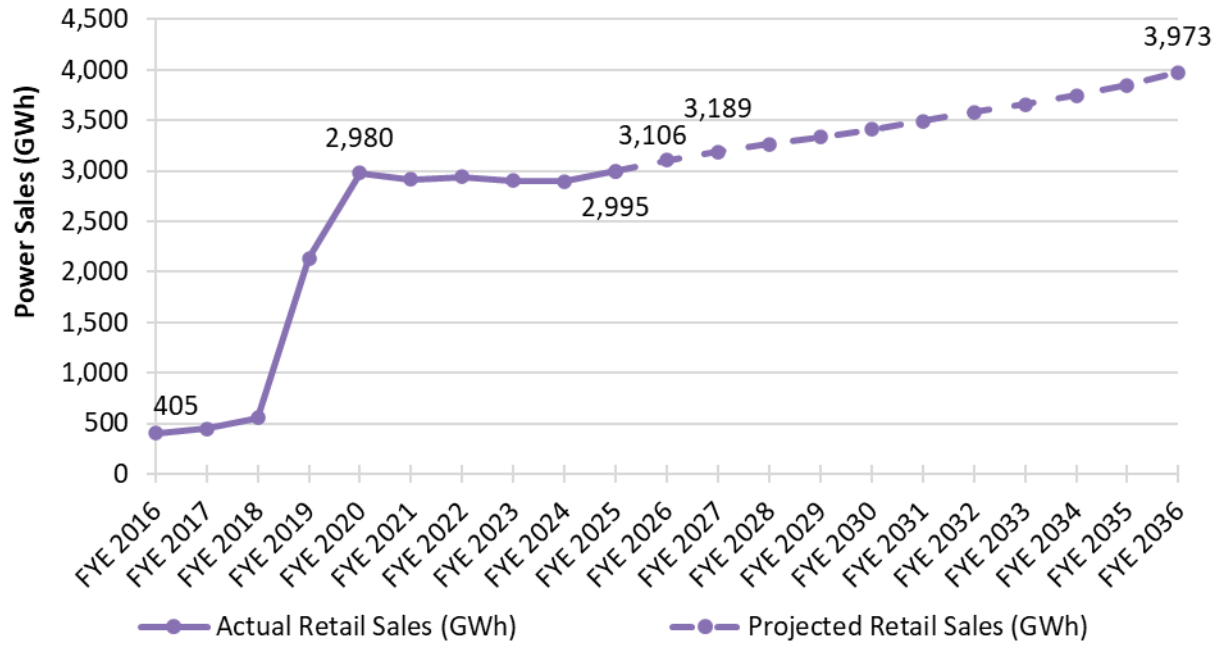
Looking forward, loads are projected to grow by an average annual growth rate of 6.9% over the ten-year planning period. In the medium term (through FYE 2034), the steady forecasted increase is based on projected electricity demands from new municipal facilities and commercial/residential buildings in redevelopment areas that are planned or under construction. As discussed above, much of the growth in municipal usage are electrification projects as the City moves away from natural gas, gasoline, and diesel to heat buildings, power vehicles, and produce emergency power. The large annual increases in FYE 2035 and FYE 2036 are due to the expected decarbonization of the City's steam heating loop and the gradual ramp-up of another very large customer served by new Hetch Hetchy infrastructure.

While this growth is a key component of Power Enterprise's business plan, it also means that their rates trajectory is dependent on economic growth that may be delayed or never materialize due to possible recession or other factors. With San Francisco's struggling economic recovery and a history of project delays, the projections in this Financial Plan reflect several adjustments to the original load forecast for conservatism, as discussed in the *Account Growth Assumptions* section above. These adjustments aim to strike the right balance of correctly budgeting for the cost of servicing new customers (discussed below in the *Expenditure Forecasts* section) without under-projecting rate increases by assuming major new developments move at an aggressive schedule.

CleanPowerSF Sales Projections

Figure 4 shows the significant growth in CleanPowerSF from its launch in FYE 2016 through FYE 2020 as phased enrollment successfully grew the program to its current size.

Figure 4: Historic and Projected CleanPowerSF Retail Sales Volumes (Gigawatt Hours)



While usage dropped moderately during the pandemic, the impact was not as significant as the other Enterprises, and volumes have seen a bump up due to new enrollments of commercial customers. The plan projects loads to increase an average of 2.5% annually over the course of the 10 years, reflective of both overall population growth and the electrification of household appliances and private vehicles. These projections are higher than last year's plan due to a new, more sophisticated model of long-term energy usage. We will continue to monitor actual sales against projections and refine assumptions accordingly to balance the risk of overly optimistic forecasts with not being prepared for higher customer demand as San Francsico moves to decarbonize its homes and businesses.

Adopted Rate Changes

The SFPUC historically adopted multi-year rate packages, approving a series of rate increases over several years. This improves the certainty of financial planning for both the agency and customers but reduces the ability to react to changes in costs or volumetric sales. With significant uncertainty in recent years, from the COVID-19 pandemic and drought's impact on sales volumes to huge fluctuations in the prices in the power supply market, the agency has reduced the time period covered in its rate proposals.

For years in which rates are not already adopted by the Commission, the 10-Year Plan forecasts what rate increases are needed to cover expenditures and comply with financial policies. These projections are presented at the end of this report. The following section describes the status of

ongoing rate studies, and already-approved rate increases during the plan period. Rate increases typically become effective on July 1, the beginning of each fiscal year.

Retail Water and Wastewater Rates

The most recent cost of service study for Water and Wastewater was completed in Spring 2023, with new rates adopted in May 2023. This study is the basis for three years of retail water and wastewater rates that have been adopted by the Commission for FY 2023-24 through the current FY 2025-26. For each of the three fiscal years, water rates increased by 5%, and sewer rates increased by 9%. Two years of new rates calculated using the 2023 cost of service study and updated budget and volume data are expected to be adopted in Spring 2026.

Wholesale Water Rates

Wholesale water rates are set on an annual basis following the process established by contract under the long-term Water Supply Agreement (WSA). The rates are driven by the estimated wholesale share of Water Enterprise and Hetch Hetchy Water operating and capital expenditures and forecasts of wholesale sales volumes. A true-up after each fiscal year provides a mechanism to adjust future rates for under- or over-collection in prior years. A 2.3% increase in the wholesale water rates was adopted for FY 2025-26. Wholesale water rates are adopted annually, so rates for FY 2026-27 will be approved by the Commission in Spring 2026.

Power Rates

The most recent power rates study was completed in Spring 2022 for both Hetch Hetchy Power and CleanPowerSF. Using the results of the study, the Commission has since approved 1-2 fiscal years of rate increases for Hetch Hetchy Power and CleanPowerSF in the spring of each year. Hetch Hetchy's retail rates most recently increased by 10% for the current FY 2025-26.

CleanPowerSF's rates had no change in FY 2025-26 and have been held flat since the prior 8.5% increase in July 2024. In January 2026, the PG&E delivery portion of the bill and the Power Charge Indifference Adjustment (PCIA), a fee paid by CleanPowerSF customers to PG&E, both increased significantly. To offset these increases as quickly as possible, CleanPowerSF adopted a 20% to 25% generation rate decrease effective March 1, 2026, representing a bottom-line 23.1% decrease in revenues for the program. These customer savings are made possible by the use of reserves exceeding the target in CleanPowerSF's Fund Balance Reserve Policy, as well as lower forecasted power supply costs.

At this time, the 2026 Power Rates Study is ongoing and expected to be completed in Spring 2026. The rates study analysis will be used to set rates for both Hetch Hetchy Power and CleanPowerSF for the next 4-5 years, with one year of rates expected to be proposed for adoption for FY 2026-27 later this spring. To provide rate stability for customers following the March rate decrease, CleanPowerSF's FY 2026-27 rate change will be revenue-neutral for the agency, but may include rate adjustments for individual customer tariffs to reflect the cost of service study results.

In the near term, Power Enterprise rates for both CleanPowerSF and Hetch Hetchy Power are expected to be adopted on an annual basis due to significant volatility in energy markets and supply chain disruptions caused by geo-political conflict, changing relationships with Pacific Gas & Electric Company, changes to regulatory frameworks, and other environmental factors. Utilizing an annual power rate adoption allows the Power Enterprise to reevaluate is revenue requirements

with stronger confidence, as staff are able to update rates in a more timely and precise manner in reaction to market factors.

Non-Rate Revenues

While utility rate revenues compromise the vast majority of each Enterprises' income, each enterprise also collects revenues from additional sources. Non-rate revenues offset a portion of expenditures and therefore allow for lower rate increases. Assumptions regarding these revenues vary based on the source, and are described below.

Operating Non-Rate Revenues

Interest income is calculated by multiplying an interest rate by the available fund balance in each Enterprise. Interest rates are estimated to be 3.5% going forward, reflecting an adjustment downward from the city's latest pooled funds rate of 3.81%, and lower than the U.S Treasury yield curve.

Rental revenue from SFPUC-owned properties is provided by the Real Estate Services division and the Wastewater Enterprise's Southeast Community Facility Division and inflated by 3% annually to reflect a conservative estimate of annual rental rate increases.

Revenue from miscellaneous fees, including water service installation charges, capacity charges, and permit issuance fees, is estimated for the current fiscal year, then inflated by the forecasted Consumer Price Index (CPI) or, for capacity charges, the Engineering News Record Construction Cost Index (ENR-CCI). Because these fees automatically increase by these escalators each fiscal year, this assumes no changes to the current rate of construction development, which sits at low levels compared to recent history.

Due to its hydroelectric supply, Hetch Hetchy Power's generation has strong seasonal trends. During the spring runoff season of March-June, the melting snowpack tends to provide Hetch Hetchy Power with excess power beyond what its customers use, providing the opportunity to sell to the wholesale power markets. The plan models excess power sales based on the detailed monthly forecasts described in the expenditure section below. Price assumptions are assumed conservatively for sales – more so even than power purchase assumptions – since wholesale revenues are not the program's main business line and represent potential upside rather than an expectation.

Similarly, CleanPowerSF aims to procure only the power needed for its customers, and does not typically plan around sales of any excess energy or supply products. However, the program's existing power purchase agreements include more resource adequacy product (also called capacity) than is needed to meet its regulatory requirements. The plan models sales of excess resource adequacy in the first few years at conservative price assumptions.

Capital Non-Rate Revenues

Certain water and wastewater revenue bonds and the 525 Golden Gate Certificates of Participation receive Federal Build America Bonds subsidies on the interest cost of the bonds. Forecasts for these revenues are based on the debt service schedules of these bonds and the assumed reduction applied due to federal sequestration, resulting in a projected average 33% annual subsidy of interest costs. Due to the risk of further cuts due to Congressional inaction and

resulting sequestration, the SFPUC has been refinancing Build America Bonds with tax-exempt bonds to reduce its reliance on these federal subsidies.

Revenues designated for capital projects in Hetch Hetchy Power include Distributed Antenna System licensing fees, California Cap & Trade auction revenues, and Low Carbon Fuel Standard credits. These forecasts are developed by Power Enterprise staff based on expected volumes and prices for the various fees and credits. In addition, Hetch Hetchy's Line Extension Policy requires cost sharing for new infrastructure built to serve specific customers, while the California Independent System Operator (CAISO) requires new power generators connecting to the state's transmission system to pay System Impact Mitigation Payments to owners of assets impacted by new development. These two revenue streams are linked to specific relevant capital projects and offset all or a portion of the related costs.

Expenditure Forecasts

Operations and Maintenance Expenditure Assumptions

Operations & Maintenance Budget and Escalation

For all Enterprises, operations and maintenance expenses are based on the SFPUC's proposed two-year budget for FY 2026-27 and FY 2027-28. Beyond the budget years, the 10-Year Financial Plan for all enterprises assumes an annual 3 percent increase in operations and maintenance expenditures for most expense types. This assumed annual increase represents a proxy for the long-term average annual rate of inflation, as well as an assumption for increased operation and program spending. Inflation projections in fringe benefits, such as retirement, health care, and disability services, are based on projections of various expense types as listed in the Mayor's 5-Year Financial Plan, and are projected to increase by 6 percent annually after the 2-year budget window. A small subset of expenses, including programmatic expenses, grant programs, and some services of other departments are projected to remain level over the ten-year projection window.

Power Purchases & Delivery Charges

In Power Enterprise, including Hetch Hetchy Power and CleanPowerSF, purchased market power, resource adequacy purchases, and delivery charges such as Transmission Access Charges (TAC) and Wholesale Distribution Tariffs (WDT) vary based on the total customer loads or demand served in a year, as well as the forecasted price of these line items. Forecasts for these expenditures are developed collaboratively by Power Enterprises' Risk Management and Business Analysis team, Retail Services team, Origination and Power Supply team, and Financial Planning. Assumptions regarding load projections are discussed above. Power expense forecasts are developed monthly to account for significant seasonal variations in power markets, owned generation, and customer usage.

Purchased Power Supply Costs

CleanPowerSF's energy portfolio throughout the 10-Year Plan begins with the known cost of all existing storage and renewable projects. For modeling purposes, CleanPowerSF then incorporates placeholder estimates for new long-term power purchase agreements to meet its demand and other supply requirements as older contracts expire. Estimated prices for these new renewable energy and storage contracts are developed based on recent bid responses to its long-term power purchase Request for Offers and market price data. For conservatism, CleanPowerSF assumes higher prices for placeholder contracts and generally greater price volatility due to an ever-changing policy landscape at the federal level.

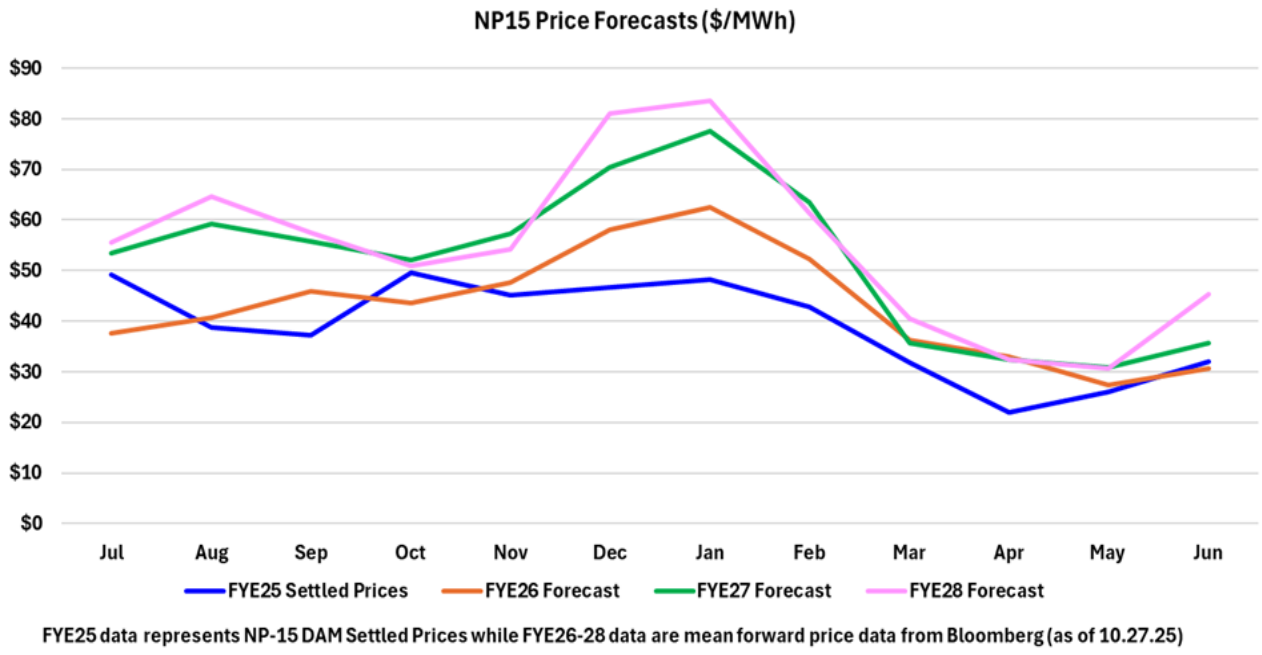
Hetch Hetchy Power's generation forecast is developed by Hetch Hetchy Water based on weather forecasts, asset maintenance projections, and other capital project impacts. For the current fiscal year, expected generation has been adjusted to reflect higher-than-normal generation during months where Hetch Hetchy construction schedules will require large water releases, and lower-than-normal generation when refilling of reservoirs will limit generation. This change should improve the forecast's accuracy, but leads to a more variable year-over-year expense trajectory.

For Hetch Hetchy, any power demand beyond existing resources is procured from the market, and any excess generation above what customers use is sold back to the market. From July-February,

Hetch Hetchy Power's generation is generally less than is required to fully meet its customers' usage and it is normal for Hetch Hetchy Power to purchase additional energy from the wholesale power markets during this timeframe. In contrast, during the Spring runoff season of March-June, the melting snowpack tends to provide Hetch Hetchy Power with excess power beyond what its customers use, providing the program with the opportunity to sell to the wholesale power markets.

Power purchases and sale of excess energy supply are assessed against forward energy price projections (available from Bloomberg Intercontinental Exchange data and/or Aurora Energy Research forecasts), which consider weather simulations and market impacts such as natural gas supply and demand and the Russia-Ukraine war. Because these energy price forecasts are updated daily and reflect the volatility of the energy market, contingencies are set to capture some of the higher end energy price projections seen at the time of the plans' development. Figure 5 shows the power market supply cost for FYE 2025 and forecasts for the next three fiscal years. The 10-Year Plan forecasts incorporate higher power market prices as compared to FYE 2025 actuals from the current fiscal year through the end of the plan.

Figure 5: Historic and Forecasted Power Market Supply Costs (Dollars per Megawatt Hour)



FYE25 data represents NP-15 DAM Settled Prices while FYE26-28 data are mean forward price data from Bloomberg (as of 10.27.25)

Prices for other supply categories such as resource adequacy and renewable attributes are forecasted based on market broker quotes received by the Origination and Power Supply team, third-party forecasts (e.g. Flynn Resource Consultants), or recent historical averages, depending on availability. Renewable attributes and resource adequacy (also known as capacity costs) have been a growing expenditure for CleanPowerSF in particular, as new-build renewable energy project delays throughout California have caused prices to rise dramatically over the past year for both products as demand exceeds supply. Prices for renewable attributes have decreased slightly from its highest point but are anticipated to remain at high levels for the next few years.

During the past few years, the available resource adequacy capacity on California markets in many months was barely enough to meet the needs of all regulated utilities, leading to enormous price

increases and challenges fulfilling regulatory obligations in Calendar Year 2023 and Calendar Year 2024. The resource adequacy supply stack has increased since then, exerting downward pressure on pricing. At the same time, however, fundamental regulatory changes to the Resource Adequacy Program beginning in 2025 added complexity to the market. Current modelling suggests that CleanPowerSF has sufficient capacity to meet Resource Adequacy Program requirements under the new framework through 2029 due to existing contracts, but will need to continue strategizing for the outer years of the plan. Long-term forecasts are generally not available for resource adequacy; the 10 Year Plan assumes prices will gradually decrease over time and slowly return to year 2022 levels by the end of the Plan.

Purchased Power Delivery Charges

Hetch Hetchy Power also incurs purchased delivery charges, including Transmission Access Charges (TAC) paid to CAISO and Wholesale Distribution Tariffs (WDT) paid to Pacific Gas & Electric (PG&E).

For Transmission Access Charges, our plan considers expected growth in loads while also incorporating estimated annual increase in these TAC rates. Our TAC rates are based on estimates from Flynn Resource Consultants and grow by a compound annual rate of 4.8% through FYE 2035. The potential for continued rapid increases in transmission costs across the state is an area of focus for staff in the near-term.

Hetch Hetchy Power's Wholesale Distribution Tariffs (WDT) are based on our demand expectations and WDT rates, which are set by PG&E. These distribution expenses have been highly volatile over the past few years; they nearly quadrupled from FYE 2021 to FYE 2023 due to a change made by PG&E in the formula for calculating these expenses. Although FYE 2023 saw a marked 29% increase in distribution expenses driven by major WDT rate increases, FYE 2024 saw a 17% decrease in these expenses while FYE 2025 saw a 9% decline. FYE 2026, however, is forecasted to see a 40% increase in distribution expenses driven by a sharp increase in the WDT distribution rates. In order to minimize these swings, our WDT rate forecasts remove any impacts from true-ups or other one-time adjustments and assume a 4% annual rate increase. We continue to be cautious on the long-term outlook given recent volatility.

Power Supply & Delivery Contingencies

Due to potential volatility in power supply and delivery charges, both CleanPowerSF and Hetch Hetchy Power budget for a contingency above and beyond the forecasted amount for these costs. Doing this ensures the programs can quickly access the funds needed to secure power supplies on the open market without a need for a supplemental budget appropriation process, which can take many months. As a conservative approach to estimating costs and net revenues, the financial plans treat the contingency budget as if it will be spent each year. Any savings in a given year will fall to fund balance as a positive variance and may be used to reduce rates in future years. For purposes of calculating the fund balance reserve or days cash on hand targets, the contingency is considered a contribution to reserve and not included in annual operating expenses.

For this plan, staff performed scenario analyses of price and/or load volatility to determine if contingencies need to be increased, separate from the update to the baseline budget in this area.

For CleanPowerSF, the budgeted contingency is 8.3% of power supply costs, resource adequacy, and renewable attributes for FYE 2026, rising to 12% for the rest of the plan.

For Hetch Hetchy, the contingency is currently based on its energy purchase and sales volumes times 30% of the applicable market price forecasts for these purchase and sale activities. This structure aims to have contingency to cover market purchases higher than the price forecast and market sales below the price forecast. At this time, Hetch Hetchy's Risk Contingency ranges from $8 million for FYE 2026 up to $29 million for FYE 2036.

Execution Factors & Budget Carryforwards

A feature of the financial model is the use of "execution factors" on the operating budget. These factors are based on review of actual expenditures as a percent of the revised budget (including the new annual budget and any carryforwards from prior years) for the past five fiscal years. To reduce the risk of under-projection, we forecast an execution at or above the highest percentage achieved in the last five years for each Enterprise and account grouping. For instance, in the last five fiscal years Water Enterprise spent on average 96.9% of its salaries budget, with the highest execution being 98.8%. Future years assume 99% of Water's salaries budget is spent each year. The goal of the execution factors is to project a revenue requirement that more accurately reflect the anticipated spending, rather than the budgeted authorities to spend. After applying execution factors, total expenses as compared to budget in the next two fiscal years are reduced by 4.5% in Water Enterprise, 8.5% in Wastewater Enterprise, 18.2% in Hetch Hetchy Water Division, 0.6% in Hetch Hetchy Power Division, and 1.0% in CleanPowerSF. The higher percentage in Hetch Hetchy Water is primarily driven by a large annual set-aside planned to be unspent and used in the future for the Federal Energy Regulatory Commission (FERC) Healthy Rivers Obligation.

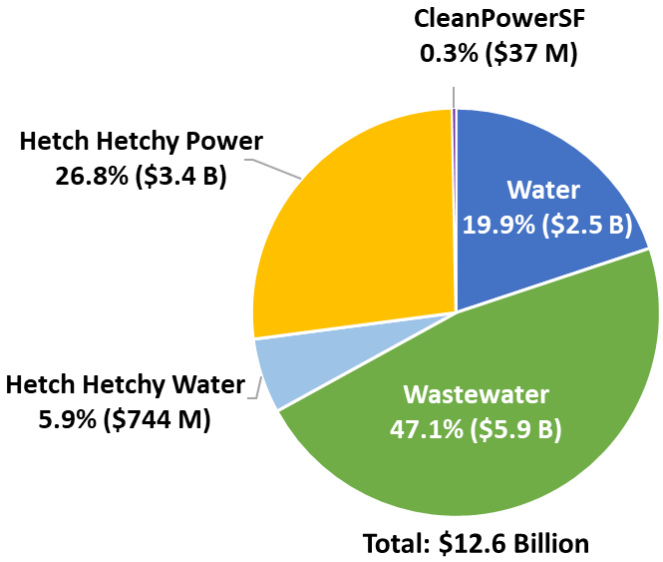
In the City's budget system, unspent operating budgets in a given year will by default "close out" to fund balance. However, departments may submit requests to "carryforward" some portion of the unspent budget to future years. The models assume that a portion of the unexecuted budget is closed out and that a portion is carried forward to future years. The carryforward amount is based on the historic percent of each expense type which is generally carried forward, and cannot exceed the unexecuted budget savings.

Capital Expenditure Assumptions

10-Year Capital Plans

The SFPUC adopts a 10-Year Capital Improvement Plan (CIP), which details the specific projects planned for each enterprise. Every year, the CIPs are updated to reflect the capital priorities of each enterprise over the next 10-years. Every other year, a biennial budget is adopted, which includes the adoption and appropriation of CIP funding for the first two years of that plan. The Financial Plan includes the proposed FY 2026-27 and FY 2027-28 budgets and the capital project appropriations from the 10-Year CIP through FY 2035-36.

Figure 6. FY 2026-27 to FY 2035-36 SFPUC Capital Plan Uses by Enterprise



The CIP also identifies the funding sources for each year in the plan. Generally, funding is either 1) revenue-funded (also referred to as "pay-as-you-go"), or 2) debt-funded using revenue bonds. However, in practice, the SFPUC actively seeks out lower cost borrowing opportunities through other borrowing sources when available such as tax-exempt bonds, notes, commercial paper, and other capital market solutions, as well as State Revolving Fund (SRF) or federal loans such as the Water Infrastructure Financing and Innovation Act (WIFIA) loans. The following section outlines how these capital spending plan and financing strategies are projected to impact the cash flow for each of the enterprises.

In general, capital expenditures are the primary driver of increased costs in the Financial Plans for each Enterprise. Figure 6 provides a summary of the total budgeted capital appropriations for each of the enterprises. The combined CIP totals $12.6 billion, of which nearly half is for Wastewater Enterprise. A brief summary of each enterprise's CIP is provided below.

Water Enterprise Capital Improvement Program

The Water Enterprise 10-Year Capital Improvement Plan includes $2.4 billion in total spending, including $2.5 billion in projects net of $98 million in de-appropriations of old projects' unspent budgets. Of the net total, $954 million is revenue-funded (38 percent) and $1.4 billion is debt-financed (60 percent). The largest projects of the FY 2025-2026 to FY 2034-35 Water Capital Improvement Plan are local water pipeline replacements ($797 million) and Millbrae Yard Campus improvements ($366 million).

Water Enterprise and water ratepayers also pay for a portion of the projects in the Hetch Hetchy Water and Power CIP, following the allocations described in the *Cost Allocations* section below. The Water share of that plan totals $743 million; debt funding makes up $520 million of the CIP and cash funding covers the remaining $223 million. The largest water- or joint-funded projects include

the Moccasin Penstock Rehabilitation Project ($510 million total project) and the Moccasin Dam & Reservoir Long Term Improvement ($144 million total project).

Combining both the Water Enterprise and water share of Hetch Hetchy costs, revenue-funded capital comes to 38 percent of the total water-funded CIP. This is above the minimum 15 to 30 percent range required by SFPUC's Capital Financing Policy.

Wastewater Enterprise Capital Improvement Program

The Wastewater Enterprise 10-Year Capital Improvement Plan is $5.8 billion in total spending, with $5.9 billion in projects net of $97 million in de-appropriations. Of the net total, $1.4 billion (24 percent) is revenue-funded and $4.4 billion (76 percent) is debt-financed.

The primary cost drivers of the Wastewater Capital Improvement Plan are the Biosolids and Digester Project ($93 million), Small Diameter Sewer Improvements ($410 million), Large Diameter Sewer Improvements ($458 million), and the Southeast Plant Mainstream Nutrient Reduction Project ($1.4 billion).

The Wastewater Enterprise's revenue-funding of 24 percent of the 10-Year Capital Plan exceeds the minimum required by SFPUC's Capital Financing Policy of 15 percent to 30 percent.

Hetch Hetchy Water and Power Capital Improvement Program

The Hetch Hetchy Water and Power Capital Improvement Plan is $4.1 billion, of which $3.3 billion is allocated to Power Enterprise. The Water portion of the plan is discussed above. The Power Enterprise is debt funding $2.3 billion (68 percent) of its share of the Hetchy CIP and cash funding the remaining $1.1 billion (32 percent).

The Hetch Hetchy Power Capital Improvement Program includes increased investment to serve new Hetch Hetchy Power customers. The major in-City projects included in the Power Enterprise Capital Program are SFO Substation Improvements ($152 million) and the Carbon Free Steam Project ($93 million). For major upcountry projects, the main drivers include the Moccasin Powerhouse & GSU Rehabilitation Project ($44 million) and the Transmission Line Clearance Mitigation Project ($80 million).

The Power Enterprise Capital Improvement Plan, excluding Water's share of costs, is 32 percent revenue funded. This is currently above the minimum 15 to 30 percent range required by SFPUC's Capital Financing Policy.

CleanPowerSF Capital Improvement Plan

CleanPowerSF's Capital Improvement Plan is $37.2 million in total spending over the next 10 years, with 100 percent of its funding sources coming from customer revenues. 99 percent of CleanPowerSF's CIP is the Local Renewable Energy Program, a $36.9 million project over the plan period.

Capital Expenditures After the 10-Year Capital Plan

To enable long-term levelized rate adjustments, it is important to account for large expenditures that may occur after the 10th year of the plan. By doing so, SFPUC can prepare our rate plan and capital financing strategies well in advance of these projects – optimizing our use of cash- and debt-funded resources and avoiding sudden rate increases as new projects are added to future 10-

year capital plans. Spending projections outside the 10-year panning period have significant uncertainty around exactly what projects will be needed, construction cost inflation, and the total cost and scope of known projects. Nonetheless, Finance, Infrastructure, and Enterprise staff have spent extensive effort during this budget process to populate the future spending horizon with the best available information and enable our financial plan to reflect the full projected cash need for each enterprise.

These longer-term capital spending projections include ongoing repair and replacement (R&R) projects, projects that are currently in the CIP but extend beyond our 10-year planning window, and known projects with preliminary cost estimates outside of the 10-year planning window. For ongoing projects, such as repair and replacement, we forecast future spending using an assumed 4% annual escalation in costs beginning in FY 2036-37. For one-time projects that begin during the 10-year CIP, we utilize their spending plan for the years outside of the 10-year planning horizon, if available, or identify the remaining project costs and spread them through the end of the project's planned project construction period. Finally, the Enterprises have identified some capital projects that are projected to begin outside of the 10-year CIP period; these include projects deferred from within the ten-year period during the budget process and those tied to regulatory requirements. We have incorporated these preliminary project cost estimates into the model.

Capital Projects' Impact on Cash Flow and Rates

As described above, the financial plan projects funding sources for the CIP using either current cash on hand or revenue bonds. The CIP is a budget document and therefore lists sources and uses of funds in the year they are appropriated – not necessarily the year they will be spent. Indeed, most capital project expenditures happen over several years, and there is significant unspent appropriation from prior fiscal years in addition to the new appropriation in each CIP. For financial planning purposes, how the capital expenditures impact cash flow depends on whether they are revenue-funded or debt-funded.

Pay-as-you-go funding, as the name implies, requires funds to be available immediately. This may be from a specific revenue source earmarked for capital projects.[21] If these dedicated sources are insufficient to cover the total revenue-funded sources, the remainder is appropriated from the Enterprises' available fund balance. Due to the requirements of the City's budget, it does not matter when the cash funded expenditures will happen – the funds are appropriated immediately. This means that rates must cover the necessary appropriations for revenue-funded capital in the year they are shown on the CIP.

Debt-funded capital is much more complex, as the SFPUC's Capital Finance team performs financial engineering to smooth expenditures over many years, reduce interest costs, and take advantage of low-cost grant and loan programs. In general, debt-funded projects will eventually be funded by long term financing in the form of revenue obligations in the form of state or federal loans or by selling revenue bonds to investors. These loans and bonds require annual debt service payments, and revenues are needed only to make the debt service payments, not the appropriated

[21] Examples include capacity charges in Water and Wastewater, or Distributed Antenna System licensing fees in Hetch Hetchy Power.

amount in the budget. As a result, there can be a significant delay between the year of appropriation for a debt-funded project and the year that revenues are needed to pay for it. The following section describes the assumptions for capital financing of debt-funded projects.

Finally, Financial Planning worked with Enterprise and Infrastructure staff to develop assumptions around actual spending of appropriated funds. This task recognizes that appropriation is an authorization to spend up to a certain limit, but spending may not all happen in the year of appropriation. With that understanding, the plan spreads budgeted expenditures over multiple years based on the project schedule and the stage of the project (i.e., is the project in design or construction). These assumptions assist with the smoothing of cash flow needs and especially the timing of debt issuance, limiting the risk of raising rates ahead of when the funding is needed. This is a process staff will continue to refine as we track our ongoing delivery of project budgets.

Capital Financing Expenditure Assumptions

The SFPUC's Capital Finance team leverages a variety of tools, carefully considering the impact on our credit metrics and bond ratings, to finance the enterprises' capital programs. These tools help to better align the payment for capital assets to the use of the assets so that current ratepayers are not bearing the full cost of projects that may be used for 40 or more years. In addition, these capital financing products allow for more gradual rate adjustments even when large assets are brought online over a short period.

A variety of capital financing decisions are made each time the SFPUC issues debt to finance capital projects to obtain the optimal interest rates and financing terms, based on prevailing interest rates and interest rate trends, market demand and other considerations. Due to the uncertainty of how each of these factors may change over time, several simplifying assumptions are incorporated in the planning process to project future debt service. Many of the factors that determine future borrowing costs are beyond the SFPUC's control, including general interest rates, inflation, federal and state policies, and the volatility that has recently marked the global financial markets. There are high levels of uncertainty in projecting future debt service costs given the extended capital project planning horizon; therefore, debt service cost assumptions should be sufficiently conservative to mitigate risk and be reasonable in both historical context and current market expectations. The key assumptions governing new capital financing projections are discussed below.

The SFPUC works with an array of financial and legal advisors on its bond programs. Beginning in 2022, the SFPUC engaged its municipal advisors to provide broad strategic advice in managing the overall bond program in addition to the transaction advice provided by advisors on individual transactions. As the market continues to experience volatile conditions, the Capital Finance team continues to meet regularly with its municipal advisors, adjusting bond issuance strategies by reevaluating past approaches, adjusting average life of borrowing, and taking advantage of lower interest costs options like tax-exempt bonds, shorter term notes, federal and state loans, and other federal programs such as direct pay tax credits made available in the Inflation Reduction Act (IRA).

Fixed Interest Rate Debt

Fixed-rate debt is a form of borrowing in which the interest rate is determined when the borrowing is made and fixed throughout the life of the debt. In view of Federal Reserve actions to reduce

inflation and the resultant interest rate volatility and rapid pace of Federal Reserve interest rate increases experienced beginning in FY 2021-22, combined with significant uncertainty related to the current Presidential Administration's impact on markets, the SFPUC continues to assume a 6% interest rate for future long-term financings through FY 2035-36. Though elevated rates persist, the Federal Reserve began to reduce its overnight lending rate in September 2024, and as of January 2026 the market expects two additional 25bps cuts by the end of calendar year 2026.

Given the expected near-term rate environment, the SFPUC has worked with its municipal advisors to incorporate prevailing market conditions into an adjusted expected interest rate of 4.75% and 5.00% for projected bond issuances in FY 2026-27 and FY 2027-28, respectively, while retaining 6.00% long term rate thereafter for the remainder of the 10-year plan. Despite the SFPUC's success in selling revenue bonds at interest rates lower than the short-term assumptions and considerably lower than the 6% assumed long-term rate, these assumptions are appropriate given the recent interest rate volatility observed in the capital markets. The rate assumption for projected debt issuances of 6% from Fiscal Years 2028-29 to 2034-35 allows for continued conservatism in projections and aligns with assumptions used by other City agencies and peer public utilities. To the extent future bonds are issued at lower interest rates, this will free up funds for revenue-funded capital, reducing the need for borrowing and improving debt service coverage metrics that underpin our ratings; using insufficiently conservative assumptions would have the opposite effect.

The SFPUC's fixed-rate debt includes fixed-rate revenue bonds and fixed-rate direct loans. Fixed-rate revenue bonds typically have long repayment periods and market-rate interest levels. The 2024 Wastewater Revenue Bond Series A was issued at a 3-year fixed rate to provide interim financing for a project to allow for optimization of tax-exempt financing and potential tax credits under the Inflation Reduction Act, if still available when the project is completed. The plan assumes that the principal for these bonds will be re-financed at maturity using the same assumptions as other long-term fixed-rate debt in the plan. Fixed-rate direct loans, such as Water Infrastructure Finance and Innovation Act (WIFIA) and State Revolving Fund loans, may provide the ability to lock in future borrowing rates, below-market interest rates, and/or greater repayment flexibility. However, the plan does not make assumption about future loans. The current plan assumes regular draws on the SFPUC's existing WIFIA and SRF loans throughout the construction period of the funded projects, with interest accruing at the loan rates established for each agreement until the start of repayment.

The SFPUC assumes all long-term fixed-rate debt to be amortized over a 30-year term. For simplification purposes, the plans model any capitalized interest period (i.e. bond proceeds pay interest for one or more years, specific assumptions discussed below), net revenues pay interest for one year, and then bonds are amortized for 30 years. While both longer- and shorter-term debt will be considered when bonds are actually sold, 30 years represents conservative planning assumption.

Variable Interest Rate Debt

Variable-rate debt is a form of debt that carries an interest rate that changes over the life of the debt, depending on market conditions throughout the life of the debt. Examples of variable-rate debt include variable rate demand obligations, put bonds, auction rate securities and commercial paper. Variable-rate debt typically has interest rates set based on shorter periods and provides financing at lower costs than fixed-rate bonds because they are marketed to investors to be held

for a shorter period. For example, commercial paper is typically marketed to investors for 30- to 120-day periods (although they could legally be remarketed for up to 270 days) even if the commercial paper is not taken out by bonds for a longer period.

To mitigate interest rate risk and ensure financial sustainability, SFPUC's debt management policies stipulate that no more than 25 percent of any enterprise's long-term debt be in variable-rate mode. The Wastewater Enterprise is the only Enterprise that has outstanding long-term variable rate debt, which had consisted of the 2018 Wastewater Revenue Bonds Series C issued in August 2018 with a "soft put" provision requiring that purchasers of the bonds tender or "put" the bonds back to the SFPUC on a date established at the time of issuance (the "put date"). The bonds are then remarketed to new purchasers at interest rates that reflect the length of the new put period and market conditions at the time of the remarketing. In April 2023, the Series 2023 Series C bonds were issued as tax-exempt Green Bonds to refund all of the outstanding 2018 Series C bonds with a "put date" of October 1, 2029. These bonds make up 4.9 percent of the Enterprise's outstanding revenue bond portfolio and are assumed to be refinanced at the SFPUC's long term rate assumption of 6%.

Commercial Paper ("CP") is a form of short-term variable-rate debt that is used by the SFPUC as interim financing to be repaid from proceeds of new revenue bonds. While CP has a maturity of 270 days or less, principal payments on maturing CP and interest due at each maturity are usually funded by issuing new CP, a process referred to as "rolling" or "remarketing" the CP. Bank facilities, typically in the form of a letter of credit or liquidity facility, are used to guarantee that funds are available to pay investors at each maturity in the unlikely event of a failed remarketing or inability of the SFPUC to fulfill CP repayment. Commercial paper interest coupon rates are currently assumed to be 3.5 percent (which does not include bank facility and dealer costs which are separately assumed as described below).

Issuance Costs and Capitalized Interest

Bond Issuance costs are projected at 0.40 percent of the par amount of each issuance, including bond underwriting fees. Issuance costs include underwriting fees, legal fees, financial advisory fees, credit enhancement fees, and other miscellaneous fees typically associated with a bond financing. Other issuance costs include the costs of interim, short-term funding for projects by each enterprise's Commercial Paper Program, such as accrued interest and credit bank and dealer fees associated with outstanding commercial notes. These costs are not treated as part of the bond issuance costs cited above, but instead are fixed costs related to the Commercial Paper Program added to the par value of each bond issuance when it occurs.

Capitalizing interest is a financing technique the SFPUC has been using based on the fundamental principle of not passing on capital financing costs to ratepayers until the asset is completed and placed into service. Borrowing additional funds to pay interest for the early years of the debt can assist with smoothing rate increases by delaying the impact of interest repayment on rates until several years after bond issuance. It also aligns with SFPUC's rigid budgeting process, which is adopted on a fixed biennial basis. However, this comes with a cost, as it increases the par value of bonds and therefore future debt service costs by approximately 7-8%, though these costs are partially offset by interest earnings. In addition, building revenue assumptions based on capitalized interest limits our ability to use this valuable tool when it is actually needed. The SFPUC reduced

reliance on capitalized interest in last year's FY 2025-26 financial plan, and continued this transition in this year's plan. Reducing the assumed capitalized interest period in our financing plan substantially reduces debt service interest over the life of the bond and the impact on ratepayers has been mitigated by also building in interest-only payment years (delaying the beginning of principal repayment) and full 30 year amortization periods, extending the timeframe of the bonds slightly.

The prior 10-Year Plans assumed 24 months of capitalized interest on all Water and Wastewater revenue bonds, and the Hetch Hetchy Power plan assumed 6 months of capitalized interest for issuances only during the first five years of the plan (through FYE 2030). In this year's plans, the Water and Wastewater financial plans continue to assume 24 months of capitalized interest through FYE 2034 and the Hetch Hetchy financial plan no longer assumes capitalized interest for Power Revenue Bond issuances. The SFPUC's finance teams agree that further reducing reliance on capitalized interest for planning purposes for Water and Wastewater would be beneficial. But due to significant near-term borrowing needs, doing so would require even higher near-term rate increases. Finance will continue to evaluate this area in future plans to balance long-term affordability with short-term rate pressure.

Debt Service Reserve

While the SFPUC has previously issued bonds with Debt Service Reserve Funds – bond proceeds equal to approximately 10% of the par size or a smaller amount as permitted by tax law – since 2015 the SFPUC had stopped funding such reserves, thereby reducing the size of the bond transactions. New debt issuance projections do not assume a debt service reserve fund due to the SFPUC's high double-A credit quality in each of the three enterprises, which has provided the market sufficient assurances on debt service repayment. The Water, Wastewater, and Power indentures do not require a debt service reserve be funded, but the SFPUC will continue to evaluate whether tools such as a funding a Debt Service Reserve, purchasing insurance products, or other credit enhancements could be beneficial to reducing borrowing rates on future transactions as municipal credit analysts view such reserves more favorably. The relative advantage or disadvantage of such funds can shift over time based on the relationship between short-term earnings rates and long –term borrowing rates and credit outlook.

Timing of Debt Issuance

The timing and sizing of debt issuance is typically reflective of the projected financing needs of each enterprise over the 10-Year Financial Plans. The debt issuance schedule reflects coordination with the needs of capital project managers and the reality of contract bidding and execution. Timing and issuance amounts are subject to market conditions and actual project spending.

When the Board of Supervisors approves the SFPUC's capital budgets, these amounts are placed on Controller's reserve and only released when funding is available. Generally, the SFPUC uses low-cost bank facilities that are part of the SFPUC Interim Funding Program authorized by the Board of Supervisors and, to a more limited extent, the availability of Federal and State loans to demonstrate the availability of funds to secure those releases, rather than issuing bonds before they are needed. This approach reduces overall costs to the SFPUC and is described below. This Interim Funding Program has been authorized by the Board of Supervisors in the aggregate principal amount of $2.45 billion across all three enterprises; as of June 30, 2025, the SFPUC has

entered into bank agreements totaling an aggregate principal of $1.95 billion. In Fiscal Year 2025-26, the SFPUC plans to enter into additional bank agreements totaling $350 million for a total Interim Funding Program of $2.3 billion by the end of Fiscal Year 2026.

To further lower costs and the impact of capital expenditures, when actual capital costs need to be paid, the SFPUC's enterprises first borrow funds from the Interim Funding Program, which includes various bank agreements and the ability to issue commercial paper within the commercial paper programs established for each enterprise. Before the capacity of each commercial paper program is exhausted, the commercial paper typically is refinanced with long term financing in the form of revenue bonds or federal and state loans, therefore freeing up the commercial paper capacity again. This process of issuing smaller commercial paper tranches of borrowing allows the SFPUC to try to borrow funds only when really needed, while allowing for further efficiencies and economies of scale in aggregating these bonds into larger, long-term bonds. The proceeds of these future revenue bonds are used for capital improvements, to retire outstanding commercial paper (minimizing the time funds accrue short-term interest), to fund capitalized interest, fund reserves when those are advantageous, and pay the costs of issuing bonds. Projected financial plan bond issuance amounts do not factor in future refinancing opportunities, although the Capital Finance Team is continually exploring opportunities to refinance and reduce debt service costs, as discussed below. The projected financial plan is based on cash spending for capital projects, but actual financing decisions weigh the shifting dynamics of both cash spending as well as the needs related to releasing current project budget appropriation on Controller's reserve. The following table shows the assumed par amounts (which are the amounts borrowed, not the net proceeds available for construction) of revenue bond issuances for each enterprise for the Plan.

Table 6: Projected Annual Par Amounts of Revenue Bond Issuance by Enterprise (Million Dollars[22]

($M)	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Total
Water	$0	$1,117	$0	$1,025	$0	$843	$0	$0	$0	$0	**$2,985**
Wastewater	$1,350	$889	$1,017	$0	$1,237	$0	$0	$1,661	$0	$0	**$6,154**
Power	$0	$0	$612	$0	$457	$0	$426	$0	$0	$572	**$2,066**
Total	**$1,350**	**$2,005**	**$1,628**	**$1,025**	**$1,695**	**$843**	**$426**	**$1,661**	**$0**	**$572**	**$11,205**

Future Refunding Opportunities

The nature of the tax-exempt bond market is such that most callable bonds issued with 5% (and many 4%) coupons end up being refunded for debt service savings. We issue "serialized bonds" – for example, instead of issuing a 30-year bond with a bullet maturity or issuing bonds with a single interest rate like a typical amortizing mortgage, we issue 30-year bonds that conceptually could have as many as 30 different maturities with slightly ascending individual interest rates (or yields). The bonds are typically sold with 5% interest coupons, so we receive a premium purchase price from the investors who buy bonds paying 5% but yielding much lower market rates. That premium

[22] Excludes refunding of the 2024 Wastewater Revenue Bonds, Series A

paid by the investors reduces the amount of bonds that need to be issued. As time passes this structure creates new refinancing opportunities. Even if rates don't move or even if they move up slightly, in ten years, we can refinance the 11-year maturity bonds with a new 1-year bond, the 12-year bonds with new 2-year bonds and so forth. This has always been true of our bond market and our bonds, but the SFPUC has issued progressively larger bond sales through the decades, resulting in increasing refinancing savings opportunities beginning about 10 years from issuance of each bond.

The SFPUC, working with its municipal advisors and underwriters, has identified significant refinancing opportunities for all three enterprises. This includes current refundings of callable (or soon to be callable) outstanding bonds, possible tender refunding of outstanding bonds, and derisking of Federal Subsidy loss by refunding of remaining Build America Bonds (BABs).

Due to interest rate changes and other market risks, these refunding opportunities are not assumed in the 10-year plans, but the likelihood of future savings provides additional comfort that while higher rates are possible in the future, the 6% long-term assumption used for modeling purposes is reasonable. It should be noted that the SFPUC typically takes advantages of refunding opportunities in conjunction with "new money" bond sales, and while there can be administrative efficiencies with issuing new money bonds and refunding bonds at the same time, the SFPUC is also mindful of varying levels of market capacity for SFPUC bonds at any given time.

The SFPUC is monitoring and/or actively pursuing the following refinancing opportunities:

Wastewater Enterprise

- $295.1 million of 2013B, 2016A and 2016B current refundings
- $162 million of Build America Bonds (for cashflow savings and Federal subsidy risk mitigation)
- Tender refundings of 2018A and 2018B bonds

Water Enterprise

- $412.2 million of 2016AB current refundings
- $351.5 million of Build America Bonds (for federal subsidy risk mitigation)
- Tender refundings of 2017DEF, 2019ABC, 2020B, 2020EFGH bonds

Power Enterprise

- 2015 Power Bonds

All Enterprises

- 2009D 525 Golden Gate Certificates of Participation Build America Bonds

Future Capital Financing Opportunities

Though not built into the 10-year plan, there are additional potential financing sources for future rate payer relief that are being actively monitored by the SFPUC and, if executed, would be incorporated into future financial plans.

A modest amount of debt service relief could be created by selling 40- or 50-year bonds (when market conditions are conducive) for certain long-lived assets such as dam projects. These longer

bonds would also offer more refinancing opportunities: in concept, a 40-year bond might be refinanced up to three times, and 50-year bonds up to four times – and potentially even more if tax-exempt advanced refundings are restored by Congress.

The Capital Finance team continuously explores potential financial innovations and financing solutions with our financial advisors, commercial banks and investment banks. Recent analyses have centered on prepay obligations or taking advantage of state legislation allowing for securitization. Any financing innovations would first need to be explored with the SFPUC's leadership, City Attorneys Office and approved by the Commission, and some may require further new authorization from the Board of Supervisors.

We may also re-visit implementation of a dedicated rate stabilization reserve to help cushion the impact of revenue shortfalls or unexpected expenditures in future years. Since this might require the delayed recognition of revenues, which would add to the rate pressures for Water and Wastewater, the Power Enterprise may be in a better position to phase in such a tool in the near-term.

While we expect the flow of advantaged Federal and State loans to be slower than in the recent past, we are making significant headway in our efforts to build a coalition to support subordination of WIFIA (and Corps Water Infrastructure Financing Program or CWIFP) borrowing to our revenue bonds. If approved by Congress and signed into law, this would mean that any future WIFIA borrowing for the Water Enterprise could avoid diluting debt service coverage. Ongoing discussions are underway between Congressional representatives and industry trade organizations to advance this effort.

Finally, while the SFPUC already has a sizeable Interim Funding program with significant Commercial Paper capacity, we are also exploring the potential of judiciously introducing some limited use of on-going variable rate debt. Such bonds are widely used by utility peers to lower borrowing costs (due to lower, short-term rates – for example remarketing bonds to investors on a weekly or daily basis) and reduce pressure on debt service coverage by deferring amortization and issuing them on a subordinate lien. While the index for national seven-day paper is about 3.26%, it has averaged 1.51% over the past 10 years. Due to high demand for high-quality, short-term investments exempt from California income tax, rates on California seven-day paper are even lower. We are also exploring product alternatives such as 3-year to 5-year put bonds (which we have made limited use of in the past), that under most market conditions would allow us to borrow at lower rates in return for accepting some additional interest rate exposure.

Cost Allocations

Some operating and capital expenditures are allocated to specific customers and only influence the rates of those customers.

In the Hetch Hetchy Water Division (aka "Upcountry"), all costs associated with water operations within Hetch Hetchy Water and Power are funded by the Water Enterprise, while all costs associated with power operations are funded by the Power Enterprise. For projects that benefit both Enterprises, the costs are shared jointly, with 45 percent of the costs paid by the Water Enterprise and 55 percent paid by the Power Enterprise. In the Hetch Hetchy Water and Power

financial model, each line item in is allocated between water and power. The water share of expenses, net of any water-related revenues, is paid for by a transfer in from the Water Enterprise.

In the Water Enterprise, "Regional Water" costs are shared between wholesale and retail customers based on their proportional annual volumetric water use. "Local Water" costs are paid solely by retail water rates. The Water financial model tracks these costs separately, and rates for each customer class are set to cover only the costs allocated to them.

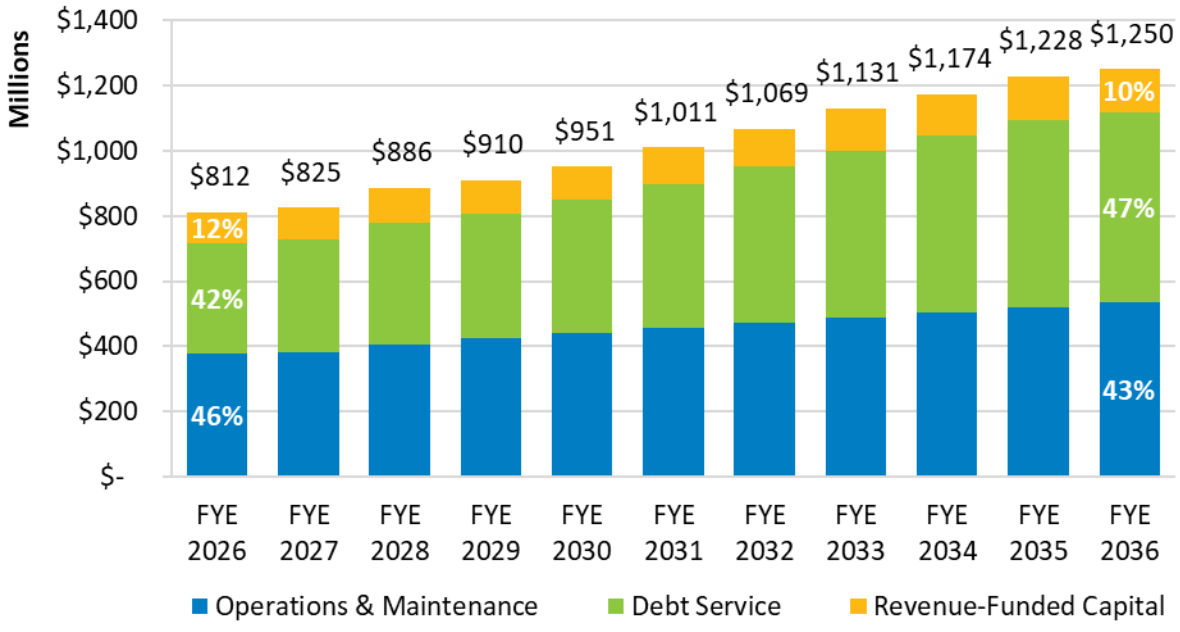
Annual Cash Expenditures

The section below provides a summary of the total cash needs, comprised of the annual operations and maintenance expenses and the various forms of capital expenses, for each enterprise over the 10-year forecast period.

Water Enterprise

Water Enterprise expenses are expected to grow from $811.7 million to $1.3 billion during the 10 years (an average of 4.4 percent per year), as shown in Figure 7. The bulk of this growth is in debt service, as funding for capital projects increases the annual debt service payments by approximately $24 million per year over the 10-year projection horizon. As Water Enterprise is already coming out of the completion of the Water System Improvement Program and has the most debt outstanding of any Enterprise, these increases are fairly manageable. In addition, it's important to note that water costs are split between the retail and wholesale customers, and this larger population base over which to allocate costs reduces the burden of increases on any one group of customers.

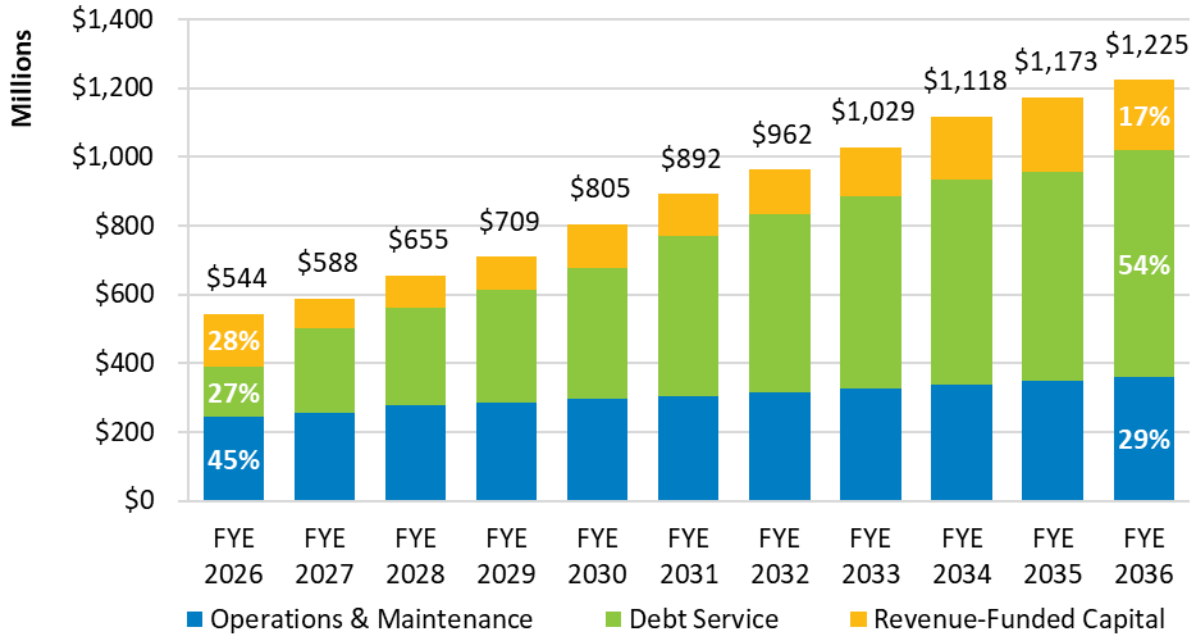
Figure 7: Projected Water Enterprise Annual Expenditures (Million Dollars)



Wastewater Enterprise

Wastewater annual expenditures more than double from $544.4 million in the current year to $1.2 billion in FY 2035-36, as Figure 8 shows – an average of 8.4 percent annually. This increase is predominantly driven by capital spending and the resulting growth in debt service, which increases from 27% of annual expenses to 54% by the end of the ten-year period, or from $146.1 million in FY 2025-26 to $658.2 million in FY 2035-36. This increase in debt service over the ten-year plan is driven by the Enterprise's large Capital Improvement Plan and represents a major financial challenge. While the projects being financed under this plan are all critical for responding to climate change, meeting regulatory requirements, and maintaining aging infrastructure to ensure system reliability, the SFPUC is actively pursuing ways to achieve these goals while reducing the projected rate increases for retail customers. Refer to the *Financial Plan* and *Affordability* sections of this report for more discussion of the agency's approach to this issue.

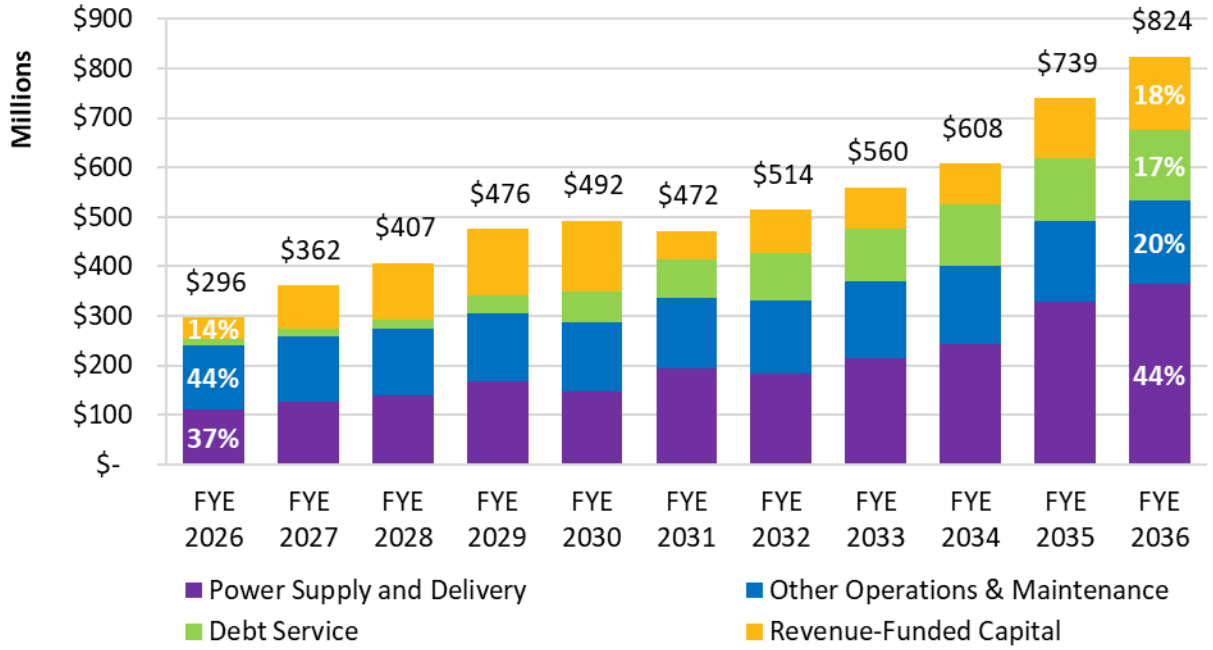
Figure 8: Projected Wastewater Enterprise Annual Expenditures (Million Dollars)



Hetch Hetchy Power

As shown in Figure 9, Power's share of Hetch Hetchy Water & Power expenditures is forecasted to grow from $296.2 million to $823.9 million over the ten years, an average of 10.8 percent annually.

Figure 9: Projected Hetch Hetchy Power Annual Expenditures (Million Dollars)[23]



Most of this growth is in purchased power supply and delivery charges (Transmission Access Charges and Wholesale Distribution Tariffs), which currently represent 37% of the overall budget, and which are forecasted to grow by $253.9 million over this ten-year planning period. This line item includes the budgeted annual contingency above forecasts. As discussed in the *Power Purchases & Delivery Charges*, this financial plan also includes modeling of the impact of construction schedules on Hetch Hetchy power generation. The impact of this on the forecasts is visible in FY 2028-29, where lower-than-normal generation requires more market purchases, and FY 2029-30, where higher-than-normal generation requires fewer purchases from the market.

In addition, capital costs are forecast to continue rising in Hetch Hetchy Power. In 2018, Proposition A gave Hetch Hetchy Power authority to issue revenue bonds to construct facilities to serve new customers. These bond issuances, as well as those for power's share of existing assets under the Hetch Hetchy Water Division, mean that debt service grows from just $13.6 million annually in FY 2025-26 to $142.8 million by the last year of the plan. In the middle years of the plan, certain large capital projects funded via cost share arrangements from customers bump up annual revenue-funded capital expenses.

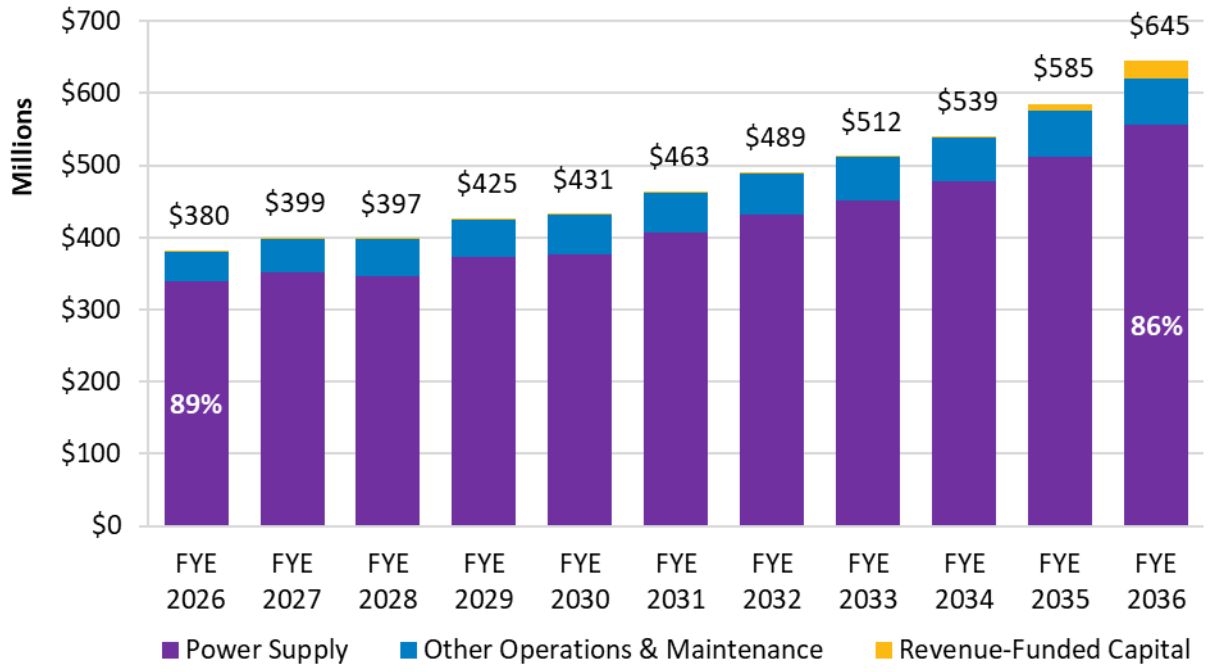
[23] Figure does not include the Water share of Hetch Hetchy Water Division expenses. These are shown in the Water Enterprise expenditures graph since they are funded via a transfer in from Water and paid for by water rates.

Both power supply and delivery costs and capital expenditures are driven by the program's planned expansion of its customer base (see *Hetch Hetchy Power Sales Projections*); much of the increases in power supply and delivery expenses in FY 2034-35 and FY 2035-36 relate to large new customers coming online in those years. Hetch Hetchy Power's cost structure is more variable based on sales volumes than the other Enterprises, where costs are largely fixed and independent of utility usage. As a result, some of the risk of increasing costs comes with the upside of increased revenues, spreading the cost of a larger customer base and therefore helping to reduce rate increases. Our modeling suggests that these large customer acquisitions, despite the higher costs they entail, on net lower rates for the rest of the customer base.

CleanPowerSF

Figure 10 shows the total annual expenditures for CleanPowerSF for the current and next ten fiscal years. Purchased power supply costs represent roughly 86-90% of the expenditures in every year, and increases are in part tied to the growing customer base (see *CleanPowerSF Sales Projections*). In the next four years or so, when minimal growth is assumed, power purchase expenses are forecasted to hold relatively flat.

Figure 10: Projected CleanPowerSF Annual Expenditures (Million Dollars)



10-Year Financial Plan

The 10-Year Financial Plan provides a roadmap for how each enterprise will plan to fund its updated projections of operating and capital expenditures over a 10-year planning period. The financial plan summarizes the sources and uses of funds, presents a cash flow projection, and defines any adjustments that may be needed for utility rates. Sources are projected operating revenue streams such as water sales, wastewater billing, and power sales, as well as non-operating and capital revenues such as state and federal grants or cost fees from customers requesting new service installations. Uses are projected expenses such as operations and maintenance, debt service, and revenue-funded projects. These cash flow projections help each enterprise evaluate its performance on various financial sustainability metrics established in SFPUC's Financial Management Policies, including fund balance reserve levels, debt service coverage, and revenue-funded capital.

Water Enterprise

The Water Enterprise's financial forecast indicates the need for a 7.0 to 7.5 percent retail rate increase for the first six years of the plan, dropping to a more moderate 4.5 to 6.0 percent in the outer years (Table 7). Wholesale rate changes are more variable than retail rates across the 10-year plan, with annual rate adjustments ranging from 0.6 percent to 7.9 percent. *Appendix A* contains a table summarizing the cash flow and demonstrates the need for the proposed rate adjustments.

Compared to the same 10-year period forecasted in the prior 10 Year Financial Plan, retail's average annual rate change of 6.4 percent is 0.4 percent higher than previously forecasted. Similarly, wholesale's average annual rate change of 4.2 percent is 2.0 percent higher than previously forecasted. Rate increases from the prior plan are primarily driven by lower water sales projections and higher operating expenses due to higher salary and fringe escalation and staff for new facilities. While bond credit ratings are not fully in management's control, these rate increases and projected financial metrics aim to maintain high credit ratings as directed by the San Francisco Charter and keep debt service costs down for ratepayers in the long term.

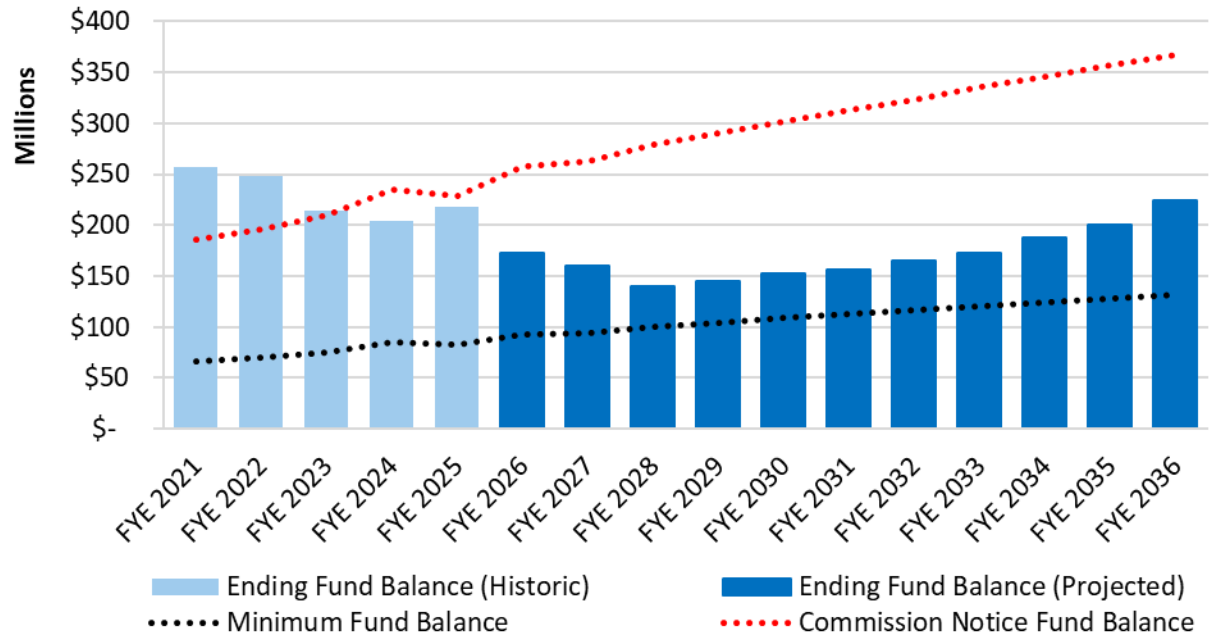
Table 7: Projected Water Enterprise Rate Change

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual
Retail Rate Change	7.0%	7.0%	7.5%	7.5%	7.5%	7.0%	6.0%	6.0%	4.5%	4.5%	**6.4%**
Wholesale Rate Change	7.9%	6.9%	3.9%	2.0%	4.5%	5.1%	5.3%	2.8%	3.6%	0.6%	**4.2%**

Based on the proposed plan, the Water Enterprise's fund balance reserve is projected to remain higher than the minimum level required by SFPUC's Fund Balance Reserve Policy of 90 days or 25 percent of operating and maintenance expenses. Figure 11 shows that over the next 10 years, the Water Enterprise fund balance is projected to remain in the 34-42% range, with highs in FY 2026-27 and FY 2035-36 at 42%, while FY 2027-28 through FY 2034-35 are projected to be 34-38%. As noted above, this metric measures "budgetary basis fund balance," which excludes funds appropriated

but not yet spent. “Days cash on hand” is typically substantially higher than this measure, and is reported in our financial statements.

Figure 11: Historic and Projected Water Enterprise Ending Fund Balance (Million Dollars)



The Water Enterprise’s debt service coverage is projected to remain higher than the minimum levels required by SFPUC’s Debt Service Coverage Policy of 1.35x annual debt service for Indenture Coverage and 1.10x for Current Coverage. For all years, the Water Enterprise forecasts current debt service coverage of 1.25x or above when including appropriated fund balance revenues, and 1.23x or above without.

Table 8: Water Enterprise Indenture and Current Debt Service Coverage Ratios

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Indenture Debt Service Coverage	1.70	1.62	1.66	1.65	1.63	1.60	1.61	1.61	1.61	1.66
Current Debt Service Coverage – without Appropriated Fund Balance Revenue	1.23	1.23	1.27	1.27	1.27	1.25	1.27	1.26	1.26	1.27
Current Debt Service Coverage – with Appropriated Fund Balance Revenue	1.27	1.29	1.27	1.27	1.27	1.25	1.27	1.26	1.26	1.27

Wastewater Enterprise

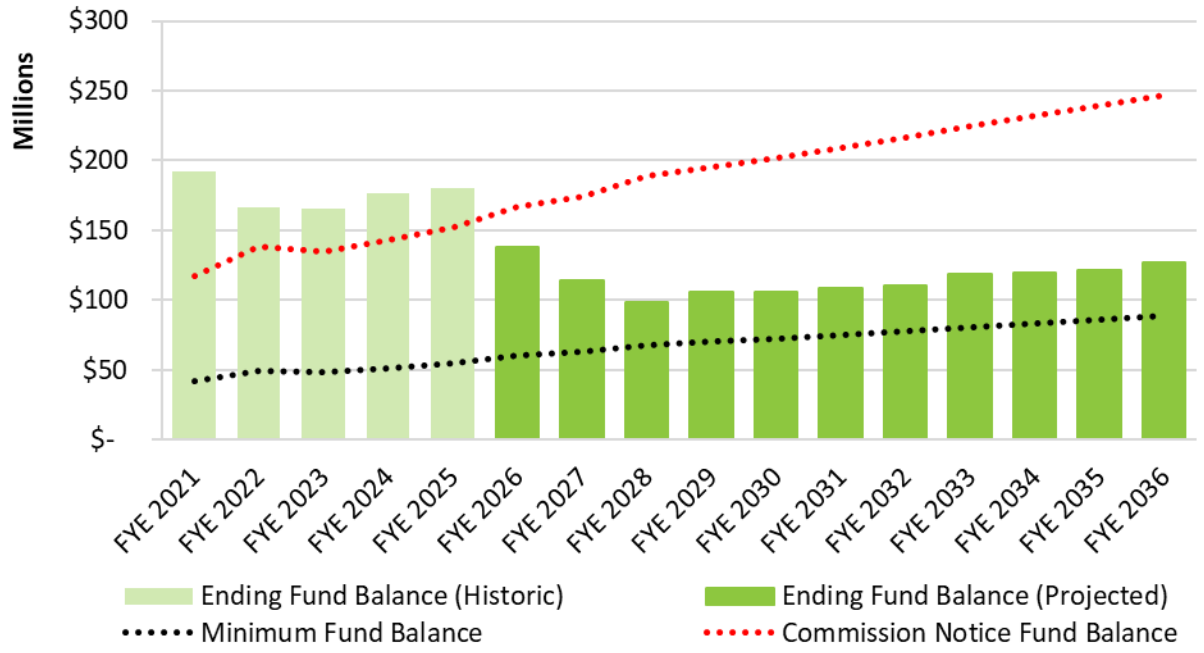
The Wastewater Enterprise's financial forecast indicates the need for multiple years of double-digit rate adjustments from FY 2026-27 through FY 2030-31 (Table 9), dropping down to 5.0% increases in the outer years of the ten-year plan. Similar to the Water Enterprise, these rates are driven by large capital investments, growing debt service from recently completed capital projects, and the need to preserve higher financial performance metrics. *Appendix B* contains a table summarizing the cash flow and demonstrates the need for the proposed rate adjustments.

Table 9: Projected Wastewater Enterprise Rate Change

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual
Retail Rate Change	15.0%	14.5%	13.0%	13.0%	12.0%	8.0%	8.0%	8.0%	5.0%	5.0%	**10.1%**

Over the next 10 years, the Wastewater Enterprise's fund balance reserve is projected to remain higher than the minimum level required by SFPUC's Fund Balance Reserve Policy of 90 days or 25 percent of operating and maintenance expenses. Throughout the 10-year planning period, the Wastewater Enterprise fund balance is projected to range from a high of 45 percent of operating expenses in FY 2026-27 to a low of 35 percent in FY 2034-35. As noted above, this metric measures "budgetary basis fund balance," which excludes funds appropriated but not yet spent. "Days cash on hand" is typically substantially higher than this measure, and is reported in our financial statements.

Figure 12: Historic and Projected Wastewater Enterprise Ending Fund Balance (Million Dollars)



As shown in Table 10, the Wastewater Enterprise's debt service coverage is projected to remain higher than minimum levels required by SFPUC's Debt Service Coverage Policy of 1.35x annual debt service for Indenture Coverage and 1.10x for Current Coverage. For all years, the Wastewater Enterprise forecasts current debt service coverage of 1.26x or above, with some years higher when including appropriated fund balance revenue. As Wastewater Enterprise issues significant quantities of debt throughout the 10 years, meeting debt service coverage becomes the primary driver of the large rate increases shown above in Table 9. In turn, meeting and exceeding debt service coverage is crucial for finding investors willing to purchase the debt needed to fund the projects at reasonable interest rates.

Table 10: Wastewater Enterprise Indenture and Current Debt Service Coverage Ratios

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Indenture Debt Service Coverage	1.72	1.63	1.64	1.61	1.51	1.47	1.49	1.52	1.56	1.52
Current Debt Service Coverage – without Appropriated Fund Balance Revenue	1.26	1.28	1.31	1.33	1.27	1.26	1.28	1.31	1.36	1.32
Current Debt Service Coverage – with Appropriated Fund Balance Revenue	1.35	1.34	1.31	1.33	1.27	1.26	1.28	1.31	1.36	1.32

Hetch Hetchy Power

The 2022 Power Rates Study informed rate changes in FY 2022-23 through FY 2025-26 for Hetch Hetchy Power. This included a consolidation of the existing Retail and Enterprise municipal rate schedules into the same retail rates beginning FY 2023-24 for the same customer class. General Use Municipal (GUSE) rates are increasing from their subsidized levels toward cost of service at an effective rate increase of $0.03/kWh annually. When GUSE rates for a given rate schedule reach cost of service, they switch over to retail rates. The ongoing 2026 Power Rates Study will update the expected date when various GUSE rates will reach cost of service. Generally, larger commercial rate schedules are projected to reach cost of service sooner, while the majority of customer classes are currently projected to reach cost of service later in the 10-year planning period. The exact timing of this changeover is subject to change based on changes to the rate plan and the results of the next power cost of service and rate study, which is expected to be completed in Spring 2026. Table 11 shows both retail and General Use (GUSE) municipal rates increases.

Table 11: Projected Hetch Hetchy Power Rate Changes

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual
Retail Rate Change	7.0%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	2.5%	2.5%	**5.8%**
General Use Municipal Rate Change	13.7%	12.1%	10.8%	9.7%	8.9%	8.1%	7.5%	7.0%	6.5%	6.1%	**9.0%**

Hetch Hetchy Power's financial forecast (*Appendix C*) results in an average annual retail rate increase of 5.8 percent annually over the Plan, with the highest increases in the earlier years of the Plan, leveling out to increases closer to inflation. Near-term rate increases are a response to growing costs and a goal of maintaining the Power Enterprise's current strong financial position. When compared to last year's forecasted rate change for the same time period, the average annual retail rate change remains the same.

Hetch Hetchy Power's fund balance is projected to remain above the minimum level required by SFPUC's Fund Balance Reserve Policy of 90 days or 25 percent of operating and maintenance expenses. Throughout the 10-year planning period, fund balance is projected to range from a high of 93 percent of operating expenses in FY 2026-27 to a low of 36 percent in FY 2028-29. As noted above, this metric measures "budgetary basis fund balance," which excludes funds appropriated but not yet spent. "Days cash on hand" is typically substantially higher than this measure, and is reported in our financial statements.

Figure 13: Historic and Projected Hetch Hetchy Power Ending Fund Balance (Million Dollars)

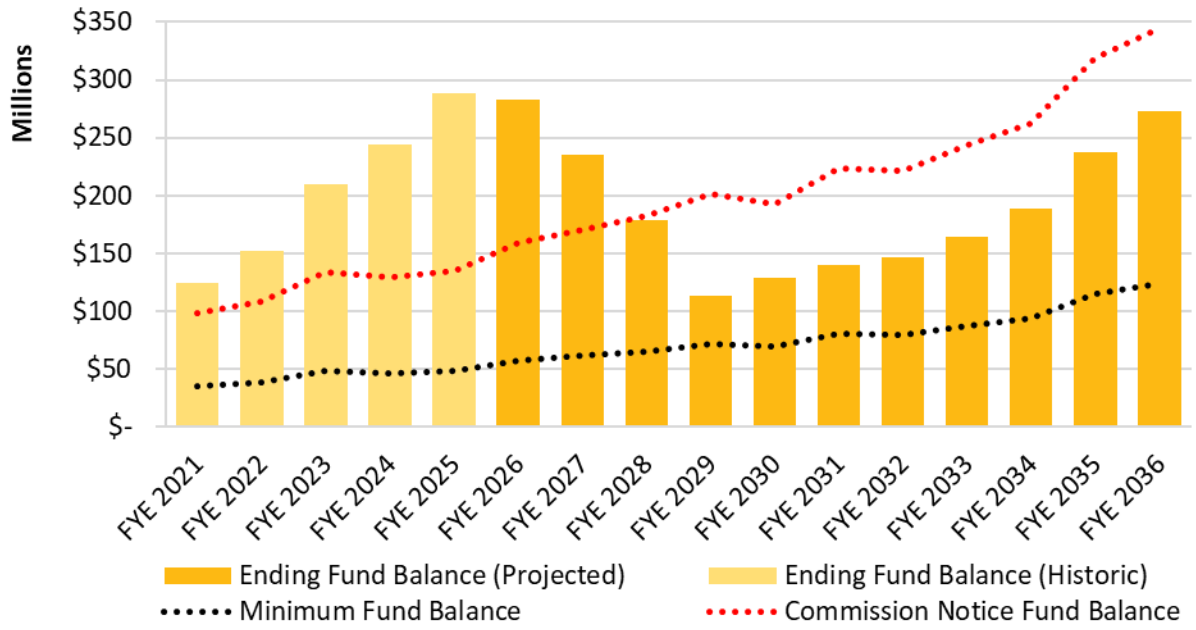


Figure 13 shows that Hetch Hetchy Power's debt service coverage in the Financial Plan is much higher than minimum levels required by SFPUC's Debt Service Coverage Policy of 1.35x annual debt service for Indenture Coverage and 1.10x for Current Coverage. For all years, planned rates for Hetch Hetchy Power result in forecasted current debt service coverage of 1.79x.

Table 12: Hetch Hetchy Power Indenture and Current Debt Service Coverage Ratios

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Indenture Debt Service Coverage	16.74	14.81	5.92	5.58	3.67	3.47	3.40	3.30	4.18	4.15
Current Debt Service Coverage – without Appropriated Fund Balance Revenue	2.64	4.22	2.74	3.47	1.82	1.92	1.87	1.79	2.29	2.24
Current Debt Service Coverage – with Appropriated Fund Balance Revenue	5.37	7.37	4.58	3.47	1.82	1.92	1.87	1.79	2.29	2.24

CleanPowerSF

Last year's financial plan projected relatively flat rate change for CleanPowerSF through the early years of the financial plan. However, in response to lower power supply costs and a difficult competitive environment, CleanPowerSF is planning a rate decrease for FY 2026-27; moreover, to get customers savings as quickly as possible, the rate increase will be effective early, in March 2026. After this decrease, CleanPowerSF's financial forecast (*Appendix D*) projects moderate generation rate increases ranging from 3.0 - 8.5% for the remainder of the ten-year planning period.

It is important to note that CleanPowerSF generation rates only reflect a portion of the bill, as CleanPowerSF customers also pay delivery charges and fees to PG&E. We expect that PG&E delivery charges will also increase during the 10-year timeframe.

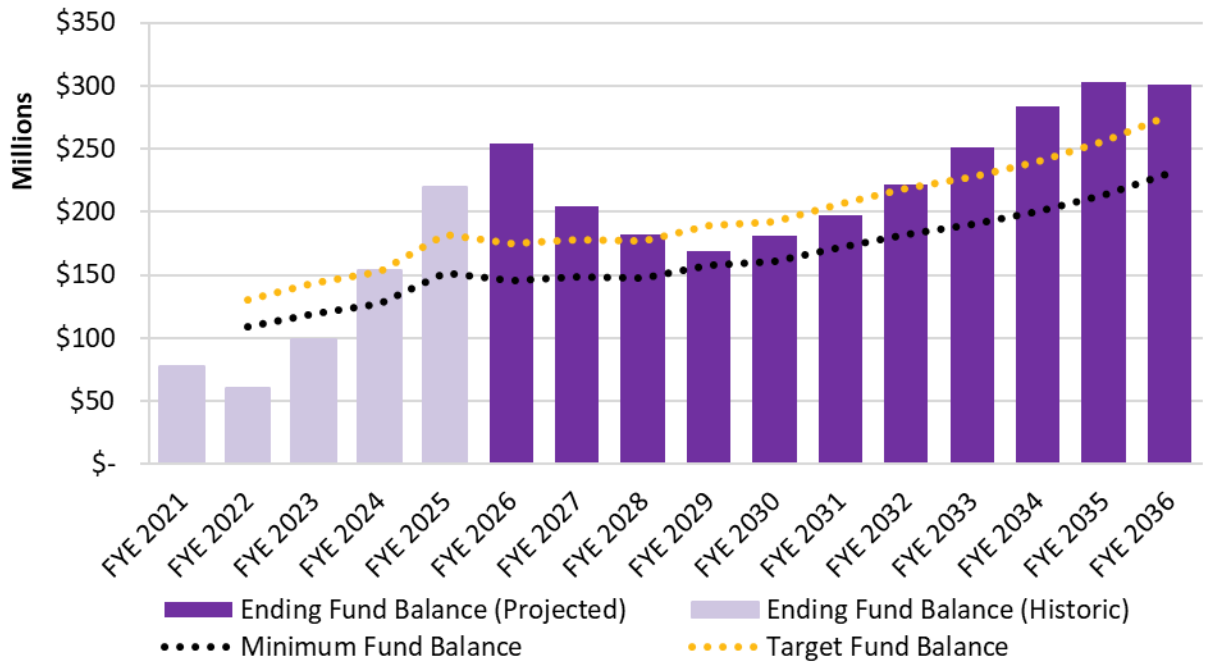
Table 13: Projected CleanPowerSF Generation Rate Changes

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	Avg. Annual
Generation Rate Change	-23.1%	8.5%	8.0%	5.5%	5.5%	4.5%	3.0%	3.0%	3.0%	3.0%	**2.1%**

As discussed above, CleanPowerSF's Fund Balance Reserve Policy minimums and targets are higher than the other Enterprises to reflect its greater exposure to volatile power markets. The agency has spent several years building reserves to meet and exceed the 180 days cash on hand target. Reserve levels are projected to drop below the target over the next few years as the program uses the reserves to offer lower rates to customers; as required by the policy, the agency then sets

rates sufficient to recover and exceed the target again within three years. CleanPowerSF is projected to maintain fund balance higher than the policy minimum level of 150 days of operating and maintenance expenses throughout the 10 years.

Figure 14: Historic and Projected CleanPowerSF Ending Fund Balance (Million Dollars)[24]



Affordability

As described above, the Affordability Policy requires a forecast of average residential utility bills over a 20-year planning period. This information is used to inform the agency's capital planning process; bills exceeding adopted policy targets require a justification and indicate that the agency should consider alternative strategies to reduce rates.

Water and Sewer Bills

As shown in Figure 15 and Figure 16 our current forecasts indicate that, without further adjustments, the average combined water and wastewater bill could slightly exceed our Affordability Policy targets beginning in FY 2033-34, coming back under the targets in FY 2044-45. This rate trajectory does, however, improve on the prior 10 Year Financial Plan. Rate increases in the next few years are slightly lower than previously projected; however, higher expenditure projections in this timeframe mean that rates beginning in FY 2030-31 – five years from now – are higher. Despite this increase, the agency's extensive efforts to reduce the capital plan and defer all but the highest-priority projects mean that the projected combined bill in FY 2044-45 is now $482 vs. $505 in last year's projection, *an almost 5% improvement*, and is under our affordability target.

[24] CleanPowerSF's Fund Balance Reserve Policy was adopted in April 2022. There were no official reserve minimums or targets prior to this year. San Francisco Public Utilities Commission, *Fund Balance Reserve Policy*, April 2022, https://www.sfpuc.gov/sites/default/files/about-us/policies-reports/FundBalanceReservePolicy.pdf.

Low-income customers enrolled in the SFPUC's bill discount program will remain under the applicable bill target throughout the 20-year period. In the 20-year period, the combined bill is forecasted to grow to a maximum of 3.1% of the typical household income (vs. the 3.0% target) and 7.4% of the low-income household income (vs. the 7.0% target). For a low-income household enrolled in applicable discount programs, the combined water and sewer bill during the 20-year timeframe reaches a maximum of 4.4% of income (vs. the 5.0% target). While it is still an estimated eight years until these targets are unmet, this early warning has driven the agency to make significant cuts and engage in a rigorous prioritization process to bring costs down.

Figure 15: Projected Average Monthly Water and Sewer Bills and Affordability Targets

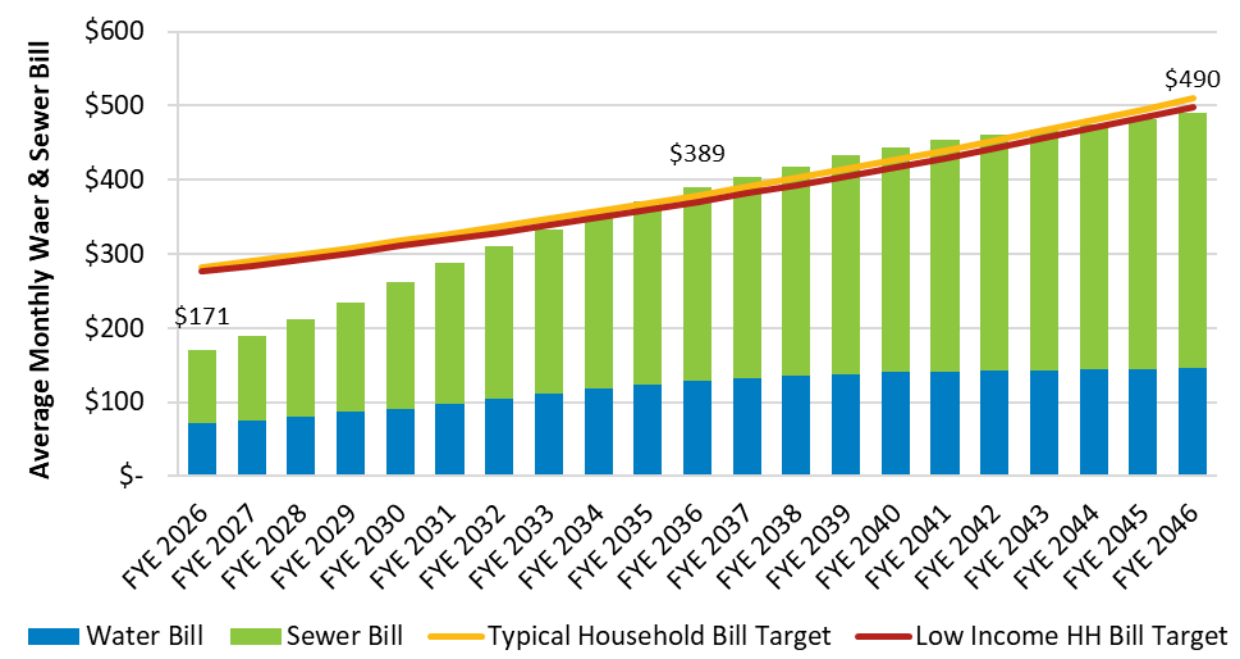
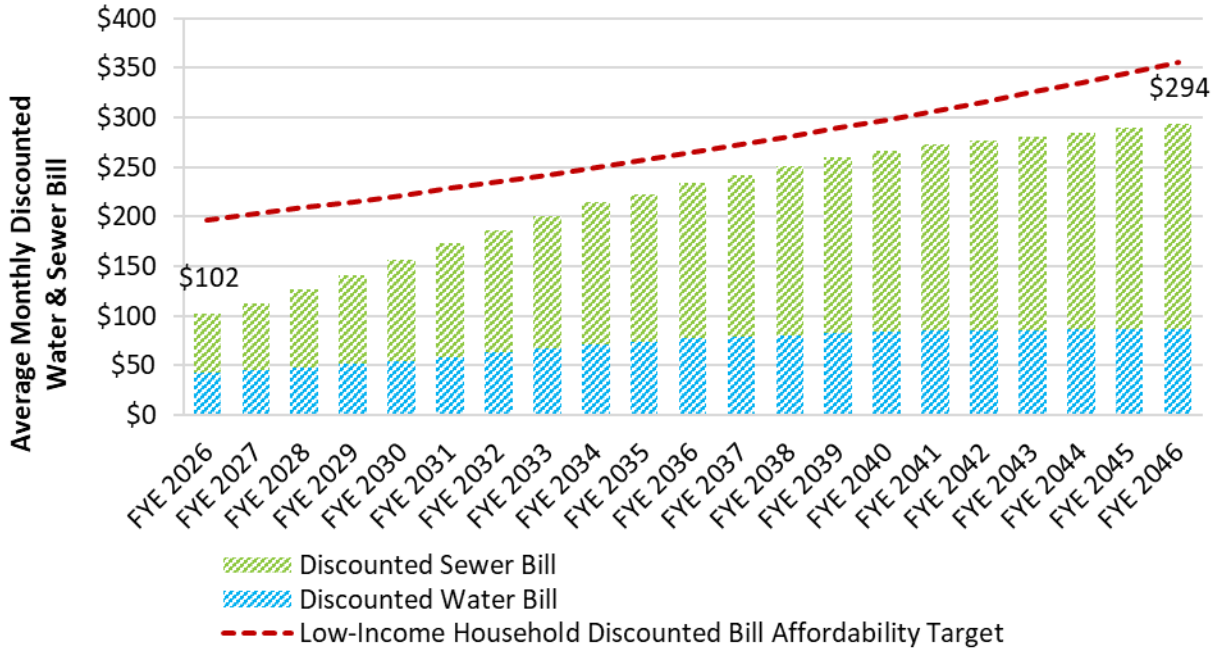


Figure 16: Projected Average Monthly Discounted Water and Sewer Bills and Affordability Target



The largest growth in customer bills is coming from the sewer portion of the bill. As mentioned earlier in this document, these increases are being driven by capital spending and associated increases in debt service costs related to the replacement and modernization of the core functions of San Francisco's Southeast Treatment Plant, which was built in 1952 and handles 80% of the City's combined wastewater and stormwater flows. Current investments include construction of a new Headworks Facility, improvement of the Bruce Flynn Wet Weather Pump Station, and replacement of the Biosolids Digester Facilities – work that is largely completed. Planned investments in the 10-Year CIP include projects necessary to meet regulatory requirements and to renew other aging infrastructure, such as the construction of Nutrient Reduction facilities and replacement of the Southeast Outfall. Together, these projects at the Southeast Treatment Plant are estimated to cost over $7 billion.

Other major cost drivers for water and wastewater rates include projects such as the new wastewater treatment plant on Treasure Island, flooding mitigation projects in low-lying areas of the city, ongoing repair and replacement of sewer and water mains, and major pipeline and tunnel rehabilitation in the Hetch Hetchy Water system. In addition to replacement and renewal of aging infrastructure, many of these investments are driven by regulatory requirements. SFPUC thoroughly evaluated opportunities to reduce these expenditures and/or extend them over longer periods of time to minimize the impact on ratepayers.

Rate increases are also guided by SFPUC's financial policies, including the Debt Service Coverage Policy, Fund Balance Reserve Policy, and Capital Financing Policy. SFPUC remains committed to financial sustainability, recognizing that a strong financial foundation and responsible financial management are crucial to serving ratepayers into perpetuity and meeting obligations to bond

investors. This careful, conservative financial planning is central to sustain the vital infrastructure entrusted to our care.

Because the SFPUC finances a significant portion of its capital plan with revenue bonds, with interest rates set based on the bond credit ratings and investor demand for the bonds, a lower credit rating and the associated higher interest rates on billions of dollars in debt would require major rate increases; very likely significantly more than what is shown here. While credit ratings are ultimately based on factors that are beyond management's control, and the City and County of San Francisco has already seen multiple downgrades to its credit ratings, the SFPUC enterprises are directed by the San Francisco Charter to set rates to maintain high credit ratings and must take actions to prioritize this legal obligation. Proactively raising rates to ensure sufficient revenues above our policy metric minimums will ultimately lead to better long-term affordability as it helps to safeguard our credit ratings.

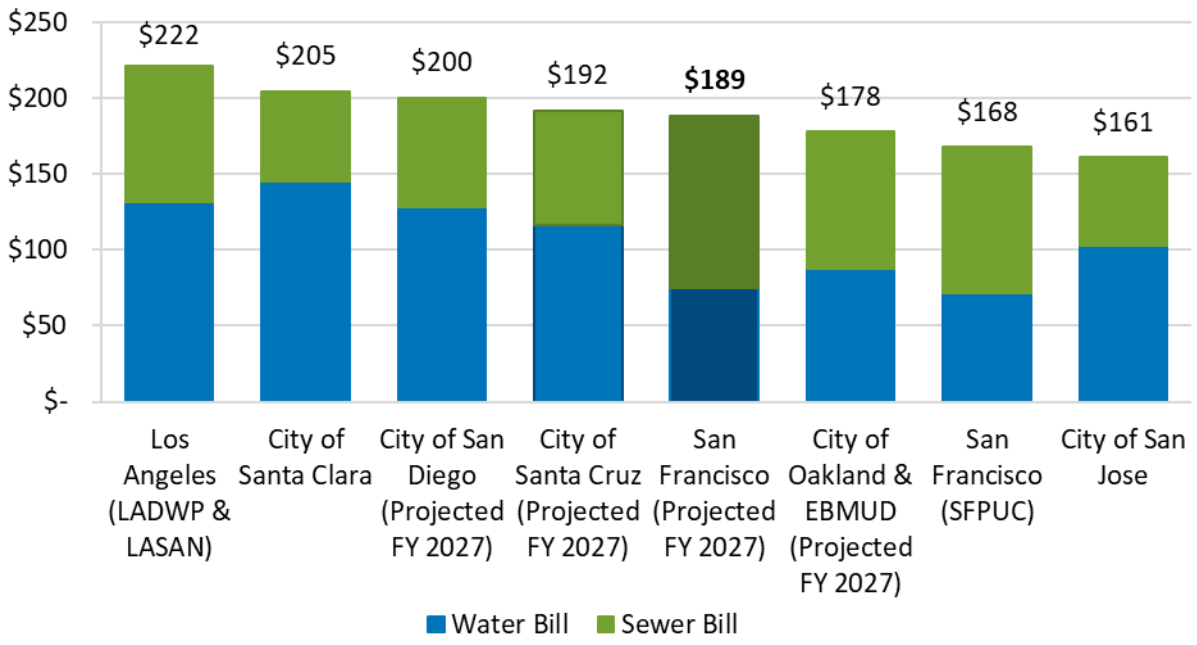
Maintaining our strong financial position, while simultaneously making the large capital investments needed to meet regulatory obligations, responsibly manage our system, and improve our resilience to climate change necessitates rising utility rates.

While we believe that exceeding the affordability thresholds between FYE 2034 and FYE 2044 is justifiable, both to cover the cost of unavoidable capital investments and to preserve the SFPUC's ability to access low-cost debt, the agency also acknowledges the challenge of these rate increases on San Franciscans. Having the Affordability Policy in place gives us an early warning to face this challenge and develop potential solutions. Fundamentally, decreasing capital investments is the most direct way to decrease the need for rate increases. The proposed capital improvement plan includes billions of dollars of cuts from the initial version; however, the remaining capital investment needs are extremely high priority. Other tools include strategic debt management and refinancing, as discussed above in *Capital Financing Expenditure Assumptions*, and seeking out external financing, such as low cost state and federal loans and grants. We continue to explore various existing funding sources or developing new ones at the local, regional, state, and federal level.

Additionally, conservative assumptions are built in throughout our Financial Plan. Sales volumes, expense growth, inflation in salary, benefits, non-labor costs, and debt assumptions are projected conservatively. Any savings from lower operating costs, lower bond interest rates, debt refinancings, or acquisition of low-cost loans or grants will translate into reduced ratepayer costs and enable us to bring down rates.

Finally, SFPUC conducted a survey to contextualize our current bills. Figure 17 shows the typical residential customer's combined water and sewer bill for SFPUC and six other peer agencies in California for FY 2026-27. Even with the proposed large increases, SFPUC's projected average bills are on the lower end when compared to our peer's bills. Notably, we do not have data on planned FY 2026-27 rate increases for Los Angeles, Santa Clara, or San Jose, so these cities' bill estimates are based on their current year rates. It is likely that SFPUC will be even lower in the ranking if FY 2026-27 annual rate increases are adopted in those cities.

Figure 17: Comparison of Peer Cities' Projected FYE 2027 Average Single Family Residential Monthly Bill Using Local Average Water Use[25]



Long-term rate forecasts are not available for many other utilities; however, the regulatory and infrastructure challenges facing the SFPUC are not unique, and it is likely that many other utilities will require major rate increases of their own to keep pace. For peer agencies with published forecasts, near-term increases are roughly in line with the SFPUC's estimates. The water and wastewater utility sectors generally are confronting growing challenges from climate change, regulatory complexity, declining federal financing, and aging infrastructure. By transparently and proactively acknowledging the long-term pressures we face, the SFPUC aims to lead the discussion around industry-wide solutions now, while there is still time to adjust. We are committed to responsible management of our system and to safeguarding ratepayers, and affordability is a central priority.

[25] Bills calculated using the current published rates and the typical residential water usage reported by each agency. Because not all agencies provide the same services, bills shown are for a customer within a specific city to make the comparison as close to parity with the SFPUC's comprehensive services as possible. For example, the East Bay Municipal Utility District (EBMUD) only provides wastewater treatment; sewer collection and stormwater management costs for EBMUD customers are generally the responsibility of Cities and collected on utility bills or property taxes. Bills shown above identified as many relevant water and wastewater utility costs as possible, regardless of collection method.

Power Bills

Hetch Hetchy Power bills and CleanPowerSF bills are calculated for the Typical Household and the Low-Income Household metrics but are not held to any targets. These forecasts are shown in the graphs below, with the associated percentage calculation in the 10-year time frame reported in *Appendix C: Hetch Hetchy Water and Power Enterprise 10-Year Financial Plan* and *Appendix D: CleanPowerSF 10-Year Financial Plan*. Work is currently underway to perform the background research and internal policy development needed to set affordability performance targets for the Power Enterprise.

Note that the typical usage patterns, customer demographics, and rate structure for CleanPowerSF and Hetch Hetchy customers are significantly different; direct bill comparisons between the two programs are significantly impacted by these differences.

By the end of the 20-year timeframe, Hetch Hetchy Power's average and discounted bills are forecasted to reach 1.6% of the typical household income and 3.9% of the low-income household income, falling to 2.8% for a low-income household enrolled in discount programs.

Figure 18: Projected Average Monthly Residential Hetch Hetchy Power Bills

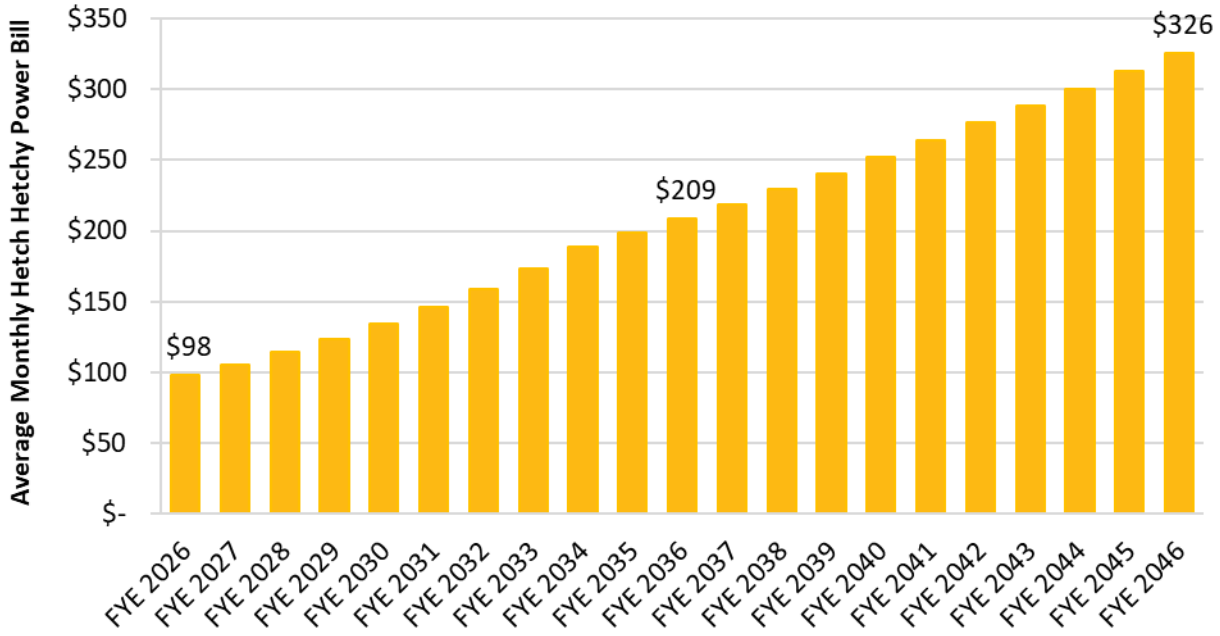
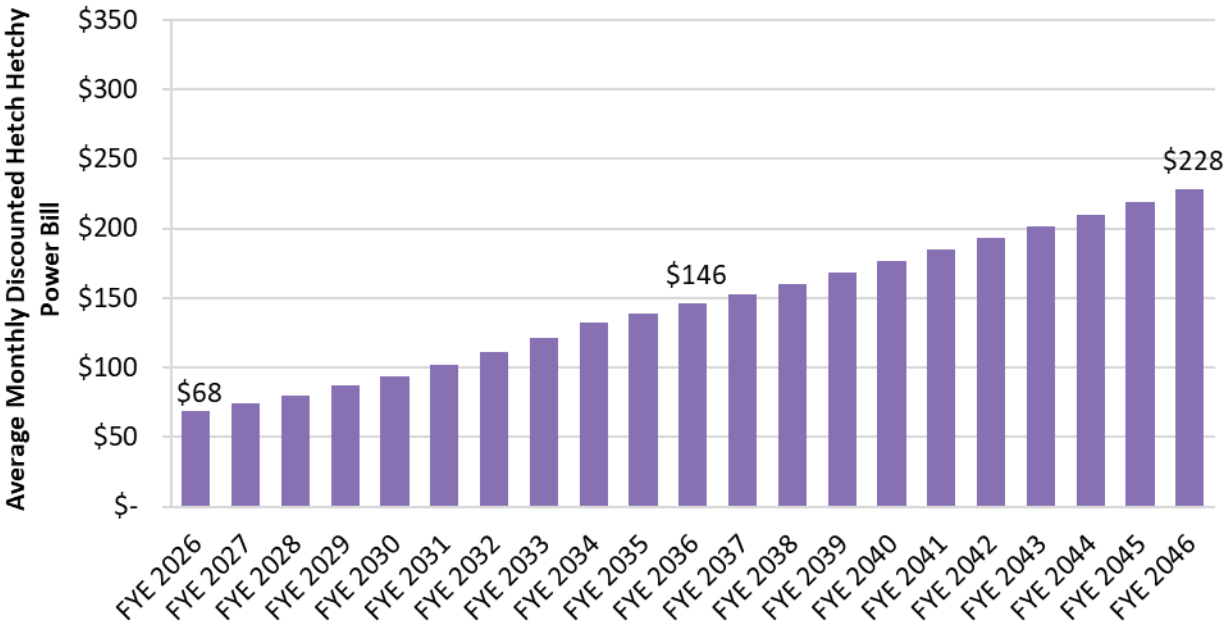
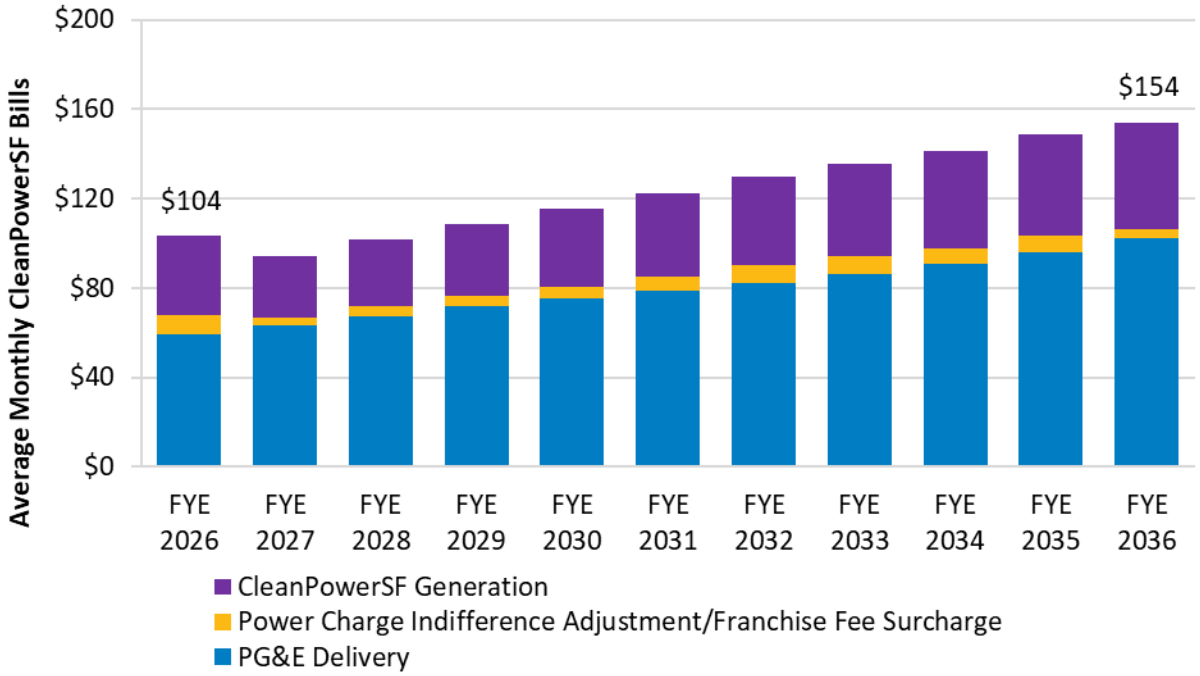


Figure 19: Projected Average Monthly Discounted Residential Hetch Hetchy Power Bills



For CleanPowerSF, only 10 years of forecasts are shown due to uncertainty regarding power supply expenses and PG&E rate increases. During the 10-year timeframe, CleanPowerSF average bills, including the PG&E portion of the bill, are forecasted to reach 1.2% and 2.9% of the typical and low-income household incomes, respectively.

Figure 20: Projected Average Monthly Residential CleanPowerSF Bills[26,27]



As noted, short-term power rates are meaningfully lower than in prior projections. In particular, in FY 2024-25, 380,000 CleanPowerSF ratepayers saw no rate change, and a 20-25% decrease in CleanPowerSF rates goes into effect March 1, 2026. The generation portion of CleanPowerSF average bills is not projected to exceed its current FY 2025-26 levels until FY 2030-31, meaning rates for CleanPowerSF customers set by SFPUC are planned to be at or below their July 2025 levels for five years. The majority of the 8,000 Hetch Hetchy Power ratepayers will continue to pay the lowest electricity rates in San Francisco into next year.

Due to the significant savings provided by CleanPowerSF, even with Water and Wastewater rate increases, the average San Francisco household that relies on CleanPowerSF, water, and sewer services from SFPUC will only see a 2.9% increase in their monthly SFPUC utility costs next year, less than projected CPI of 3.04%.[28]

[26] Power Charge Indifference Adjustment (PCIA) and PG&E delivery increases forecasted through FYE 2027 based on tentative PG&E rate filings with the California Public Utilities Commission; later forecasts developed using third-party projections. There is significant uncertainty in PCIA and PG&E delivery rate forecasts.
[27] Average bill calculated using E-TOU-C rate code.
[28] Comparing bills effective March 2026 to July 2026. Average bills calculated using assumptions listed in this section.

Sensitivities

Revenue Bond Borrowing Rate

Capital costs are typically the main driver of rate variability for utilities; consequently, the assumptions used to calculate borrowing costs can have a significant impact on projected rate revenue requirements. In the current plan, the SFPUC has assumed lower short-term interest rates of 4.75% and 5.0% in FY 2026-27 and FY 2027-28, respectively, and has continued the practice of assuming a 6% interest rate on revenue bonds for the remainder of the ten years. However, various factors could lead to higher interest rates – inflation, general movement in interest rates, exogenous events like conflict with China (a major buyer of U.S. Treasury bonds and therefore a driver of interest rates), a bond credit rating downgrade, federal elimination of the SFPUC's ability to issue tax-exempt bonds, headline risks and other factors that cause investors to avoid buyer SFPUC bonds, and drastic changes to the national economic climate are all potential risks. While it is not possible to accurately forecast the precise effect these events would have on the agency's access to credit markets, we performed a scenario for each Enterprise with an 2% higher interest rates each year on bonds issued during the 10-year planning period (so, 8.0% interest in the later years and 6.75% and 7.0%). Using these higher interest rate assumptions increases our total debt service payments on future debt for each enterprise over the life of the bonds as follows:

- Water Enterprise costs increased by $1.9 billion
- Wastewater Enterprise costs increased by $3.2 billion
- Hetch Hetchy Power costs increased by $1.0 billion

These significant potential costs speak to the importance of taking action to protect the agency's credit ratings and access to low-cost credit.

Reductions to Water Sales and Wastewater Billing from Drought or Recession

Given the high reliance on volumetric rates, Water and Wastewater revenues are highly sensitive to shifts in volumetric sales. Conservation during droughts, the Great Recession, and the COVID-19 pandemic are all recent examples of events that reduced water sales volumes and wastewater billable charges. Economic uncertainty and climate change mean that the agency must proactively consider the possibility of large drops in utility usage.

To roughly quantify the impacts, we modeled potential 5% reduction in billed water sales (both retail and wholesale) and wastewater volumes, beginning during the current fiscal year and then continuing during the 10-year planning period. This reduction from our baseline assumption resulted in a projected revenue reduction over the 10-year planning period of $334.0 million in Wastewater Enterprise and $235.1 million in Water Enterprise. In Water Enterprise, wholesale water rates automatically adjust each fiscal year to account for volume changes and over- or under-collection from the prior year, leading to minimal long-term impact on total revenues. As a result, the revenue reductions are primarily from retail sales.

These decreases could be mitigated by automatic measures such as drought surcharges, or through rate action to increase rates. However, short-term revenue loss might cause dips to

financial metrics. This underscores the need to set rates sufficiently high to provide buffer on financial metrics above policy minimums in case of unexpected volume drops.

Power Enterprise Volume Forecast Alternatives

As San Francisco homes and businesses increase electrification of buildings and assets, Hetch Hetchy Power and CleanPowerSF's sales are projected to increase. However, economic uncertainty and budget pressure on the General Fund mean that there is a risk that many of these projects may not be completed on schedule. For Hetch Hetchy, this 10-Year Plan accounts for this risk by incorporating some conservatism in projected new Hetch Hetchy Power projects, as described above in the *Account Growth Assumptions* section. These adjustments reduced total project size and added delays to project schedules, both of which lower projected power sales. In CleanPowerSF, the baseline scenario assumes no new load from electrification through FY 2028-29, and moderate growth after that date (see *Electrification Assumptions*). This additional conservatism results in a slightly higher rate projection for retail ratepayers over the 10-year plan. However, SFPUC is currently adopting power rates one year at a time. If projects exceed these conservative assumptions, this would result in higher revenues and future rates could be lower than indicated in this report.

The team ran several scenarios to quantify the financial impact of project delays and lower or higher electrification adoption. Because Hetch Hetchy Power must procure energy to serve customers during months when demands exceed Hetch Hetchy's generation, it has a much more variable cost structure than the other Enterprises. CleanPowerSF faces an even more direct linkage between sales and costs since almost all of its expenses are in contracted power purchase agreements. Following the agency's approved hedging policy, CleanPowerSF leaves a portion of its position open in the medium-term, allowing the agency to nimbly reduce power purchases if contracted supply is exceeding demand. In both programs, any excess supply in the short term can be sold to the market to partially mitigate the cost over-procurement or over-production.

As a result, while lower sales volumes result in lower revenues, they also come with associated cost savings, since the agency does not need to purchase as much power. These complex dynamics mean that the exact timing and composition of forecast delays have substantially different bottom-line financial impacts; while each is possible to model individually, Finance and Power Enterprise staff plan to continue working to develop more dynamic models that account for all the changes that come from reduced power demands.

Appendices

Appendix A: Water Enterprise 10-Year Financial Plan

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Beginning Fund Balance ($M)	**$ 218.5**	**$ 173.1**	**$ 159.5**	**$ 139.8**	**$ 144.9**	**$ 152.6**	**$ 156.7**	**$ 165.6**	**$ 172.7**	**$ 188.0**	**$ 200.7**
Sources ($M)											
Retail Water Sales	358.7	380.8	405.8	435.0	466.1	499.1	534.0	566.1	599.8	627.6	654.9
Wholesale Water Sales	356.0	386.3	415.2	433.1	444.9	466.9	493.6	521.2	537.4	560.3	564.7
Other Miscellaneous Income	51.6	44.8	44.9	46.8	47.8	48.9	49.8	50.7	51.6	52.8	53.9
Total Sources	**$ 766.4**	**$ 811.9**	**$ 865.9**	**$ 914.9**	**$ 958.8**	**$ 1,014.9**	**$ 1,077.4**	**$ 1,137.9**	**$ 1,188.8**	**$ 1,240.6**	**$ 1,273.5**
Uses ($M)											
Operations & Maintenance	322.7	322.7	342.5	355.9	369.7	383.6	397.8	412.5	426.7	440.2	454.0
Hetchy Water Operating Transfer	54.1	60.6	64.9	67.7	70.9	72.8	74.8	76.9	78.8	80.7	82.3
Debt Service	339.3	343.9	370.7	383.9	408.3	439.7	481.9	511.2	543.0	572.1	582.2
Revenue-Funded Projects	95.6	98.2	107.6	102.3	102.1	114.8	114.1	130.2	125.0	134.8	131.2
Total Uses	**$ 811.8**	**$ 825.5**	**$ 885.7**	**$ 909.8**	**$ 951.0**	**$ 1,010.9**	**$ 1,068.5**	**$ 1,130.8**	**$ 1,173.5**	**$ 1,227.9**	**$ 1,249.7**
Net Revenues ($M)	**$ (45.4)**	**$ (13.6)**	**$ (19.8)**	**$ 5.1**	**$ 7.8**	**$ 4.0**	**$ 8.9**	**$ 7.1**	**$ 15.3**	**$ 12.7**	**$ 23.8**
Ending Fund Balance ($M)	**$ 173.1**	**$ 159.5**	**$ 139.8**	**$ 144.9**	**$ 152.6**	**$ 156.7**	**$ 165.6**	**$ 172.7**	**$ 188.0**	**$ 200.7**	**$ 224.5**
Rate Increase - Retail	5.0%	7.0%	7.0%	7.5%	7.5%	7.5%	7.0%	6.0%	6.0%	4.5%	4.5%
Rate Increase - Wholesale	2.3%	7.9%	6.9%	3.7%	2.2%	4.5%	5.3%	5.1%	2.7%	3.8%	0.3%
Fund Balance as % of Op. Expenses	45.9%	41.6%	34.3%	34.2%	34.6%	34.3%	35.0%	35.3%	37.2%	38.5%	41.9%
Debt Service Coverage (Current)	1.11	1.23	1.23	1.27	1.27	1.27	1.26	1.27	1.26	1.26	1.27
Debt Service Coverage (Indenture)	1.63	1.70	1.62	1.65	1.65	1.63	1.61	1.61	1.61	1.62	1.66
Revenue-Funded % of Capital	37.5%										
Water Sales - Retail (MGD)	53.4	52.9	52.5	52.4	52.2	51.9	51.7	51.8	51.8	51.8	51.6
Water Sales - Wholesale (MGD)	124.7	125.4	125.7	126.8	127.5	128.1	128.3	129.2	129.7	130.3	130.5
Single Family Residential Avg. Monthly…											
Water Usage (CCF)	4.6	4.5	4.5	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Water Bill	$72	$75	$80	$87	$91	$98	$105	$111	$118	$123	$129
Water/Sewer Bill	$171	$189	$212	$235	$261	$289	$311	$334	$358	$371	$389
Avg. Bill as % of Typical HH Income	1.8%	1.9%	2.1%	2.3%	2.5%	2.6%	2.8%	2.9%	3.0%	3.0%	3.1%
Avg. Bill as % of Low-Income HH Income	4.3%	4.6%	5.1%	5.5%	5.9%	6.3%	6.6%	6.9%	7.2%	7.2%	7.4%
Disc. Bill as % of Low-Income HH Income	2.6%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.1%	4.3%	4.3%	4.4%

Appendix B: Wastewater Enterprise 10-Year Financial Plan

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Beginning Fund Balance ($M)	**$ 181.3**	**$ 137.6**	**$ 114.2**	**$ 98.6**	**$ 106.1**	**$ 105.9**	**$ 108.8**	**$ 110.1**	**$ 119.0**	**$ 120.0**	**$ 121.2**
Sources ($M)											
Sewer Charges	472.8	538.4	613.4	690.7	778.3	867.5	936.1	1,009.9	1,090.1	1,144.4	1,199.7
Other Miscellaneous Income	27.9	26.1	25.6	25.4	26.2	26.9	27.6	28.3	29.3	29.8	30.3
Total Sources	**$ 500.7**	**$ 564.5**	**$ 639.0**	**$ 716.1**	**$ 804.5**	**$ 894.5**	**$ 963.7**	**$ 1,038.2**	**$ 1,119.3**	**$ 1,174.2**	**$ 1,230.0**
Uses ($M)											
Operations & Maintenance	243.5	254.8	276.2	285.4	295.2	305.7	316.7	328.2	339.3	349.6	360.2
Debt Service	146.0	247.6	283.3	329.0	383.3	462.9	515.5	556.7	593.6	608.6	658.2
Revenue-Funded Projects	154.9	85.5	95.0	94.2	126.3	123.0	130.3	144.4	185.4	214.8	206.1
Total Uses	**$ 544.4**	**$ 587.9**	**$ 654.5**	**$ 708.6**	**$ 804.7**	**$ 891.5**	**$ 962.5**	**$ 1,029.3**	**$ 1,118.3**	**$ 1,173.0**	**$ 1,224.5**
Net Revenues ($M)	**$ (43.7)**	**$ (23.4)**	**$ (15.6)**	**$ 7.5**	**$ (0.2)**	**$ 2.9**	**$ 1.2**	**$ 8.9**	**$ 1.0**	**$ 1.2**	**$ 5.5**
Ending Fund Balance ($M)	**$ 137.6**	**$ 114.2**	**$ 98.6**	**$ 106.1**	**$ 105.9**	**$ 108.8**	**$ 110.1**	**$ 119.0**	**$ 120.0**	**$ 121.2**	**$ 126.7**
Rate Increase - Retail	9.0%	15.0%	14.5%	13.0%	13.0%	12.0%	8.0%	8.0%	8.0%	5.0%	5.0%
Fund Balance as % of Op. Expenses	56.5%	44.8%	35.7%	37.2%	35.9%	35.6%	34.8%	36.3%	35.4%	34.7%	35.2%
Debt Service Coverage (Current)	1.77	1.26	1.28	1.31	1.33	1.27	1.26	1.28	1.31	1.36	1.32
Debt Service Coverage (Indenture)	2.74	1.72	1.63	1.64	1.61	1.51	1.47	1.49	1.52	1.56	1.52
Revenue-Funded % of Capital	24.1%										
Billed Discharge Volumes (MGD)	45.1	44.5	44.1	44.0	43.8	43.5	43.3	43.4	43.3	43.3	43.1
Single Family Residential Avg. Monthly…											
Billable Volumes (CCF)	4.3	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0
Sewer Bill	$99	$113	$132	$148	$170	$191	$206	$222	$240	$248	$260
Water/Sewer Bill	$171	$189	$212	$235	$261	$289	$311	$334	$358	$371	$389
Avg. Bill as % of Typical HH Income	1.8%	1.9%	2.1%	2.3%	2.5%	2.6%	2.8%	2.9%	3.0%	3.0%	3.1%
Avg. Bill as % of Low-Income HH Income	4.3%	4.6%	5.1%	5.5%	5.9%	6.3%	6.6%	6.9%	7.2%	7.2%	7.4%
Disc. Bill as % of Low-Income HH Income	2.6%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.1%	4.3%	4.3%	4.4%

Appendix C: Hetch Hetchy Water and Power Enterprise 10-Year Financial Plan

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Beginning Fund Balance ($M)	**$ 288.0**	**$ 283.0**	**$ 234.8**	**$ 179.2**	**$ 113.1**	**$ 129.3**	**$ 139.5**	**$ 146.6**	**$ 164.4**	**$ 189.1**	**$ 237.1**
Sources ($M)											
Retail Power Sales	216.7	240.8	274.6	314.9	367.7	412.3	461.7	509.7	562.3	708.2	774.4
Wholesale Power Sales	27.6	22.5	20.6	26.1	28.3	16.7	15.7	20.3	20.0	14.5	14.9
Gas & Steam Sales	22.8	20.4	20.8	20.8	21.1	21.1	21.8	22.4	23.1	23.8	24.5
Water Sales	2.5	2.7	2.9	3.1	3.3	3.6	3.8	4.1	4.4	4.6	4.8
Hetchy Transfer	54.1	60.6	64.9	67.7	70.9	72.8	74.8	76.9	78.8	80.7	82.3
Other Miscellaneous Income	43.0	73.0	75.5	71.6	114.3	51.7	36.4	39.4	43.3	58.3	66.8
Total Sources	**$ 366.8**	**$ 419.9**	**$ 459.2**	**$ 504.3**	**$ 605.5**	**$ 578.2**	**$ 614.1**	**$ 672.9**	**$ 731.9**	**$ 890.0**	**$ 967.7**
Uses ($M)											
Power Supply & Delivery Charges	110.3	127.9	139.8	169.2	147.6	194.1	183.3	215.6	242.0	328.9	364.2
Other Operations & Maintenance	205.8	203.5	206.6	207.1	212.2	218.2	225.3	232.9	240.2	247.8	255.6
Debt Service	13.6	17.7	17.7	36.0	61.9	75.6	94.9	107.7	125.6	125.6	142.8
Revenue-Funded Projects	42.2	119.1	150.7	158.3	167.8	80.1	103.5	99.0	99.3	139.8	169.4
Total Uses	**$ 371.8**	**$ 468.1**	**$ 514.8**	**$ 570.5**	**$ 589.4**	**$ 567.9**	**$ 607.0**	**$ 655.1**	**$ 707.2**	**$ 842.1**	**$ 932.0**
Net Revenues ($M)	**$ (5.0)**	**$ (48.2)**	**$ (55.6)**	**$ (66.2)**	**$ 16.2**	**$ 10.3**	**$ 7.1**	**$ 17.8**	**$ 24.7**	**$ 47.9**	**$ 35.8**
Ending Fund Balance ($M)	**$ 283.0**	**$ 234.8**	**$ 179.2**	**$ 113.1**	**$ 129.3**	**$ 139.5**	**$ 146.6**	**$ 164.4**	**$ 189.1**	**$ 237.1**	**$ 272.8**
Rate Increase - Retail	10.0%	7.0%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	2.5%	2.5%
Rate Increase - General Use	15.9%	13.7%	12.1%	10.8%	9.7%	8.9%	8.1%	7.5%	7.0%	6.5%	6.1%
Fund Balance as % of Power Op. Expenses	117.7%	93%	66%	36%	42%	38%	39%	40%	42%	44%	47%
Debt Service Coverage (Current)	4.35	2.64	4.22	2.74	3.47	1.82	1.92	1.87	1.79	2.29	2.24
Debt Service Coverage (Indenture)	27.03	16.74	14.81	5.92	5.58	3.67	3.47	3.40	3.30	4.18	4.15
Revenue-Funded % of Capital	33.5%										
Power Sales - Retail (GWh)	957	983	1,035	1,103	1,193	1,243	1,298	1,340	1,387	1,743	1,862
Residential Avg. Monthly…											
Electric Usage (kWh)	312	315	320	325	331	337	345	353	362	372	381
Electricity Bill	$98	$106	$115	$124	$134	$146	$159	$173	$189	$199	$209
Avg. Bill as % of Typical HH Income	1.0%	1.1%	1.1%	1.2%	1.3%	1.3%	1.4%	1.5%	1.6%	1.6%	1.6%
Avg. Bill as % of Low-Income HH Income	2.5%	2.6%	2.7%	2.9%	3.0%	3.2%	3.4%	3.6%	3.8%	3.9%	3.9%
Disc. Bill as % of Low-Income HH Income	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.4%	2.5%	2.7%	2.7%	2.8%

Appendix D: CleanPowerSF 10-Year Financial Plan

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036
Beginning Fund Balance ($M)	**$ 214.0**	**$ 254.1**	**$ 204.2**	**$ 182.1**	**$ 169.0**	**$ 181.1**	**$ 197.6**	**$ 222.1**	**$ 251.0**	**$ 283.2**	**$ 303.3**
Sources ($M)											
Retail Electricity Sales	389.3	330.7	367.2	404.5	436.8	471.9	505.8	531.7	561.6	594.1	631.4
Wholesale Power Sales	21.9	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Miscellaneous Income	9.2	9.6	7.9	7.2	6.7	7.2	7.8	8.7	9.7	10.8	11.6
Total Sources	**$ 420.5**	**$ 348.6**	**$ 375.1**	**$ 411.7**	**$ 443.5**	**$ 479.1**	**$ 513.6**	**$ 540.4**	**$ 571.3**	**$ 604.9**	**$ 643.0**
Uses ($M)											
Operations & Maintenance	379.9	398.4	397.0	424.3	431.1	462.3	488.7	511.2	538.3	575.0	620.5
Debt Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue-Funded Projects	0.5	0.1	0.1	0.6	0.3	0.3	0.3	0.3	0.8	9.8	24.5
Total Uses	**$ 380.4**	**$ 398.5**	**$ 397.1**	**$ 424.9**	**$ 431.4**	**$ 462.6**	**$ 489.0**	**$ 511.6**	**$ 539.1**	**$ 584.8**	**$ 645.0**
Net Revenues ($M)	**$ 40.0**	**$ (49.9)**	**$ (22.0)**	**$ (13.2)**	**$ 12.1**	**$ 16.5**	**$ 24.6**	**$ 28.8**	**$ 32.2**	**$ 20.1**	**$ (2.0)**
Ending Fund Balance ($M)	**$ 254.1**	**$ 204.2**	**$ 182.1**	**$ 169.0**	**$ 181.1**	**$ 197.6**	**$ 222.1**	**$ 251.0**	**$ 283.2**	**$ 303.3**	**$ 301.3**
Generation Rate Change	0.0%	-23.1%*	8.5%	8.0%	5.5%	5.5%	4.5%	3.0%	3.0%	3.0%	3.0%
Days Cash on Hand	262	207	185	160	169	172	183	198	212	213	196
Revenue-Funded % of Capital	100.0%										
Power Sales - Retail (GWh)	3,106	3,189	3,267	3,333	3,412	3,493	3,583	3,656	3,748	3,851	3,973
Residential Avg. Monthly…											
Electric Usage (kWh)	235	238	241	243	247	251	255	259	263	269	276
Generation Bill	$36	$27	$30	$32	$35	$37	$39	$41	$43	$46	$48
Total Electricity Bill	$104	$94	$102	$109	$115	$122	$130	$135	$141	$149	$154
Avg. Bill as % of Typical HH Income	1.1%	1.0%	1.0%	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
Avg. Bill as % of Low-Income HH Income	2.6%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.8%	2.8%	2.9%	2.9%

**FYE 2027 Generation Rate change effective March 2026*