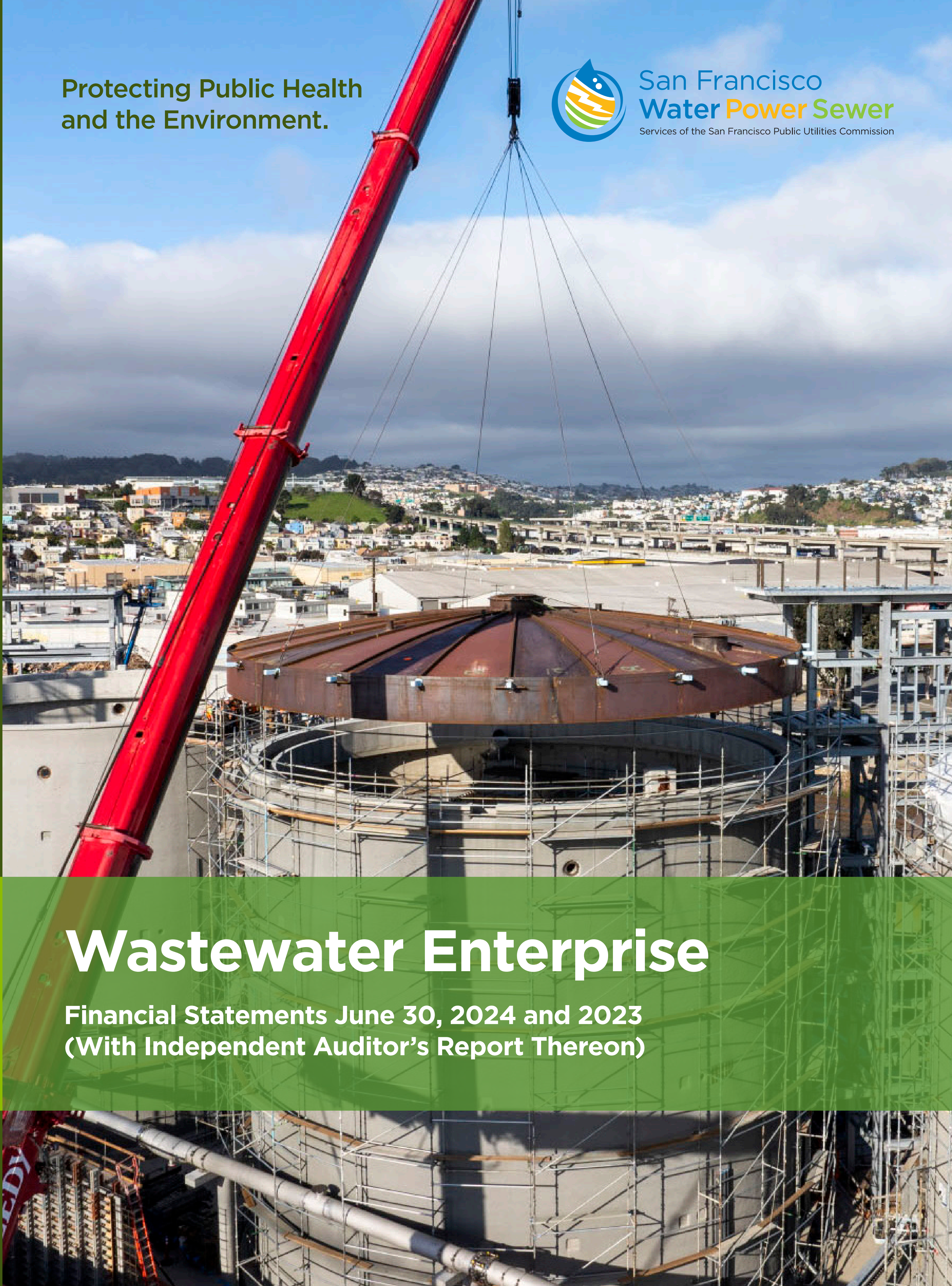
Protecting Public Health and the Environment.

San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission



Wastewater Enterprise

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

SAN FRANCISCO WASTEWATER ENTERPRISE

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MGO. Certified Public Accountants

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*

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will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2024 on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2024

This section presents management's analysis of the San Francisco Wastewater Enterprise's (the Enterprise) financial condition and activities as of and for the fiscal years ended June 30, 2024 and 2023. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

The San Francisco Public Utilities Commission (SFPUC or the Commission) is a department of the City and County of San Francisco (the City) that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater (the Enterprise). The primary responsibility of the Enterprise is to protect the public health and the surrounding bay and ocean receiving waters by collecting, transmitting, treating, and discharging storm and sanitary flows generated in the service area. This includes 1,139 miles of combined, sanitary, and storm collection system pipes including: gravity mains, force mains, culverts, transport storage boxes, and tunnels. San Francisco is the only coastal city in California with a combined sewer system that collects both wastewater and stormwater in the same network of pipes and provides treatment to remove harmful pollutants before discharging into the San Francisco Bay and Pacific Ocean. In addition, the Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Enterprise recovers costs of service through user fees based on the volume and strength of sanitary flow. As of June 30, 2024, the Enterprise serves 149,455 residential accounts, which discharge about 15.3 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and 27,643 non-residential accounts, which discharge about 5.6 million ccf per year. These reflected an increase of 0.02 million discharge units for non-residential accounts due to an increase of 561 accounts and a decrease of 0.12 million discharge units for residential accounts compared to prior year.

Overview of the Financial Statements

The Enterprise's financial statements include the following:

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

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

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2024

- Total assets of the Enterprise exceeded total liabilities by $1,303,260.
- Net position decreased by $61,395 or 4.4% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $802,064 or 17.1% to $5,488,410.
- Operating revenues increased by $31,105 or 8.5% to $395,041.
- Operating expenses increased by $200,693 or 76.8% to $462,043.

Financial Highlights for Fiscal Year 2023

- Total assets of the Enterprise exceeded total liabilities by $1,385,856.
- Net position increased by $36,167 or 2.7% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $635,341 or 15.7% to $4,686,346.
- Operating revenues decreased by $4,946 or 1.3% to $363,936.
- Operating expenses increased by $4,192 or 1.6% to $261,350.

(Continued)

(Dollars in thousands, unless otherwise stated)

Financial Position

The following table summarizes the Enterprise's net position.

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

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Total assets:					
Current and other assets	$ 577,997	574,446	624,771	3,551	(50,325)
Capital assets, net of accumulated depreciation and amortization	5,488,410	4,686,346	4,051,005	802,064	635,341
Total assets	6,066,407	5,260,792	4,675,776	805,615	585,016
Deferred outflows of resources:					
Unamortized loss on refunding of debt	–	8	33	(8)	(25)
Pensions	42,685	32,592	25,369	10,093	7,223
Other postemployment benefits	12,816	11,493	12,898	1,323	(1,405)
Total deferred outflows of resources	55,501	44,093	38,300	11,408	5,793
Liabilities:					
Current liabilities:					
Revenue bonds	35,370	28,070	34,345	7,300	(6,275)
Certificates of participation	900	864	830	36	34
Commercial paper	–	–	379,157	–	(379,157)
State revolving fund loans	5,629	2,526	2,481	3,103	45
Other liabilities	239,840	200,992	165,662	38,848	35,330
Subtotal current liabilities	281,739	232,452	582,475	49,287	(350,023)
Long-term liabilities:					
Commercial paper	341,373	–	–	341,373	–
Revenue bonds	2,649,681	2,708,840	1,896,908	(59,159)	811,932
Revenue notes	–	349,556	350,356	(349,556)	(800)
Certificates of participation	22,695	23,594	24,458	(899)	(864)
State revolving fund loans	312,033	316,163	300,178	(4,130)	15,985
Water Infrastructure Finance and Innovation Act (WIFIA) loans	922,431	122,357	–	800,074	122,357
Arbitrage rebate payable	8,521	188	–	8,333	188
Other liabilities	224,674	121,786	73,724	102,888	48,062
Subtotal long-term liabilities	4,481,408	3,642,484	2,645,624	838,924	996,860
Total liabilities:					
Revenue bonds	2,685,051	2,736,910	1,931,253	(51,859)	805,657
Revenue notes	–	349,556	350,356	(349,556)	(800)
Certificates of participation	23,595	24,458	25,288	(863)	(830)
Commercial paper	341,373	–	379,157	341,373	(379,157)
State revolving fund loans	317,662	318,689	302,659	(1,027)	16,030
Water Infrastructure Finance and Innovation Act (WIFIA) loans	922,431	122,357	–	800,074	122,357
Arbitrage rebate payable	8,521	188	–	8,333	188
Other liabilities	464,514	322,778	239,386	141,736	83,392
Total liabilities	4,763,147	3,874,936	3,228,099	888,211	646,837
Deferred inflows of resources:					
Unamortized gain on refunding of debt	10,255	11,353	–	(1,098)	11,353
Leases	1,203	1,453	–	(250)	1,453
Pensions	4,055	10,023	114,670	(5,968)	(104,647)
Other postemployment benefits	5,809	8,286	8,640	(2,477)	(354)
Total deferred inflows of resources	21,322	31,115	123,310	(9,793)	(92,195)
Net position:					
Net investment in capital assets	1,148,814	1,110,957	1,002,813	37,857	108,144
Restricted for debt service	–	3,510	5,391	(3,510)	(1,881)
Restricted for capital projects	31,782	53,137	204,562	(21,355)	(151,425)
Restricted for other purposes	–	–	48,770	–	(48,770)
Unrestricted	156,843	231,230	101,131	(74,387)	130,099
Total net position	$ 1,337,439	1,398,834	1,362,667	(61,395)	36,167

Net Position, Fiscal Year 2024

As of June 30, 2024, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,337,439. The Enterprise's total net position decreased by $61,395 or 4.4% from prior year, comprised of decreases of $74,387 in unrestricted net position, $21,355 in restricted for capital projects, and $3,510 in restricted for debt service offset by an increase of $37,857 in net investment in capital assets. Increases in total assets and deferred outflows of resources of $817,023 and increases of $878,418 in total liabilities and deferred inflows of resources are described below (see Table 1).

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

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

Total liabilities increased by $888,211 or 22.9%. As of June 30, 2024, total outstanding balance of $4,290,112 for revenue bonds, certificates of participation (COP), commercial paper, State Revolving Fund (SRF) loans, and WIFIA loans represented 90.1% of total liabilities, an increase of $738,142 or 20.8%. The increase was mainly due to $800,074 new WIFIA loans (included $7,506 of capitalized interest) for the Biosolids Digester Facilities Project and the Southeast Treatment Plant Improvement Project, $341,373 new issuance of commercial paper, and $1,498 SRF loan capitalized interest for the OSP Digester Gas Utilization Upgrade and SEP New Headworks (Grit) Replacement projects, offset by $347,465 defeasance of 2021 Series AB revenue notes by the WIFIA loans, principal repayments of $28,070 in bonds, $2,525 in SRF loans, and $863 in COP, and $25,880 in revenue bonds and notes premium amortization and defeasance. Other liabilities of $473,035, including arbitrage rebate payable, payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $150,069 or 46.5% due to increases of $110,733 in damage claims liability based on actuarial report, $17,750 in net pension liability based on actuarial report, $8,549 in restricted and unrestricted payable to vendors and contractors mainly due to increased capital project spending, $8,333 in arbitrage rebate payable due to actuarial calculation, $4,488 in bond, loan, lease, and subscription interest payable mainly due to higher outstanding debt principal resulting from the issuance of 2023 Series ABC revenue bonds and commercial paper, $3,166 in unearned revenue mainly due to $1,429 in unspent

Federal pass-through grant relating to California Water and Wastewater Arrearages Payment Program (CWWAPP), $1,169 in liens payable, and $652 in customer credit balances due to overpayments, offset by $84 decrease in deposits from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project, $1,929 increase in employee related benefits including vacation, workers' compensation, and accrued payroll mainly due to actuarial estimates, and 4.75% increase in cost of living adjustment (COLA), and $225 increase in other postemployment benefits obligations based on actuarial report. The increase in other liabilities were offset by $2,102 in payment of prior year payable that was made in current year to Municipal Transportation Agency for its share of the Walsh Construction Settlement, $1,349 decrease in pollution remediation obligation due to payments made for the Yosemite Creek Remediation project, $1,297 in leases due to payments made, $243 decrease in subscription liability, and $113 payment to Hetch Hetchy Power related to the 525 Golden Gate Living Machine System. Deferred inflows of resources decreased by $9,793 due to decreases in pensions and other postemployment benefits of $5,968 and $2,477, respectively, based on actuarial reports, $1,098 in unamortized gain on refunding of debt due to amortization and refunding gain, and $250 in leases.

Net Position, Fiscal Year 2023

For the year ended June 30, 2023, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,398,834. The Enterprise's total net position increased by $36,167 or 2.7% as a result of increases of $108,144 in net investment in capital assets and $130,099 in unrestricted net position offset by decreases of $151,425 in restricted for capital projects, $48,770 in restricted for other purposes, and $1,881 in restricted for debt service (see Table 1).

During the fiscal year 2023, current and other assets decreased by $50,325 or 8.1%. The decrease was mainly due to $188,853 in receivables from the State Water Resources Control Board (SWRCB) attributed to $207,364 cash receipts from reimbursement requests relating to the Southeast Water Pollution Control Plant (SEP) Biosolids Digester Project, the Southeast Water Pollution Control Plant New Headworks (Grit) Replacement Project, and the Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project, offset by $18,511 aggregate new reimbursement requests for the SEP New Headworks (Grit) Replacement and OSP Digester Gas Utilization Upgrade projects. Other decreases included $48,770 in restricted net pension asset based on actuarial report, $1,014 due from the Treasure Island Development Authority (TIDA) for capacity fees, $241 in capacity charges net of allowance for doubtful accounts as more collection than billings in current year, $228 in receivables for charges for services due to $5,787 increase in allowance for doubtful accounts attributed to increased sewer charges receivable aged over 120 days old offset by $5,559 increase in charges for services due to higher billings, $96 decrease in interfund receivable due to $105 collection of prior year balance from the Academy of Sciences, offset by $9 receivable from the DPW for the Mission Bay South Project, $28 decrease in Federal interest subsidy receivable, $25 decrease in State grant receivable due to receipt of reimbursement for the Baker Beach project, and $7 decrease in custom work receivable. These decreases in current and other assets were offset by increases of $184,889 in restricted and unrestricted cash and investments largely from the issuance proceeds of 2023 Series ABC revenue bonds, $1,682 in interest receivable due to higher interest earnings, $1,457 in lease receivable due to additional GASB 87 leases, $495 increase in prepaid charges due to $1,004 prepaid expenses in the current year such as property rental, software license, and membership fees offset by $471 prior year prepaid expenses recognized in current year and $38 lease prepayments amortizations for the Civic Center Garage and the Mariposa Pump Station & Force, $382 in inventory as there were more purchases than issuances during the year, $27 in property rent receivable, and $5 in other receivable.

Capital assets, net of accumulated depreciation and amortization, increased by $635,341 or 15.7% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of $1,110,957 or 79.4%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources increased by $5,793 mainly due to $7,223 increase in pensions based on actuarial report offset by $1,405 decrease in other postemployment benefits based on actuarial report, and $25 amortization of the 2013 Series A bonds refunding loss.

Total liabilities increased by $646,837 or 20.0%. As of June 30, 2023, total outstanding balance of $3,551,970 for revenue bonds, revenue notes, certificates of participation (COP), State Revolving Fund (SRF) loans, and Water Infrastructure Finance and Innovation Act (WIFIA) loans represented 91.7% of total liabilities, an increase of $563,257 or 18.8%. The increase was mainly due to issuance of 2023 Series ABC and 2022 Series B revenue bonds with an aggregate par value of $974,380 and $137,080, an aggregate premiums of $161,622 and $16,852 from the 2023 Series ABC and 2022 Series B, respectively, to refund principal amount of and interest on commercial paper and portion of certain outstanding revenue bonds and to finance certain capital projects, $177,564 from issuance of commercial paper, $122,357 new WIFIA loan to fund for the Biosolids Digester Facilities Project, and $18,511 additional SRF loans to fund for the SEP New Headworks (Grit) Replacement and OSP Digester Gas Utilization Upgrade projects. These increases were offset by $556,721 refunding of commercial paper, $419,505 refunded principal for revenue bonds series 2013AB and 2018C, debt principal repayments of $34,345 in bonds, $2,481 in SRF, and $826 in COP, $15,494 refunded premium for revenue bonds series 2013AB, and $15,737 in premium amortization. Other liabilities of $322,966, including arbitrage rebate payable, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $83,580 or 34.9% due to increases of $49,549 in net pension liability based on actuarial report, $33,539 in restricted and unrestricted payable to vendors and contractors due to increased vouchers, $6,450 in bond, loan, lease, and subscription interest payable mainly due to higher outstanding debt principal resulting from new debts relating to the issuance of revenue bonds 2023 Series ABC and 2022 Series B bonds, and new WIFIA loan, $2,442 in employee related benefits including vacation, workers' compensation, and accrued payroll mainly due to actuarial estimates, and 5.25% increase cost of living adjustment (COLA), $2,102 in payable to Municipal Transportation Agency (MTA), and $320 in unearned revenues mainly due to $402 in customer credit balances due to overpayments offset by decreases of $80 in deposits from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project and $2 in liens payable, and $188 in arbitrage rebate payable. The increase in other liabilities was offset by decreases of $7,695 in damage claims liability due to actuarial estimates, $2,341 in lease liability due to lease payment, $515 in subscription liability due to implementation of GASB 96 *Subscription-Based Information Technology Arrangements* (*SBITAs)*, $260 in pollution remediation obligation, $111 in payable to Hetch Hetchy Power related to the 525 Golden Gate Living Machine System, and $88 in other postemployment benefits obligations based on actuarial report. Deferred inflows of resources decreased by $92,195 mainly due to decreases in pensions and other postemployment benefits by $104,647 and $354, respectively, based on actuarial report, offset by increases in unamortized gain on refunding of debt and leases by $11,353 and $1,453, respectively.

(Dollars in thousands, unless otherwise stated)

Results of Operations

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

Table 2
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended ended June 30, 2024, 2023, and 2022

		2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:						
Charges for services	$	384,851	354,491	356,041	30,360	(1,550)
Rents and concessions		739	822	705	(83)	117
Other operating revenues		9,451	8,623	12,136	828	(3,513)
Interest and investment income/(loss)		25,528	2,556	(7,087)	22,972	9,643
Other non-operating revenues		24,297	9,910	25,454	14,387	(15,544)
Total revenues		444,866	376,402	387,249	68,464	(10,847)
Expenses:						
Operating expenses		462,043	261,350	257,158	200,693	4,192
Interest expenses		138,883	95,520	77,751	43,363	17,769
Amortization of premium, refunding loss, and issuance cost		(47,299)	(14,387)	(8,422)	(32,912)	(5,965)
Non-operating expenses		505	535	482	(30)	53
Total expenses		554,132	343,018	326,969	211,114	16,049
Change in net position before capital contributions and transfers		(109,266)	33,384	60,280	(142,650)	(26,896)
Capital contributions		48,080	2,740	—	45,340	2,740
Transfers from the City and County of San Francisco		—	75	—	(75)	75
Transfers to the City and County of San Francisco		(209)	(32)	(161)	(177)	129
Capital contributions and net transfers		47,871	2,783	(161)	45,088	2,944
Change in net position		(61,395)	36,167	60,119	(97,562)	(23,952)
Net position at beginning of year as restated		1,398,834	1,362,667	1,302,548	36,167	60,119
Net position at end of year	$	1,337,439	1,398,834	1,362,667	(61,395)	36,167

Results of Operations, Fiscal Year 2024

The Enterprise's total revenues were $444,866, an increase of $68,464 or 18.2% from prior year (see Table 2). Charges for services increased by $30,360 or 8.6% mainly due to a 9% rate increase adopted on July 1, 2023, offset by a decrease in sanitary flow of 95,679 ccf, or 0.4% from both residential and non-residential customers. Interest and investment income increased by $22,972 or 898.7% mainly due to $10,485 increase in unrealized gain in City Treasury pooled investments, attributed to improved fair value of investments and a $12,487 increase in interest earned mainly due to higher average cash balances from issuance of WIFIA loans and 2023 Series AB bonds and increase in interest rates. Other non-operating revenues increased by $14,387, primarily due to a $12,104 rise in Federal and State grants received mainly for the CWWAPP and a revenue accrual of $7,558 for the upgrades fair share contribution from the Golden State Warriors and the University of California, San Francisco for the Mariposa Project. This increase was offset by the Monsanto settlement related to water pollution of $5,000 and the $196 Baker Beach grant received in the prior year, as well as decreases of $85 in Federal interest subsidy and $37 in gains from the sale of assets. Other operating revenues increased by $828 or 9.6% mainly due to a $1,643 increase in revenues from other City departments, including Recreation & Park, Zuckerberg San Francisco General Hospital and Trauma Center, and the San Francisco Municipal Transportation Agency. This increase was offset by an $815 decrease in capacity fees, driven by a $544 increase in the allowance for doubtful accounts and write-offs, along with a $271 decline in revenue due to lower permits prices and issuance. Rents and concessions decreased by $83 or 10.1% mainly due to a decrease of $345 from three terminated leases offset by increases in rental income of $189 from tenants with 3.5% consumer price index average rate increase, $70 from short-term conference room rentals at Southeast Community Center and $3 related to leases.

Total expenses were $554,132, reflecting an increase of $211,114 or 61.5% compared to prior year. This was primarily due to increases of $200,693 in operating expenses, $43,363 in interest expenses mainly due to higher bond and WIFIA principal debt and arbitrage rebate liability, offset by an increase of $32,912 in amortization of premium, refunding loss, and issuance cost and $30 decrease in City grants program expenses due to $195 decrease in expenditures for community based organization services for the Youth Employment & Environment Project, offset by $165 increase in floodwater grant for the UC Wastewater Collection Project. The increase of $200,693 in operating expenses was primarily driven by several factors: a $178,078 rise in general and administrative and other operating expenses largely attributed to judgments and claims expenses based on actuarial report, along with increased project costs associated with the WIFIA Headworks New Grit Removal/Influent Pump and Biosolids Digester projects; a $16,109 increase in personnel services, mainly due to a $15,239 rise related to the GASB 68 pension adjustment and a 4.75% cost-of-living adjustment (COLA); a $4,683 increase in depreciation and amortization expenses resulting from more assets being placed in service, a $3,108 rise in contractual services primarily due to higher maintenance costs for service equipment at the Southeast Treatment Plant and leasing activities; and a $168 increase in materials and supplies for sewage treatment at the Southeast Treatment Plant, all offset by a $1,453 decrease in expenses for services of other departments mainly in electric services provided by Hetch Hetchy Power at the Southeast Treatment Plant.

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

Results of Operations, Fiscal Year 2023

The Enterprise's total revenues were $376,402, a decrease of $10,847 or 2.8% from prior year (see Table 2). Charges for services decreased by $1,550 or 0.4% mainly due to an increase in allowance for doubtful accounts by $6,885 as there were more sewer charge receivables aging over 120 days, offset by a 5% drought surcharge and a sanitary flow increase of 47,124 ccf or 0.2% from residential and non-residential customers. Other non-operating revenues decreased by $15,544 or 61.1% mainly due to Federal and State grants received in prior year consisting of $9,302 for the customer utility arrearage relief, $8,000 SRF loan principal forgiveness of the SEP Biosolids Digester Facilities and the OSP Digester Gas Handling Utilization Upgrade projects, and $3,409 Baker Beach grant, a decrease of $91 in Federal interest subsidy, and $44 refunded federal grant relating to customer utility arrearage relief program, offset by $5,000 Monsanto settlement related to water pollution, $196 Baker Beach grant in current year, and increases of $92 in gain from sale of assets and $14 in miscellaneous revenue. Other operating revenues decreased by $3,513 or 28.9% mainly due to decreases of $3,203 in capacity fees resulting from $3,985 decrease in permits issued offset by $782 decrease in allowance for doubtful accounts, and $310 in other operating revenues to other City departments such as the Recreation & Park, the San Francisco Municipal Transportation Agency, and the Zuckerberg San Francisco General Hospital and Trauma Center. Rents and concessions increased by $117 or 16.6% mainly due to increases in rental income of $162 from short-term conference room rentals at Southeast Community Center beginning December 2022, $17 from tenants with 5.3% consumer price index average rate increase, offset by decreases of $59 from three terminated leases in the current year and $3 related to leases due to GASB 87 implementation. Interest and investment income increased by $9,643 or 136.1% mainly due to $4,436 decrease in unrealized loss in City Treasury pooled investments attributed to improved fair value of investments and higher interest rates, an increase of $3,697 in interest earned from pooled cash due to increase in cash balances and higher annualized interest rate, $1,500 increase in interest earned from fiscal agent account due to increase in fiscal agent cash balances and rising interest rates, and $10 interest earned from lease receivable.

Total expenses were $343,018, an increase of $16,049 or 4.9% due to increases of $17,769 in interest expenses mainly due to higher bond principal, $4,192 in operating expenses, and $53 increase in City grants program expenses due to increased expenditures for community based organization services such as for the Youth Employment & Environment Project and the UC Wastewater Treatment Project, offset by an increase of $5,965 in amortization of premium, refunding loss, and issuance cost. The increase of $4,192 in operating expenses were mainly due to increases of $26,270 in personnel services due to $21,594 increase in expenses related to GASB 68 pension expense and 5.25% increase in cost of living adjustment (COLA), $2,462 in materials and supplies due to water sewage treatment supplies for Bayside Operations, $2,205 in contractual services mainly due to higher building and equipment maintenance for sludge removal, vehicle rental, and power utility, $1,354 in services provided by other departments mainly for electricity from Hetch Hetchy Power, water from Water Enterprise, and for toxics waste and hazard materials services and cleanup charges related to the UC Wastewater Treatment Project, offset by decreases of $28,033 in general and administrative and other operating expenses mainly due to increased capitalized expenditures to capital assets and a decrease in judgments and claims offset by increased capital project expenses primarily related to SSIP Biosolids Digester Project, New Grit Removal/Influent Pump Project, and Westside Pump Station Reliability Improvement Project and $66 in depreciation and amortization expenses.

Capital contributions of $2,740 were for the Sunnydale HopeSF Developer Project. Net transfers of $43 included transfer in of $75 from the General Fund for the Wastewater Add-backs Master Project offset transfer out of $32 to the Office of the City Administrator for the Surety Bond Program.

(Dollars in thousands, unless otherwise stated)

Capital Assets

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

Table 3
Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2024, 2023, and 2022

		2024	2023	2022	2024-2023 Change	2023-2022 Change
Facilities, improvements, machinery, and equipment	$	2,549,177	2,393,051	2,270,355	156,126	122,696
Intangible assets		6,373	7,333	7,107	(960)	226
Land and rights-of-way		44,572	44,572	44,572	—	—
Land Improvements		9,311	6,733	—	2,578	6,733
Construction work in progress		2,878,789	2,232,963	1,724,417	645,826	508,546
Right-to-use lease and subscription assets		188	1,694	4,554	(1,506)	(2,860)
Total	$	5,488,410	4,686,346	4,051,005	802,064	635,341

Capital Assets, Fiscal Year 2024

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

(Dollars in thousands, unless otherwise stated)

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

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

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

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

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

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

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

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2023

The Enterprise has capital assets of $4,686,346, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2023 (see Table 3). This amount represents an increase of $635,341 or 15.7% from prior fiscal year. As of June 30, 2023, the Enterprise had capital commitments of $750,138. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Construction work in progress increased by $508,546 or 29.5%. Facilities, improvements, machinery, and equipment increased by $122,696 or 5.4%. Land improvements increased by $6,733 or 100% relating to improvements for the Southeast Community Center Project. Intangible assets increased by $226 or 3.2% due to asset addition of $1,212 for the Customer Billing System Project, offset by $986 depreciation expense. Right-to-use lease and subscription assets decreased by $2,860 or 62.8% due to amortization.

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

Southeast Plant Biosolids and Digester Facilities Project	$ 332,775
Southeast Plant New Headworks (Grit) Replacement	157,143
Westside Pump Station Reliability Improvements	14,226
Large Diameter Sewer Projects and Channel Force Main Intertie	13,125
As-Needed Spot Sewer Replacement Number 42 (WW-699)	11,231
Southeast Community Center at 1550 Evans	9,794
Southeast Plant Power Feed and Primary Switchgear Upgrades	9,711
Oceanside Plant Digester Gas Handling Utilization Upgrade	9,195
North Shore Pump Station Wet Weather Improvements	8,853
New Treasure Island Wastewater Treatment Plant Capital Improvements	8,851
Southeast Plant Facility-Wide Distributed Control System Upgrades	7,581
Wawona Area Stormwater Improvement Project	5,879
As-Needed Main Sewer Replacement Number 9 (WW-713)	5,618
Folsom Area Stormwater Improvement Project	5,403
As-Needed Spot Sewer Replacement Number 43 (WW-715)	4,959
Public Works Golden Gate Avenue and Laguna Street Project	4,612
Ocean Beach Climate Change Adaptation Project	4,585
Taraval Sewer Improvements	4,519
Lower Alemany Area Stormwater Improvement Project	4,425
16th Street Sewer Replacement (Segment 2)	4,262
Oceanside Plant Condition Assessment Improvements - Part 2	4,208
Other project additions individually below $4,000	78,530
	$ 709,485

(Dollars in thousands, unless otherwise stated)

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

Southeast Community Center at 1550 Evans	$ 111,510
Mariposa Pump Station & Force Main	35,852
As-Needed Spot Sewer Replacement Number 42 (WW-699)	12,531
Large Diameter Sewer Projects and Channel Force Main Intertie	9,182
Public Works 41st and 44th Avenue Infrastructure Improvements	7,042
Equipment Purchase	6,076
Castro, 19th, 26th Street Water and Sewer Improvements - WD-2739	3,773
Other project additions individually below $3,000	18,887
	$ 204,853 *

* Does not include $1,573 equipment transfers from DPW.

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

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

As of June 30, 2023, 43 projects or 61.4% totaling $457 million were completed, 7 projects in pre-construction phase, 11 projects in construction phase, and 9 projects in close-out phase. The SEP Seismic Reliability and Condition Assessment Improvements Project was completed on March 31, 2023 with reported project expenditures of $33.6 million. This project represents immediate improvements to the existing facilities at Southeast Plant (SEP) identified as part of the condition assessment effort that are not specifically included as part of another near-term SSIP Phase 1 project. This project includes items for rehabilitation such as concrete spalling repair and seismic retrofit of priority process buildings. The Westside Pump Station Reliability Improvements is on-going construction. The project is reported at 86.2% complete and forecasted final completion is on June 27, 2024. Program expenditures as of June 30, 2023 totaled $2.5 billion. Additional details regarding the SSIP are available at https://sfpuc.gov/construction-contracts/sewer-system-improvement-program.

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2024, 2023, and 2022, the Enterprise's debt from revenue bonds, revenue notes, commercial paper, certificates of participation, SRF, and WIFIA loans were $4,290,112, $3,551,970, and $2,988,713, respectively, as shown in Table 4. More detailed information about the Enterprise's debt activity is presented in Notes 6, 7, and 8 to the financial statements.

Table 4
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2024, 2023, and 2022

		2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenue bonds	$	2,685,051	2,736,910	1,931,253	(51,859)	805,657
Revenue notes		–	349,556	350,356	(349,556)	(800)
Commercial paper		341,373	–	379,157	341,373	(379,157)
Certificates of participation		23,595	24,458	25,288	(863)	(830)
State revolving fund loans		317,662	318,689	302,659	(1,027)	16,030
Water Infrastructure Finance and Innovation Act (WIFIA) loans		922,431	122,357	–	800,074	122,357
Total	$	4,290,112	3,551,970	2,988,713	738,142	563,257

The increase of $738,142 was mainly due to $800,074 new WIFIA loans consisting of $792,568 aggregate draw down and $7,506 capitalized interest for the Biosolids Digester Facilities and the Southeast Treatment Plant Improvements projects, $340,000 new issuance and $1,373 interest rolled to principal for commercial paper, and $1,498 capitalized interest for the SRF Headworks and OSP Digester projects, offset by $347,465 defeasance of revenue notes 2021 Series AB, $31,458 repayment of outstanding debt, and $25,880 of premium amortizations and defeasance.

Credit Ratings and Bond Insurance – As of June 30, 2024 and 2023, the Enterprise carried underlying ratings of "Aa2" and "AA" from Moody's and S&P Global Ratings (S&P), respectively.

Debt Service Coverage – Pursuant to the Amended and Restated Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds), which are available for payment of debt service and are not budgeted to be expended, at least equal to 1.25 times annual debt service for said fiscal year, and for the SFPUC's debt service coverage policy, at least equal to 1.35 times annual debt service for said fiscal year. During fiscal years 2024 and 2023, the Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Enterprise's Amended and Restated Indenture and the SFPUC's debt service coverage policy (see Note 8).

Debt Authorization – Pursuant to the Charter Section 8B.124, the Enterprise can incur indebtedness upon two-thirds vote of the Board of Supervisors. As of June 30, 2024, the Enterprise had $8,052,607 in combined debt issuance authorization from the Board of Supervisors under Proposition E, with $4,482,180 issued against this authorization. The Enterprise has a $750,000 authorized commercial paper program, with $341,373 in tax-exempt commercial paper outstanding as of June 30, 2024 and $0 in tax-exempt commercial paper outstanding as of June 30, 2023.

Cost of Debt Capital – The coupon interest rates on the Enterprise's outstanding revenue bonds and revenue notes ranged from 1.0% to 5.8% after factoring in federal interest subsidy receipts on Build America Bonds at June 30, 2024. The 2009 Series C certificates of participation carried coupon interest rates from 2.0% to 5.0% and 2009 Series D certificates of participation carried coupon interest rates from 6.4% to 6.5% in fiscal years 2024 and 2023, respectively. The interest rates on short-term debt ranged from 3.6% to 3.8% during fiscal year 2024 and from 0.9% to 3.1% during fiscal year 2023. The State revolving fund loans (CWSRF loans) carried original interest rates ranging from 0.8% to 1.8% during fiscal year 2024. The State has elected to apply administrative service and grant charges to certain agreement repayment schedules in lieu of receiving interest payments; these charges will not affect the installment payments or increase the repayment amounts. The WIFIA loan carried interest rate of 1.5% during fiscal year 2024 and capitalized interest added to the principal balance of the WIFIA loan on each Semi-Annual Payment Date occurring during the Capitalized Interest Period.

Rates and Charges

Rate Setting Process

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIIIB, entitled "Public Utilities," which established the Commission's authority to issue new revenue bonds and set wastewater rates. The Commission is required to:

- Establish rates, fees, and charges based on cost of service;
- Retain an independent rate consultant to conduct cost of service studies at least every five years;
- Consider establishing new connection fees;
- Consider conservation incentives and lifeline rates;
- Adopt a rolling five-year forecast annually; and
- Establish a Rate Fairness Board.

Pursuant to the City and County of San Francisco Charter section 8B.125, an independent rate study is performed at least once every five years. In compliance with City Charter section 8B.125, a water and wastewater rate study were completed in May 2023. The Commission subsequently adopted three years of wastewater rate increases from July 1, 2023 through June 30, 2026. Other miscellaneous fees for service and charges were last approved in April 2024 to be effective July 1, 2024, and generally increase annually by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, or the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine. All current SFPUC Rates Schedules and Fees are available at https://sfpuc.gov/accounts-services/water-power-sewer-rates/rates.

(Dollars in thousands, unless otherwise stated)

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

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

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

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

[3] No retail rate adjustment.

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

Request for Information

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

This report is available at https://sfpuc.gov/about-us/reports/audited-financial-statements-reports

SAN FRANCISCO WASTEWATER ENTERPRISE

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

		2024	2023
Assets			
Current assets:			
Cash and investments with City Treasury	$	376,658	355,770
Cash and investments outside City Treasury		152	173
Receivables:			
Charges for services (net of allowance for doubtful accounts of $12,865 as of June 30, 2024 and $10,060 as of June 30, 2023)		48,338	40,093
Due from other City departments		82	128
Interest		3,896	2,178
Leases receivable, current portion		226	212
Restricted due from other governments		—	13,942
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $345 as of June 30, 2024 and $99 as of June 30, 2023)		689	1,191
Total current receivables		53,231	57,744
Prepaid charges, advances, and other receivables, current portion		8,142	570
Inventory		3,657	3,340
Restricted cash and investments outside City Treasury		41,778	48,717
Total current assets		483,618	466,314
Non-current assets:			
Restricted cash and investments with City Treasury		31,613	38,574
Restricted cash and investments outside City Treasury		59,930	66,439
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $0 as of June 30, 2024 and $29 as of June 30, 2023)		388	417
Charges for services, less current portion (net of allowance for doubtful accounts of $351 as of June 30, 2024 and $566 as of June 30, 2023)		342	342
Leases receivable, less current portion		1,019	1,245
Prepaid charges, advances, and other receivables, less current portion		1,087	1,115
Right-to-use lease assets, net of accumulated amortization		—	1,272
Right-to-use subscription assets, net of accumulated amortization		188	422
Capital assets, not being depreciated and amortized		2,926,407	2,280,581
Capital assets, net of accumulated depreciation and amortization		2,561,815	2,404,071
Total non-current assets		5,582,789	4,794,478
Total assets		6,066,407	5,260,792
Deferred outflows of resources			
Unamortized loss on refunding of debt		—	8
Pensions		42,685	32,592
Other postemployment benefits		12,816	11,493
Total deferred outflows of resources	$	55,501	44,093

(Continued)

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Net Position

June 30, 2024 and 2023

(In thousands)

		2024	2023
Liabilities			
Current liabilities:			
Accounts payable	$	18,841	23,207
Accrued payroll		8,119	7,631
Accrued vacation and sick leave, current portion		6,583	6,040
Accrued workers' compensation, current portion		1,685	1,509
Due to other City departments, current portion		114	2,215
Damage claims liability, current portion		28,742	1,650
Unearned revenues, refunds, and other		9,623	6,457
Bond, loan, lease, and subscription interest payable, current portion		30,300	27,918
Revenue bonds, current portion		35,370	28,070
Certificates of participation, current portion		900	864
State revolving fund loans payable, current portion		5,629	2,526
Lease liability, current portion		—	1,297
Subscription liability, current portion		93	243
Current liabilities payable from restricted assets		135,740	122,825
Total current liabilities		281,739	232,452
Long-term liabilities:			
Arbitrage rebate payable		8,521	188
Net other postemployment benefits liability		49,260	49,035
Net pension liability		67,299	49,549
Accrued vacation and sick leave, less current portion		5,506	5,622
Accrued workers' compensation, less current portion		7,327	6,489
Due to other City departments, less current portion		291	405
Damage claims liability, less current portion		86,341	2,700
Bond, loan, lease, and subscription interest payable, less current portion		2,106	—
Commercial paper		341,373	—
Revenue bonds, less current portion		2,649,681	2,708,840
Revenue notes		—	349,556
Certificates of participation, less current portion		22,695	23,594
State revolving fund loans payable, less current portion		312,033	316,163
Water Infrastructure Finance and Innovation Act (WIFIA) loans		922,431	122,357
Subscription liability, less current portion		93	186
Pollution remediation obligation		6,451	7,800
Total long-term liabilities		4,481,408	3,642,484
Total liabilities		4,763,147	3,874,936
Deferred inflows of resources			
Unamortized gain on refunding of debt		10,255	11,353
Leases		1,203	1,453
Pensions		4,055	10,023
Other postemployment benefits		5,809	8,286
Total deferred inflows of resources		21,322	31,115
Net position			
Net investment in capital assets		1,148,814	1,110,957
Restricted for debt service		—	3,510
Restricted for capital projects		31,782	53,137
Unrestricted		156,843	231,230
Total net position	$	1,337,439	1,398,834

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

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

	2024	2023
Operating revenues:		
Charges for services	$ 384,851	354,491
Rents and concessions	739	822
Capacity fees	2,262	3,077
Other revenues	7,189	5,546
Total operating revenues	395,041	363,936
Operating expenses:		
Personnel services	105,835	89,726
Contractual services	23,885	20,777
Materials and supplies	14,474	14,306
Depreciation and amortization	82,722	78,039
Services provided by other departments	39,546	40,999
General and administrative and other	195,581	17,503
Total operating expenses	462,043	261,350
Operating (loss) income	(67,002)	102,586
Non-operating revenues (expenses):		
Federal and state grants	12,256	152
Interest and investment income	25,528	2,556
Interest expenses	(138,883)	(95,520)
Amortization of premium, refunding loss, and issuance costs	47,299	14,387
Net gain from sale of assets	77	114
Other non-operating revenues	11,964	9,644
Other non-operating expenses	(505)	(535)
Net non-operating expenses	(42,264)	(69,202)
Change in net position before capital contributions and transfers	(109,266)	33,384
Capital contributions	48,080	2,740
Transfers from the City and County of San Francisco	—	75
Transfers to the City and County of San Francisco	(209)	(32)
Capital contributions and net transfers	47,871	2,783
Change in net position	(61,395)	36,167
Net position at beginning of year	1,398,834	1,362,667
Net position at end of year	$ 1,337,439	1,398,834

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(In thousands)

		2024	2023
Cash flows from operating activities:			
Cash received from customers, including cash deposits	$	380,336	364,180
Cash received from tenants for rent		708	3,126
Cash received from miscellaneous revenues		6,648	686
Cash paid to employees for services		(104,126)	(95,895)
Cash paid to suppliers for goods and services		(116,262)	(95,599)
Cash paid for judgments and claims		(6,851)	(5,500)
Net cash provided by operating activities		160,453	170,998
Cash flows from non-capital financing activities:			
Cash received from grants		13,688	177
Cash received from settlements		—	5,000
Cash paid for rebates and program incentives		(505)	(535)
Transfers from the City and County of San Francisco		—	75
Transfers to the City and County of San Francisco		(209)	(32)
Net cash provided by non-capital financing activities		12,974	4,685
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		79	127
Proceeds from bond issuance, net of premium		—	1,287,593
Proceeds from commercial paper borrowings		341,373	177,564
Proceeds from State revolving fund loans		13,942	207,364
Proceeds from WIFIA loans, net of premium and interest		811,356	122,357
Principal paid on revenue notes		(347,465)	—
Principal paid on long-term debt		(28,933)	(454,676)
Principal paid on commercial paper		—	(556,721)
Principal paid on State revolving fund loans		(2,525)	(2,481)
Lease payment		(1,303)	(2,371)
Subscription payment		(247)	(523)
Interest paid on long-term debt		(112,460)	(75,309)
Interest paid on commercial paper		(1,372)	(8,674)
Interest paid on State revolving fund loans		(1,479)	(1,523)
Interest paid on revenue notes		—	(3,475)
Interest paid on WIFIA loans		—	(74)
Issuance cost paid on long-term debt		(195)	(3,124)
Acquisition and construction of capital assets		(871,699)	(681,615)
Federal interest income subsidy for Build America Bonds		3,911	3,991
Net cash (used in) provided by capital and related financing activities		(197,017)	8,430
Cash flows from investing activities:			
Interest income received		18,001	4,948
Proceeds from sale of investments outside City Treasury		1,860,653	514,288
Purchase of investments outside City Treasury		(1,898,189)	(514,288)
Net cash (used in) provided by investing activities		(19,535)	4,948
(Decrease) increase in cash and cash equivalents		(43,125)	189,061
Cash and cash equivalents:			
Beginning of year		522,224	333,163
End of year	$	479,099	522,224
Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and investments with City Treasury:			
Unrestricted	$	376,658	355,770
Restricted		31,613	38,574
Add: Unrealized loss on investments with City Treasury		6,504	12,551
Cash and investments outside City Treasury:			
Unrestricted		152	173
Restricted		101,708	115,156
Less: Restricted (with maturity more than 90 days - see table in Note 3)		(37,269)	—
Less: Unrealized (gain) on investments outside City Treasury		(267)	—
Cash and cash equivalents at the end of year on statements of cash flows	$	479,099	522,224

(continued)

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(In thousands)

	2024	2023
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (67,002)	102,586
Adjustment to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	82,722	78,039
Miscellaneous revenues	6,647	686
Provision for uncollectible accounts	2,807	5,500
Write-off of capital assets	47,795	911
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(10,835)	(5,558)
Prepaid charges, advances, and other	(7,452)	1
Due from other City departments	—	1,208
Inventory	(317)	(382)
Leases	(38)	2,321
Subscription	—	535
Accounts payable	(4,366)	830
Accrued payroll	488	1,229
Net other postemployment benefits liability and related deferred outflows/inflows	(3,575)	963
Net pension liabilities and related deferred outflows/inflows	1,689	(13,551)
Accrued vacation and sick leave	427	761
Accrued workers' compensation	1,014	452
Due to other City departments	(2,101)	2,102
Pollution remediation obligation	(1,349)	(260)
Damage claims liability	110,733	(7,695)
Unearned revenues, refunds, and other liabilities	3,166	320
Total adjustments	227,455	68,412
Net cash provided by operating activities	$ 160,453	170,998
Noncash transactions:		
Accrued capital asset costs	$ 135,740	122,825
Interfund payable	405	2,620
Unrealized loss on investments with City Treasury	6,504	12,551
Unrealized (gain) on investments outside City Treasury	(267)	—
Capital contribution	48,080	2,740

See accompanying notes to financial statements.

(1) Description of Reporting Entity

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

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

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

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

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

The SFPUC is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprise are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The accounts of the Enterprise are organized on the basis of a proprietary fund type, specifically an enterprise fund of the City. The activities of this Enterprise are accounted for with a separate set of self-balancing accounts that comprise the Enterprise's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of the Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the statements of net position; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers, rental income, and capacity fees. Non-operating revenues include grants, investment income, and other income from non-operating activities.

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

(b) Cash and Cash Equivalents

The Enterprise considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are also considered to be cash equivalents.

(c) Investments

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) Inventory

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

(e) Capital Assets

Capital assets are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets at the time of donation and capital assets received in a service concession arrangement, are valued at acquisition value. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 1 to 100 years for equipment and 1 to 200 years for building, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) Intangible Assets

Intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, permits, and right-to-use capital assets for leases and subscription-based information technology arrangements (SBITAs).

The Enterprise capitalizes purchased or internally developed intangible assets with a useful life extending beyond one reporting period. It has established a capitalization threshold of $100. Intangible assets are amortized over the benefit period or the contract term for leases and SBITAs, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor, and therefore, are not amortized (see Note 4).

(g) Construction Work in Progress

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as an expense in the year in which the decision is made to discontinue such projects.

(h) Bond Discount, Premium, and Issuance Costs

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

(i) Accrued Vacation and Sick Leave

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(j) Workers' Compensation

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 13(b)).

(k) General Liability

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding

(Continued)

claims, including adverse loss development and estimated incurred but not reported claims (see Note 13(a)).

(l) Arbitrage Rebate Payable

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The arbitrage liability due as of June 30, 2024 and 2023 was $8,521 and $188, respectively (see Note 7).

(m) Refunding of Debt

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

(n) Income Taxes

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

(o) Revenue Recognition

Sewer service charges are based on water usage as determined by the San Francisco Water Enterprise. The majority of residential and non-residential customers are billed on a monthly basis except for building and contractor customers which are billed on a bi-monthly basis. Revenues earned but unbilled are accrued as charges for services and reflected as a receivable on the statements of net position. The unbilled amounts for the fiscal years ended June 30, 2024 and 2023 were $23,256 and $14,919, respectively.

(p) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows and deferred inflows, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Accounting and Financial Reporting for Pollution Remediation Obligations

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

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;

- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the design phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include but are not limited to: asbestos or lead paint removal, leaking of sewage in underground pipes or neighboring areas, chemical spills, removal, and disposal of known toxic waste, harmful biological and chemical pollution of water, or contamination of surrounding soils by underground storage tanks (see Note 14(d)).

(r) Leases

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

Short-term Leases

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

Leases Other Than Short-term

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

Measurement of Lease Amounts (Lessee)

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

Measurement of Lease Amounts (Lessor)

The Enterprise's lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts.

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

Key Estimates and Judgments

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

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

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

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

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

Remeasurement of Lease

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

Presentation in Statement of Net Position

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

(s) Subscription-Based Information Technology Arrangements

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

Short-term SBITAs

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

SBITAs Other Than Short-term

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

Measurement of Subscription Amounts (Subscriber)

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

Key Estimates and Judgments

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

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

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

- Payments are evaluated by the Enterprise to determine if they should be included in the measurement of the subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- SBITAs have a capitalization threshold of $100.

Remeasurement of SBITAs

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

Presentation in Statement of Net Position

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

(t) Other Postemployment Benefits (OPEB)

Net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 11(b)).

(u) New Accounting Standards Adopted in Fiscal Year 2024

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

2) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections.* This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The Enterprise adopted the provisions of Statement No. 100 in fiscal year 2024, which did not have a significant effect on its financial statements.

(v) GASB Statements Implemented in Fiscal Year 2023

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

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

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

(w) Future Implementation of New Accounting Standards

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

2) In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement establishes financial reporting requirements for risks related vulnerabilities due to certain concentrations or constraints within governments. The new standard is effective for periods beginning after June 15, 2024. The Enterprise will implement the provisions of Statement No. 102 in fiscal year 2025.

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

4) In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain types of capital assets, such as lease assets recognized in accordance with Statement No. 87, *Leases* and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* to be disclosed separately by major classes of underlying assets in the

capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements* are also required to be disclosed separately. Furthermore, the statement requires intangible assets other than those three types to be disclosed separately by major class. Finally, the statement requires additional disclosures for capital assets held for sale. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 104 in fiscal year 2026.

(x) Reclassifications

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

(3) Cash, Cash Equivalents, and Investments

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

The restricted cash and investments for bond reserves are held by an independent trustee outside the City investment pool. The balances as of June 30, 2024 and 2023 were $101,708 and $115,156, respectively. Funds held by the trustee established under the 2003 Indenture are invested in "Permitted Investments" as defined in the Indenture. "Permitted Investments" include money market funds, registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by S&P of "AAAm-G," "AAAm," or "AAm" and a rating by Moody's of "Aaa-mf," "Aa1," or "Aa2." "Permitted Investments" also include commercial paper, and US treasury and agency securities.

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

(Dollars in thousands, unless otherwise stated)

The following is a summary of the restricted and unrestricted cash and investments outside City Treasury, including commercial paper issuers, credit ratings, and the fair value hierarchy as of June 30, 2024 and 2023.

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2024 Maturities	June 30, 2024 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 37,830	37,830	—	—	—
Money Market Funds	A-1/P-1	< 90 days	52	52	—	—	—
Commercial Paper - Toyota Motor Corp	A-1+/P-1	< 90 days	6,935	—	6,935	—	—
Commercial Paper - Toronto-Dominion Bank	A-1+/P-1	< 90 days	19,342	—	19,342	—	—
Commercial Paper - Toyota Motor Corp	A-1+/P-1	October 11, 2024	1,859	—	1,859	—	—
U.S. Agency Securities	AA+/Aaa	March 21, 2025	17,538	—	17,538	—	—
U.S. Treasury Bonds & Notes	A-1+/P-1	September 15, 2025	17,872	—	17,872	—	—
Cash and Cash Equivalents	N/A		280	280	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 101,708	38,162	63,546	—	—
Cash and Cash Equivalents	N/A		$ 152	152	—	—	—
Total Unrestricted Cash and Investments outside City Treasury			$ 152	152	—	—	—

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2023 Maturities	June 30, 2023 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 115,082	115,082	—	—	—
Money Market Funds	A-1/P-1	< 90 days	50	50	—	—	—
Cash and Cash Equivalents	N/A		24	24	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 115,156	115,156	—	—	—
Cash and Cash Equivalents	N/A		$ 173	173	—	—	—
Total Unrestricted Cash and Investments outside City Treasury			$ 173	173	—	—	—

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

The restricted cash and investments outside City Treasury as of June 30, 2024 and 2023 included an unrealized gain due to changes in fair values on Commercial Paper, U.S. Treasury Bonds & Notes, and U.S. Agency Securities of $267 and $0, respectively.

(Dollars in thousands, unless otherwise stated)

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

	2024	2023
Current assets:		
Cash and investments with City Treasury	$ 376,658	355,770
Cash and investments outside City Treasury	152	173
Restricted cash and investments outside City Treasury	41,778	48,717
Non-current assets:		
Restricted cash and investments with City Treasury	31,613	38,574
Restricted cash and investments outside City Treasury	59,930	66,439
Total cash, cash equivalents, and investments	$ 510,131	509,673

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

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

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

	Fair Value	% of Investments
Toronto Domin Holding	$ 19,342	19.1 %
Toyota Motor Corp	8,794	8.7

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

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

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

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

(Dollars in thousands, unless otherwise stated)

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 44,572	—	—	44,572
Intangible assets	3,046	—	—	3,046
Construction work in progress	1,724,417	709,485	(200,939) *	2,232,963
Total capital assets not being depreciated and amortized	1,772,035	709,485	(200,939)	2,280,581
Capital assets being depreciated and amortized:				
Facilities and improvements	3,729,320	194,590	—	3,923,910
Land improvements	—	6,965	—	6,965
Intangible assets	9,548	1,212	—	10,760
Machinery and equipment	103,274	3,659	(1,272)	105,661
Right-to-use lease assets	8,247	—	—	8,247
Right-to-use subscription assets	1,487	—	—	1,487
Total capital assets being depreciated and amortized	3,851,876	206,426 *	(1,272)	4,057,030
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,481,988)	(69,779)	—	(1,551,767)
Land improvements	—	(232)	—	(232)
Intangible assets	(5,487)	(986)	—	(6,473)
Machinery and equipment	(80,251)	(5,754)	1,252	(84,753)
Right-to-use lease assets	(4,650)	(2,325)	—	(6,975)
Right-to-use subscription assets	(530)	(535)	—	(1,065)
Total accumulated depreciation and amortization	(1,572,906)	(79,611)	1,252	(1,651,265)
Total capital assets being depreciated and amortized, net	2,278,970	126,815	(20)	2,405,765
Total capital assets, net	$ 4,051,005	836,300	(200,959)	4,686,346

* Decrease in construction work in progress is less than increase in capital assets being depreciated is due to direct additions to machinery and equipment and buildings structures by $3,659 and $2,739, respectively, offset by $911 in capital project write-offs, mainly related to the Islais Creek Green Infrastructure Project.

(5) Restricted Assets

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

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

(Dollars in thousands, unless otherwise stated)

In accordance with the indenture, the Enterprise maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2024 and 2023:

	2024	2023
Cash and investments with City Treasury:		
Wastewater revenue bond construction fund	$ 31,613	38,574
Cash and investments outside City Treasury:		
2009 Series C Certificates of Participation - 525 Golden Gate	255	449
2009 Series D Certificates of Participation - 525 Golden Gate	1,942	1,523
2010 Series A Wastewater revenue bond fund	145	137
2010 Series B Wastewater revenue bond fund	9,027	7,153
2013 Series B Wastewater revenue bond fund	1	5
2016 Series A Wastewater revenue bond fund	3	6
2016 Series B Wastewater revenue bond fund	1	2
2018 Series A Wastewater revenue bond fund	3	6
2018 Series B Wastewater revenue bond fund	4	5
2018 Series C Wastewater revenue bond fund	2	2
2021 Series A Wastewater revenue bond fund	2,239	13,298
2021 Series B Wastewater revenue bond fund	397	2,163
2022 Series B Wastewater revenue bond fund	43	86
2023 Series A Wastewater revenue bond fund	43,212	65,673
2023 Series B Wastewater revenue bond fund	15,998	24,313
2023 Series C Wastewater revenue bond fund	8	19
2021 Series A Wastewater revenue note fund	218	152
2021 Series B Wastewater revenue note fund	1	89
Commercial Paper - Tax Exempt	76	75
2020 WIFIA Biosolids Digester	15,248	—
2020 WIFIA Southeast Treatment Plant	12,885	—
Total cash and investments outside City Treasury	101,708	115,156
Interest and other receivables:		
Wastewater revenue bond construction fund including interest, prepaid, and other receivables	1,077	1,608
Due from other government for State Revolving Fund	—	13,942
	1,077	15,550
Total restricted assets	$ 134,398	169,280

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

(6) Short-Term Debt

Under the voter approved 2002 Proposition E, the Commission and Board of Supervisors authorized the issuance of up to $750,000 in commercial paper for the purpose of reconstructing, expanding, repairing, or improving the Enterprise's facilities. The program is made up of two components: (1) five series totaling $675,000 (aggregate principal amount) that are for the issuance of either tax-exempt or taxable commercial paper and which are each supported by a high-grade bank credit facility in the form of a letter of credit or bank liquidity facility; and (2) one series that is for a $75,000 direct bank loan that can be used to make tax-exempt or taxable draws from a high-grade bank pursuant to a revolving credit agreement. The Enterprise had $341,373 and $0 in commercial paper outstanding as of June 30, 2024 and 2023, respectively. The $341,373 was repaid by the 2024 Series CD Wastewater Revenue Bonds issued in July 2024 and has been reclassed to long-term liabilities on the financial statements as of June 30, 2024.

The commercial paper notes can be issued in the aggregate principal amounts of up to $750,000, and may be marketed and re-marketed with maturities up to 270 days and are secured by six separate bank credit facilities, as set forth below. The commercial paper notes are payable from revenues and are secured on a parity lien basis with each other, collectively the "Subordinate Obligations". The Subordinate Obligations are secured on a subordinate basis to the payment of debt service on the Wastewater Revenue Bonds.

As of June 30, 2024, the Commercial Paper Notes are secured by the following series: Series A-1 secured by a $150,000 letter of credit from Sumitomo Mitsui Bank expires on March 2, 2029. The agreement for the Series A-1 facility stipulates a commitment fee of 0.30%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-2 secured by a $150,000 letter of credit facility stipulates a commitment fee of 0.27%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-4 secured by a $75,000 liquidity facility from TD Bank expires on July 3, 2028. The agreement for the Series A-4 facility stipulates a commitment fee of 0.21% on the maintenance of ratings of at least "Aa2" by Moody's and "AA" by S&P. Series A-6 secured by a $200,000 State Street Bank expires on October 14, 2024. The agreement for the Series A-6 facility stipulates a commitment fee of 0.32%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. Series A-7 secured by a $100,000 letter of credit from Sumitomo Mitsui Bank expires on May 31, 2027. The agreement for the Series A-7 facility stipulates a commitment fee of 0.30%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P.

Series R-1 secured by a $75,000 revolving credit agreement with U.S. Bank National Association expires on July 18, 2024. The revolving credit agreement stipulates an unutilized quarterly commitment fee of 0.19%, on the maintenance of ratings of at least "Aa3" by Moody's and "AA-" by S&P. The revolving credit agreement had $0 outstanding as of June 30, 2024.

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

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

(Dollars in thousands, unless otherwise stated)

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, the Enterprise had $408,627 and $750,000 in unused authorization as of June 30, 2024 and 2023, respectively. Significant events of default include 1) payment defaults 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement.. As of June 30, 2024 and 2023, there were no such events described herein.

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2024 and 2023 are as follows:

	Interest rate	Maturity (Calendar Year)	2023	Additions	Reductions	2024	Due within one year
Revenue Bonds:							
2010 Series B (Build America)	4.65% - 5.82%	2040	$ 185,235	–	(7,505)	177,730	7,745
2013 Series A	1.00 - 5.00	2025	575	–	(575)	–	–
2013 Series B	4.00 - 5.00	2042	93,095	–	–	93,095	–
2016 Series A	4.00 - 5.00	2046	240,580	–	(5,475)	235,105	5,760
2016 Series B	4.00 - 5.00	2046	67,820	–	(1,545)	66,275	1,625
2018 Series A	4.00 - 5.00	2043	221,335	–	(7,160)	214,175	6,580
2018 Series B	5.00	2043	179,690	–	(5,810)	173,880	5,335
2021 Series A	4.00 - 5.00	2051	260,835	–	–	260,835	–
2021 Series B	5.00	2051	37,045	–	–	37,045	–
2022 Series B	5.00	2034	137,080	–	–	137,080	8,325
2023 Series A	5.00 - 5.25	2042	530,565	–	–	530,565	–
2023 Series B	4.00 - 5.00	2042	278,155	–	–	278,155	–
2023 Series C	4.00	2048	165,660	–	–	165,660	–
For issuance premiums			339,240	–	(23,789)	315,451	–
Revenue Notes:							
2021 Series A - Biosolids	1.00	2025	218,355	–	(218,355)	–	–
2021 Series B - SEP Headworks	1.00	2026	129,110	–	(129,110)	–	–
For issuance premiums			2,091	–	(2,091)	–	–
Total revenue bonds and notes payable			3,086,466	–	(401,415)	2,685,051	35,370
Bond, loan, lease, and subscription interest payable			–	32,406	–	32,406	30,300
Commercial Paper*	3.15 - 3.74	2024	–	341,373	–	341,373	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	24,458	–	(863)	23,595	900
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2056	318,689	1,498	(2,525)	317,662	5,629
Water Infrastructure Finance and Innovation Act (WIFIA) Loans	1.45	2062	122,357	800,074	–	922,431	–
Arbitrage rebate payable			188	8,333	–	8,521	–
Net other postemployment benefits liability			49,035	225	–	49,260	–
Net pension liability			49,549	17,750	–	67,299	–
Accrued vacation and sick leave			11,662	4,425	(3,998)	12,089	6,583
Accrued workers' compensation			7,998	2,680	(1,666)	9,012	1,685
Due to other City departments			2,620	–	(2,215)	405	114
Lease liability			1,297	–	(1,297)	–	–
Subscription liability			429	–	(243)	186	93
Damage claims liability			4,350	112,467	(1,734)	115,083	28,742
Pollution remediation obligation			7,800	–	(1,349)	6,451	–
Total			$ 3,686,898	1,321,231	(417,305)	4,590,824	109,416

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

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	Restated 2022	Additions	Reductions	2023	Due within one year
Revenue Bonds:							
2010 Series B (Build America)	4.65% - 5.82%	2040	$ 192,515	–	(7,280)	185,235	7,505
2013 Series A	1.00 - 5.00	2025	15,535	–	(14,960)	575	575
2013 Series B	4.00 - 5.00	2042	331,585	–	(238,490)	93,095	–
2016 Series A	4.00 - 5.00	2046	240,580	–	–	240,580	5,475
2016 Series B	4.00 - 5.00	2046	67,820	–	–	67,820	1,545
2018 Series A	4.00 - 5.00	2043	229,050	–	(7,715)	221,335	7,160
2018 Series B	5.00	2043	185,950	–	(6,260)	179,690	5,810
2018 Series C	2.13	2048	179,145	–	(179,145)	–	–
2021 Series A	4.00 - 5.00	2051	260,835	–	–	260,835	–
2021 Series B	5.00	2051	37,045	–	–	37,045	–
2022 Series B	5.00	2034	–	137,080	–	137,080	–
2023 Series A	5.00 - 5.25	2042	–	530,565	–	530,565	–
2023 Series B	4.00 - 5.00	2042	–	278,155	–	278,155	–
2023 Series C	4.00	2048	–	165,660	–	165,660	–
For issuance premiums			191,193	178,474	(30,427)	339,240	–
Revenue Notes:							
2021 Series A - Biosolids	1.00	2025	218,355	–	–	218,355	–
2021 Series B - SEP Headworks	1.00	2026	129,110	–	–	129,110	–
For issuance premiums			2,891	–	(800)	2,091	–
Total revenue bonds and notes payable			2,281,609	1,289,934	(485,077)	3,086,466	28,070
2009 Series C Certificates of Participation (COPs)	2.00 - 5.00	2022	826	–	(826)	–	–
2009 Series C COPs issuance premiums			4	–	(4)	–	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	24,458	–	–	24,458	864
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2056	302,659	18,511	(2,481)	318,689	2,526
Water Infrastructure Finance and Innovation Act (WIFIA) Loans	1.45	2059	–	122,357	–	122,357	–
Arbitrage rebate payable			–	188	–	188	–
Net other postemployment benefits liability			49,123	–	(88)	49,035	–
Net pension liability			–	49,549	–	49,549	–
Accrued vacation and sick leave			10,901	4,729	(3,968)	11,662	6,040
Accrued workers' compensation			7,546	2,976	(2,524)	7,998	1,509
Due to other City departments			629	2,102	(111)	2,620	2,215
Lease liability			3,638	–	(2,341)	1,297	1,297
Subscription liability			944	–	(515)	429	243
Damage claims liability			12,045	2,716	(10,411)	4,350	1,650
Pollution remediation obligation			8,060	–	(260)	7,800	–
Total			$ 2,702,442	1,493,062	(508,606)	3,686,898	44,414

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

(a) Wastewater Revenue Bonds 2010 Series B

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment) in the amount of $192,515 with interest rates ranging from 4.7% to 5.8%. Proceeds from the bonds were used to redeem $53,500 in outstanding commercial paper notes, provide funding for capital projects in the amount of $112,429, fund a cash debt service reserve fund, and pay financing costs for the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2040. The true interest cost is 3.7%. As of June 30, 2024 and 2023, the 2010 Series B bonds’ principal amount outstanding was $177,730 and $185,235, respectively.

(b) Wastewater Revenue Bonds 2013 Series A

In January 2013, the Enterprise issued tax-exempt revenue bonds 2013 Series A in the amount of $193,400 for the purpose of refunding the remaining portion of the outstanding 2003 Series A bonds maturing on and after October 1, 2013. The bonds carried “Aa3” and “AA-” ratings from

Moody's and S&P, respectively, at the time of issuance. The 2013 Series A refunding bonds include serial bonds with interest rates varying from 1.0% to 5.0% and have a final maturity in October 2025. The Series A bonds had a true interest cost of 1.2% at issuance. The 2013 Series A bonds also refunded the remaining portion of the outstanding state revolving fund loans. The refunding resulted in the recognition of a deferred accounting loss of $2,986, gross debt service savings of $35,107 over the next 13 years, and an economic gain of $32,783 or 15.4% of the refunded principal.

A portion of the proceeds of the 2022 Series B refunding bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreements, dated July 1, 2022 to refund and legally defease a portion of the outstanding 2013 Series A bonds. This deposit, together with certain other available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. As of June 30, 2024 and 2023, the principal amount outstanding of the 2013 Series A bonds was $0 and $575, respectively.

(c) Wastewater Revenue Bonds 2013 Series B

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

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

(d) Wastewater Revenue Bonds 2016 Series A

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of $240,580 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $53,439 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2024 and 2023, the principal amount outstanding of the 2016 Series A bonds was $235,105 and $240,580, respectively.

(e) Wastewater Revenue Bonds 2016 Series B

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of $67,820 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $20,560 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and

"Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2024 and 2023, the principal amount outstanding of the 2016 Series B bonds was $66,275 and $67,820, respectively.

(f) Wastewater Revenue Bonds 2018 Series A

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series A (SSIP) (Green Bonds) in the amount of $229,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects in furtherance of the SFPUC's Sewer System Improvement Program ("SSIP"), to pay off $25,000 of outstanding commercial paper notes, to fund capitalized interest, and to pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.4%. As of June 30, 2024 and 2023, the principal amount outstanding of the 2018 Series A bonds was $214,175 and $221,335, respectively.

(g) Wastewater Revenue Bonds 2018 Series B

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series B (Non-SSIP) in the amount of $185,950 with 5.0% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.5%. As of June 30, 2024 and 2023, the principal amount outstanding of the 2018 Series B bonds was $173,880 and $179,690, respectively.

(h) Wastewater Revenue Bonds 2021 Series AB

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

The $260,835 2021 Series A Bonds were issued as tax-exempt Green Bonds to refund approximately $296,000 of commercial paper notes for SSIP capital projects. The Series A bonds were issued as serial bonds with coupons of 4.0% and 5.0% and a final maturity of 2051. The 2021 Series A bonds have a true interest cost of 3.0%. As of June 30, 2024 and 2023, the principal amount of the 2021 Series A bonds outstanding was $260,835.

The $37,045 2021 Series B bonds were issued as tax-exempt bonds to refund approximately $44,000 of commercial paper notes for Wastewater capital projects. The Series B bonds were issued as serial bonds with coupons of 5.0% and have a final maturity of 2051. The Series B bonds have a true interest cost of 3.2%. As of June 30, 2024 and 2023, the principal amount of the 2021 Series B bonds outstanding was $37,045.

(i) Wastewater Revenue Notes 2021 Series AB

In November 2021, the Enterprise issued tax-exempt revenue (Green) notes, 2021 Sub-Series A and Sub-Series B together with an aggregate principal of $347,465 to finance a portion of the design, acquisition and construction of the Biosolids Digester Facility Project and Southeast Water Pollution Control Plant improvements. The SFPUC intends to pay principal of the 2021A Notes and 2021B

Notes from the proceeds of one or more draws under WIFIA Loan Agreements for the Biosolids Digester Facility Project and Southeast Treatment Plant Improvements, respectively, or from the proceeds of future obligations.

The $218,355 2021 Series A Notes were issued as tax-exempt Green Notes to fund a portion of the Biosolids Digester Facilities Project. The Series A Notes were issued with 1.0% coupons and a final maturity of 2025. The 2021 Series A Notes have a true interest cost of 0.8%. As of June 30, 2024 and 2023, the principal amount of 2021 Series A Notes outstanding was $0 and $218,355, respectively.

The $129,110 2021 Series B Notes were issued as tax-exempt Green Notes to fund a portion of Southeast Water Pollution Control Plant improvements. The Series B Notes were issued with 1.0% coupons and a final maturity of 2026. The 2021 Series B Notes have a true interest cost of 0.8%. As of June 30, 2024 and 2023, the principal amount of 2021 Series B Notes outstanding was $0 and $129,110, respectively.

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

(j) Wastewater Revenue Refunding Bonds 2022 Series B

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

The 2022 Series B bonds include serial bonds, each with an interest rate of 5% and have a final maturity in 2034. The Series B bonds have a true interest cost of 3.2%. The refunding resulted in the recognition of a deferred accounting gain of $6,868, gross debt service savings of $12,446, and an economic gain of $12,012 or 8.0% of refunded bonds. As of June 30, 2024 and 2023, the principal amount of the 2022 Series B bonds outstanding was $137,080.

(k) Wastewater Revenue Refunding Bonds 2023 Series ABC

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

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

The $278,155 2023 Series B bonds were issued as tax-exempt bonds to refund a portion of the outstanding 2013 Series B bonds maturing on October 1 2035 through October 1, 2039, refund approximately $156,900 of commercial paper notes for certain capital projects benefitting the Enterprise and finance certain capital projects benefitting the Enterprise. The Series B bonds were issued as serial bonds with coupons of 4.0% and 5.0% and a final maturity of 2042. The Series B bonds have a true interest cost of 3.0%. The refunding resulted in the recognition of a deferred accounting gain of $5,316, gross debt service savings of $10,626, and an economic gain of $7,647 or 8.4% of refunded bonds. As of June 30, 2024 and 2023, the principal amount of the 2023 Series B bonds outstanding was $278,155.

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

(Dollars in thousands, unless otherwise stated)

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

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

		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2025	$	35,370	111,665	(3,235)	108,430
2026		38,460	109,860	(3,105)	106,755
2027		70,295	107,170	(2,968)	104,202
2028		77,225	103,460	(2,822)	100,638
2029		104,875	98,877	(2,668)	96,209
2030-2034		541,195	411,644	(10,719)	400,925
2035-2039		515,035	277,620	(5,557)	272,063
2040-2044		499,950	156,118	(527)	155,591
2045-2049		374,635	61,243	—	61,243
2050-2052		112,560	7,096	—	7,096
		2,369,600	1,444,753	(31,601)	1,413,152
Less: Current portion		(35,370)			
Add: Unamortized bond premiums		315,451			
Long-term portion as of June 30, 2024	$	2,649,681			

*The SFPUC received an IRS notice, dated April 17, 2024, that the federal interest subsidy on the 2010 Series B bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of $1,910, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

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

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

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

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

(Dollars in thousands, unless otherwise stated)

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

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

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2025	$	900	1,494	(493)	1,001
2026		937	1,436	(474)	962
2027		977	1,375	(454)	921
2028		1,019	1,312	(433)	879
2029		1,061	1,246	(411)	835
2030-2034		6,019	5,121	(1,690)	3,431
2035-2039		7,422	2,950	(974)	1,976
2040-2042		5,260	521	(172)	349
Total		23,595	15,455	(5,101)	10,354
Less: Current portion		(900)			
Long-term portion as of June 30, 2024	$	22,695			

*The SFPUC received an IRS notice dated April 17, 2024, that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of $308, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(n) Lake Merced Green Infrastructure Project CWSRF Loan

In January 2016, then amended in May 2016, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund ("CWSRF") Loan to fund the Lake Merced Green Infrastructure Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $7,435. The loan bears an interest rate of 1.6% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; completion was in October 2020. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling $6,116 and a construction period interest of $166 transferred to principal. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $5,775 and $5,945, respectively.

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

In September 2017, then amended in December 2017 and May 2018, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP 521/522 and Disinfection Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $40,007. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in July 2019. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $39,741. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $35,350 and $36,409, respectively.

(p) North Point Facility Outfall Rehabilitation Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the North Point Facility Outfall Rehabilitation Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $20,199. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in February 2018. The CWSRF loans is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $17,706. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $14,744 and $15,231, respectively.

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

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Primary/Secondary Clarifier Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $34,446. The loan bears an interest rate of 0.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in June 2018. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $29,197. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $24,445 and $25,254, respectively.

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

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the OSP Digester Gas Utilization Upgrade Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $54,388, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $33,230, which included a loan forgiveness grant of $4,000. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $30,067 and $29,230, respectively.

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

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Biosolids Digester Facilities Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $132,000, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in May 2026. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $132,000, which includes a $4,000 loan forgiveness grant. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $128,000.

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

In May 2021, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP New Headworks (Grit) Replacement Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $112,036. The loan bears an interest rate of 1.1% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in August 2027. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $64,678 and a receivable for reimbursement of $13,942. As of June 30, 2024 and 2023, the principal amount outstanding of the loan was $79,281 and $78,620, respectively.

(Dollars in thousands, unless otherwise stated)

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

The future annual debt service relating to the SRF Loans to fund the Lake Merced Green Infrastructure Project, the North Point Facility Outfall Rehabilitation Project, the SEP Primary/Secondary Clarifier Upgrade Project, the SEP 521/522 and Disinfection Upgrade Project, the OSP Digester Gas Utilization Upgrade Project, the SEP Biosolids Digester Facilities Project, and the SEP New Headworks (Grit) Replacement Project outstanding as of June 30, 2024 is as follows:

California Clean Water State Revolving Fund Loans		Principal	Interest and Fees*	Total
Fiscal years ending June 30:				
2025	$	5,629	2,727	8,356
2026		5,711	2,645	8,356
2027		9,257	4,354	13,611
2028		9,390	4,221	13,611
2029		9,525	4,086	13,611
2030-2034		49,720	18,333	68,053
2035-2039		53,409	14,645	68,054
2040-2044		57,379	10,675	68,054
2045-2049		59,630	6,399	66,029
2050-2054		47,720	2,555	50,275
2055-2056		10,292	217	10,509
		317,662	70,857	388,519
Less: Current portion		(5,629)		
Long-term portion as of June 30, 2024	$	312,033		

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

(v) WIFIA Loan Agreement-Biosolids Digester Facility Project

In July 2018, the SFPUC entered into a WIFIA Loan Agreement with the United States Environmental Protection Agency (EPA) in the amount of $699,242. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water SRF Loans entered into with the California State Water Resources Control Board.

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

In March of 2023, the SFPUC received disbursement of $122,283 in respect to eligible project costs and a capitalized interest of $74 added to principal. In January of 2024, the SFPUC received a second disbursement of $439,995 in respect to eligible project costs. As of June 30, 2024 and 2023, the principal amount outstanding of the loan including capitalized interest was $567,511 and $122,357, respectively.

(w) WIFIA Loan Agreement-Southeast Treatment Plant Improvements

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

In January of 2024, the SFPUC received disbursement of $352,573 in respect to eligible project costs. As of June 30, 2024 and 2023, the principal amount outstanding of the loan including capitalized interest was $354,920 and $0, respectively.

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

In April 2023, the SFPUC entered into a WIFIA Master Agreement and Project 1 Loan Agreement with the United States Environmental Protection Agency. The WIFIA Master Agreement and Project 1 Loan was entered into pursuant to the WIFIA authorized by Congress in 2014. The SFPUC entered the WIFIA Master Loan Agreement with the EPA in an amount not to exceed $791,337 to provide partial funding for projects in the Wastewater Enterprise Capital Plan. The Master Agreement defines the general terms for funding a series of WIFIA loans, the first of which is the "Project 1 Loan Agreement". The incurrence of the Project 1 Loan Agreement, in an aggregate initial principal amount not to exceed $369,335, will provide partial funding for six Wastewater Enterprise capital improvement projects. Those projects are Westside Pump Station Reliability Improvements, North Shore Pump Station Wet Weather Improvements, Wawona Area Stormwater Improvement, New Treasure Island Wastewater Treatment Plant, Folsom Area Stormwater Improvement, and Yosemite Creek Daylighting. Proceeds of the loan will fund 49% of project costs plus eligible expenses. The Project 1 Loan is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water SRF Loans entered into with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 3.65% for a 32-year term, with loan repayment expected to begin in fiscal year 2033. The EPA has approved $90,785 in project costs as of June 30, 2024. The SFPUC has not yet submitted any requests for disbursement and there was no outstanding loan principal as of June 30, 2024 and 2023.

(Dollars in thousands, unless otherwise stated)

(y) Future Annual Debt Service of WIFIA Loans

The future annual debt service relating to the WIFIA Loan to fund the Biosolids Digester Facility Project and the Southeast Treatment Plant Project outstanding as of June 30, 2024 is as follows:

Water Infrastructure Finance and Innovation Act (WIFIA) Loans		Principal	Interest	Total
Fiscal years ending June 30:				
2025	$	–	–	–
2026		–	4,115	4,115
2027		–	8,229	8,229
2028		–	8,229	8,229
2029		–	8,229	8,229
2030-2034		–	54,010	54,010
2035-2039		–	66,876	66,876
2040-2044		26,482	66,693	93,175
2045-2049		176,558	59,576	236,134
2050-2054		302,405	41,821	344,226
2055-2059		346,570	18,414	364,984
2060-2062		70,416	1,291	71,707
		922,431	337,483	1,259,914
Less: Current portion		–		
Long-term portion as of June 30, 2024	$	922,431		

(z) Events of Default and Remedies

Significant events of default as specified in the Wastewater Enterprise Indenture (applicable to Wastewater Revenue Bonds, SRF Loans, and WIFIA Loan include 1) Non-payment 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations or of a credit provider), declaring the principal and the interest accrued thereon, to be due and payable immediately. As of June 30, 2024 and 2023, there were no such events described herein.

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds, SRF, and WIFIA loans. Proceeds from the revenue bonds, revenue notes, SRF, and WIFIA loans provided financing for various capital construction projects, and to refund previously issued bonds. The bonds, SRF, and WIFIA loans are payable through fiscal years 2052, 2056, and 2062, respectively, and are solely from revenues of the Enterprise.

(Dollars in thousands, unless otherwise stated)

The outstanding amount of revenue bonds issued, revenue notes issued, SRF loans, and WIFIA loans, total principal and interest remaining, principal and interest paid during fiscal years 2024 and 2023, applicable net revenues, and funds available for debt service are as follows:

		2024	2023
Bonds issued with revenue pledge	$	2,369,600	2,397,670
Notes issued with revenue pledge		—	347,465
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge		317,662	328,776
WIFIA loans with revenue pledge		922,431	122,357
Principal and interest remaining due at the end of the year		5,462,786	4,872,238
Principal and interest paid during the year		91,601	98,811
Net revenues for the year ended June 30		188,709	178,850
Funds available for debt service		354,681	313,443

(9) Leases

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

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

		Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Right-to-use assets:						
Building/Facility	$	8,247	—	(8,247)	—	—
Total lease assets		8,247	—	(8,247)	—	—
Less accumulated amortization:						
Right-to-use assets:						
Building/Facility		(6,975)	—	6,975	—	—
Total accumulated amortization		(6,975)	—	6,975	—	—
Total lease assets, net	$	1,272	—	(1,272)	—	—

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Right-to-use assets:						
Building/Facility	$	8,247	—	—	—	8,247
Total lease assets		8,247	—	—	—	8,247
Less accumulated amortization:						
Right-to-use assets:						
Building/Facility		(4,650)	(2,325)	—	—	(6,975)
Total accumulated amortization		(4,650)	(2,325)	—	—	(6,975)
Total lease assets, net	$	3,597	(2,325)	—	—	1,272

(Dollars in thousands, unless otherwise stated)

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

		Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
Lease liabilities	$	1,297	–	–	(1,297)	–	–
Total	$	1,297	–	–	(1,297)	–	–

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
Lease liabilities	$	3,638	–	–	(2,341)	1,297	1,297
Total	$	3,638	–	–	(2,341)	1,297	1,297

Future annual lease payments as of June 30, 2024 and 2023:

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

Year ending June 30:		Principal amount	Interest amount	Total
2024	$	1,297	6	1,303
		1,297	6	1,303
Less: Current portion		(1,297)		
Long-term portion as of June 30, 2023	$	–		

Variable Lease Payments

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

Certain facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor, these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $4 and $673 during the years ended June 30, 2024 and 2023, respectively.

(Dollars in thousands, unless otherwise stated)

Wastewater Enterprise as Lessor

The Enterprise has leased facilities, easements, communication site and equipment to varies tenants. The terms and conditions for these leases varies, which ranges between 1–65 years.

Variable payments include percentage of sales, or payments depended on an index made by the lessee; these amounts are generally determined periodically. The Enterprise did not incur revenue related to residual value guarantees or lease termination penalties. The total amounts for lease revenue, interest revenue, and other lease-related revenues recognized during the years ended June 30, 2024 and 2023 were $37 and $7, respectively.

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

Year ending June 30:		Principal	Interest	Total
2025	$	226	32	258
2026		241	26	267
2027		257	19	276
2028		215	12	227
2029		105	7	112
2030-2033		201	6	207
	$	1,245	102	1,347

(10) Subscription-Based Information Technology Arrangements

Wastewater Enterprise as Subscriber

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

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

		Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Subscription assets	$	1,487	–	(965)	–	522
Less accumulated amortization:		(1,065)	–	731	–	(334)
Total subscription IT assets, net	$	422	–	(234)	–	188

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Subscription assets	$	1,487	–	–	–	1,487
Less accumulated amortization:		(530)	(535)	–	–	(1,065)
Total subscription IT assets, net	$	957	(535)	–	–	422

(Dollars in thousands, unless otherwise stated)

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

		Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
SBITA IT liabilities	$	429	–	–	(243)	186	93
Total	$	429	–	–	(243)	186	93

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
SBITA IT liabilities	$	944	–	–	(515)	429	243
Total	$	944	–	–	(515)	429	243

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

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

Year ending June 30:		Principal amount	Interest amount	Total
2024	$	243	4	247
2025		93	2	95
2026		93	1	94
		429	7	436
Less: Current portion		(243)		
Long-term portion as of June 30, 2023	$	186		

(11) Employee Benefits

(a) Pension Plan

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

(Dollars in thousands, unless otherwise stated)

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

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

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

SFERS Plan – The City is an employer of the SFERS Plan with a proportionate share of 94.85% as of June 30, 2023 (measurement date), and 94.87% as of June 30, 2022 (measurement date), a 0.02% decrease from prior year. The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2023 and 2022. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. The Enterprise's allocation of the City's proportionate share was 1.95% as of June 30, 2023 and 1.99% as of June 30, 2022 (measurement dates).

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

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

a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

b) Sheriff's Department and Miscellaneous Safety Members – Sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's Department, and miscellaneous safety employees hired on and after January 7, 2012.

c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.

d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

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

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

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

Funding and Contribution Policy

SFERS Plans – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 11.5% and 7.5% to 12.0% as a percentage of gross covered salary in fiscal years 2024 and 2023. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The Enterprise is required to contribute at an actuarially determined rate. Based on the July 1, 2022 actuarial report, the required employer contribution rates for fiscal year 2024 ranged from 15.24% to 18.24%. Based on the July 1, 2021 actuarial report, the required employer contribution rates for fiscal year 2023 ranged from 17.85% to 21.35%.

Employer contributions and employee contributions made by the employer to the SFERS Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2023 and 2022 (measurement periods) was $638,003 and $729,578, respectively. The Enterprise's allocation of employer contributions for fiscal years 2023 and 2022 was $12,383 and $14,543, respectively.

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

Fiscal Year 2024

As of June 30, 2024, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of $3,456,687. The City's net pension liability for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2023 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022 rolled forward to June 30, 2023 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2024 was $67,299.

For the year ended June 30, 2024, the City's recognized pension expense was $667,276, including amortization of deferred outflows/inflows related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflows/inflows related pension items was $14,091. Pension expense increased from the prior year, largely due to the amortization of deferrals.

(Continued)

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2024 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	12,402	—
Differences between expected and actual experience		7,231	—
Changes in assumptions		8,710	3,974
Net difference between projected and actual earnings on pension plan investments		12,736	—
Change in employer's proportion		1,606	81
Total	$	42,685	4,055

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

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

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of $2,552,996. The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL. The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2023 was $49,549.

For the year ended June 30, 2023, the City's recognized pension expense was $1,771, including amortization of deferred outflows/inflows related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflows/inflows related pension items was ($1,167).

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2023 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	12,383	—
Differences between expected and actual experience		4,523	—
Changes in assumptions		12,874	3,864
Net difference between projected and actual earnings on pension plan investments		—	6,159
Change in employer's proportion		2,812	—
Total	$	32,592	10,023

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

Fiscal years		Deferred Outflows/(Inflows) of Resources
2024	$	(1,574)
2025		(2,830)
2026		(6,905)
2027		21,495
Total	$	10,186

Actuarial Assumptions

Fiscal Year 2024

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

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan
Valuation Date	July 1, 2022 updated to June 30, 2023
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of investment expenses
Municipal Bond Yield	3.65% as of June 30, 2023
	3.54% as of June 30, 2022
	Bond Buyer 20-Bond GO Index, June 30, 2022 and June 29, 2023
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based on employee classification and years of service
Discount Rate	7.20% as of June 30, 2023
	7.20% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2023
	0.60% of payroll as of June 30, 2022

Basic COLA		Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
	June 30, 2023	2.00%	1.90%	2.50%	3.60%
	June 30, 2022	2.00%	1.90%	2.50%	3.60%

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

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

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

Fiscal Year 2023

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

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Discount Rate

Fiscal Year 2024

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

The discount rate used to measure the total pension liability as of June 30, 2023 was 7.20%. The projection of cash flows used to determine the discount rate assumed that SFERS plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2022 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. However, the change due to Proposition A was amortized over 10 years. In the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted effective July 1, 2013 was amortized over 17 years. For the July 1, 2021 valuation, all amortization periods for actuarial gains and losses and prior assumption changes were reduced to 5 years. The assumption change effective July 1, 2021 is amortized over 20 years. Future experience gains and losses and assumption or method changes on or after July 1, 2021 are amortized over 20 years. If the plan becomes 100% funded based on the actuarial value of assets, any new net surpluses are amortized over a rolling 20-year period. All amortization schedules are established as a level percentage of payroll, so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

(Dollars in thousands, unless otherwise stated)

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

No Supplemental COLA was payable as of July 1, 2023 due to the unfavorable investment return for fiscal year 2023. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2025+	0.75%	0.50%

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

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

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

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2023

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

The discount rate used to measure the total pension liability as of June 30, 2022 was 7.20%. The projection of cash flows used to determine the discount rate assumed that SFERS plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2021 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

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

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

(Dollars in thousands, unless otherwise stated)

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

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

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

(Dollars in thousands, unless otherwise stated)

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

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

Fiscal Year 2024

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

Fiscal Year 2023

	June 30, 2022 (measurement date)		
Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Wastewater	$ 135,684	49,549	(21,459)

(b) Other Postemployment Benefits (OPEB)

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

(Dollars in thousands, unless otherwise stated)

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

San Francisco Health Service System Retiree Plan - Single Employer

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

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

The Enterprise's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2023 and 2022. The Enterprise's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Enterprise's allocated percentage. The Enterprise's proportionate share of the City's OPEB elements as of June 30, 2023 and 2022 was 1.26% and 1.31%, respectively.

Benefits

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

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

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

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

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

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

Contributions

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

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

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

For the fiscal years ended June 30, 2024 and 2023, the City's funding was based on "pay-as-you-go" plus a contribution of $48,779 and $45,241 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $229,922 for a total contribution of $278,701 for the fiscal year ended June 30, 2024, and $215,408 for a total contribution of $260,649 for the fiscal year ended June 30, 2023. The Enterprise's proportionate share of the City's contributions for fiscal year 2024 was $3,498, and for fiscal year 2023 was $3,412.

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2024

As of June 30, 2024, the City reported net OPEB liability related to the Plan of $3,924,832. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2024 was $49,260.

For the year ended June 30, 2024, the City's recognized OPEB expense was $261,158. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense(income) was ($647).

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

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

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

Year ending June 30:	
2025	$ 1,056
2026	956
2027	829
2028	42
2029	626
Total	$ 3,509

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liability related to the Plan of $3,746,270. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2023 was $49,035.

For the year ended June 30, 2023, the City's recognized OPEB expense was $256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $4,374.

(Continued)

(Dollars in thousands, unless otherwise stated)

As of June 30, 2023, the Enterprise reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,412	$ -
Differences between expected and actual experience	1,089	8,164
Changes in assumptions	2,093	-
Net difference between projected and actual earnings on plan investments	789	-
Change in proportion	4,110	122
Total	**$ 11,493**	**$ 8,286**

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

Year ending June 30:	
2024	$ (137)
2025	(124)
2026	369
2027	236
2028	(549)
Total	$ (205)

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2024

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

Key Actuarial Assumptions

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

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

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

Key Actuarial Assumptions

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

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

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

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

Fiscal Year 2023 Employer	-1.00%	Healthcare Cost Trend Rate	1.00%
Wastewater	$ 41,948	$ 49,035	$ 57,824

Discount Rate

Fiscal Year 2024

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

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

(Dollars in thousands, unless otherwise stated)

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

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

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

Fiscal Year 2023

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

(Dollars in thousands, unless otherwise stated)

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

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

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

	June 30, 2022 (measurement period)		
Employer	1% Decrease Share of NOL @ 6.00%	Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	$ 57,086	$ 49,035	$ 42,429

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

(12) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprise. The allocations are based on the Commission management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. The administrative costs of $35,943 or 28.8%, which included COVID-19 Project expenses, and $32,909 or 28.8% were allocated to the Enterprise for the years ended June 30, 2024 and 2023, respectively.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. This amount, totaling $12,377 and $14,876 for the years ended June 30, 2024 and 2023, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise purchases water from Water Enterprise at retail rates. This amount, totaling $1,701 and $1,552 for the years ended June 30, 2024 and 2023, respectively, has been included in services provided by other departments in the accompanying financial statements.

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

The City's Department of Public Works provides certain engineering and other services to the Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. These amounts totaling approximately $8,711 and $9,156 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges totaling approximately $16,757 and $15,415 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

As of June 30, 2024 and 2023, the Enterprise has payables in the amount of $0 and $2,102 respectively, to MTA related to Walsh settlement and $405 and $518, respectively, which is associated with the SFPUC Headquarters Living Machine system.

As of June 30, 2024 and 2023, the Enterprise has interfund receivable from DPW for the Mission Bay South custom work project of $82 and $128, respectively.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is $6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2024, the Enterprise's allocable shares of expenses and prepayment were $21 and $1,103, respectively, and as of June 30, 2023 were $21 and $1,124, respectively.

(Dollars in thousands, unless otherwise stated)

SFPUC's 30-year lease agreement with the San Francisco Port Commission, for the use of approximately 4,833 square feet of land located within Seawall Lot 345 and within the public right-of-way on Terry A. Francois Boulevard and on Illinois Street, commenced on September 1, 2018. SFPUC intends to use the premises for the reconstruction of the Mariposa Pump Station and Force Main Improvements. Total payment under this agreement is $502, which was fully made as of fiscal year 2019. As of June 30, 2024, the Enterprise's expenses and prepayment were $17 and $405, respectively, and as of June 30, 2023 were $17 and $421, respectively.

(13) Risk Management

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

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

(a) General Liability

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

(Dollars in thousands, unless otherwise stated)

The changes for the general liability (damage claims) for the years ended June 30, 2024, 2023, and 2022 were as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid and changes in estimates	End of year
2024	$ 4,350	112,467	(1,734)	115,083
2023	12,045	2,716	(10,411)	4,350
2022	16,713	8,812	(13,480)	12,045

(b) Workers' Compensation

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

The changes in the liabilities for workers' compensation for the years ended June 30, 2024, 2023, and 2022 were as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid and changes in estimates	End of year
2024	$ 7,998	2,680	(1,666)	9,012
2023	7,546	2,976	(2,524)	7,998
2022	6,582	3,207	(2,243)	7,546

(c) Property

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

(d) Public Officials Liability

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

(e) Employment Practices Liability

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

(f) Cyber Liability

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

(g) Crime

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

(h) Electronic Data Processing

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

(i) Surety Bonds

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

(j) Errors and Omissions

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

(k) Builders' Risk

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

(l) Tenants' and Users' Liability Insurance Policy

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

(m) Active Assailant Policy

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

(14) Commitments and Litigation

(a) Commitments

As of June 30, 2024 and 2023, the Enterprise has outstanding commitments with third parties of $675,849 and $762,085, respectively, for various capital projects and other purchase agreements for materials and services.

(b) Grants

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(c) Litigation

The Enterprise is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the Enterprise.

(d) Environmental Issue

As of June 30, 2024, and 2023, the Enterprise recorded $6,451 and $7,800 in pollution remediation liability, respectively for the Yosemite Creek toxic sediments. The decrease of $1,349 in pollution remediation liability in fiscal year 2024 is due to payment related to the Yosemite Creek Remediation effort.

(15) Subsequent Event

2024 Series ABCD Revenue (Refunding) Bonds

On July 31, 2024, the SFPUC issued its San Francisco Wastewater Revenue Bonds, 2024 Series A (SSIP) (Green Bonds) (Federally Taxable), 2024 Series B (Non-SSIP) (Federally Taxable), 2024 C (SSIP) (Green Bonds) and 2024 Series D (Non-SSIP) with a total principal of $1,142,975 to finance or refinance Wastewater Enterprise projects through new money and the refunding and retirement of commercial paper issued as interim financing for such projects in furtherance of the Wastewater Capital Improvement Program.

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

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

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

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2024

Our mission

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

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

Cover photo: Southeast Wastewater Treatment Plant: Biosolids Digester Facilities Project

Back cover photo: Treasure Island Wastewater Treatment Plant

Photos by: Robin Scheswohl

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