SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account
and Independent Auditor's Report

Year Ended June 30, 2023

Certified
Public
Accountants

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account
Year Ended June 30, 2023

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Independent Auditor's Report

To the City and County of San Francisco
and the Wholesale Customers:

Opinion

We have audited the Statement of Changes in the Balancing Account (Statement) of the San Francisco Water Enterprise and Hetch Hetchy Water and Power, under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC), for the year ended June 30, 2023, and the related notes to the Statement.

In our opinion, the Statement presents fairly, in all material respects, the changes in the Balancing Account for the year ended June 30, 2023 in accordance with Article VII, Section 7.02 of the Water Supply Agreement (WSA), between the City and County of San Francisco (City) and certain wholesale customers in the counties of San Mateo, Santa Clara, and Alameda (Wholesale Customers) effective July 1, 2009.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statement section of our report. We are required to be independent of the SFPUC 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 – Basis of Accounting

We draw attention to Note 1(b) to the Statement, which describes the basis of accounting. The Statement was prepared by the SFPUC on the basis of the financial reporting provisions of Article VII, Section 7.02 of the WSA, which is a basis of accounting other than U.S. generally accepted accounting principles, to comply with the financial reporting provisions of the WSA. As a result, the statement may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the financial reporting provisions of Article VII, Section 7.02 of the WSA, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

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 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 Statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, 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 Statement.
- 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 SFPUC'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 Statement.

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.

Restriction on Use

This report is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Public Utilities Commission, City management, and the Wholesale Customers, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
October 3, 2024

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account

Year ended June 30, 2023

	Total	Amount Allocated to the Wholesale Customers
Wholesale Revenue Requirement:		
Operation and Maintenance Expenses:		
San Francisco Water Enterprise (Water Enterprise):		
Source of supply	$ 39,592,537	$ 22,105,779
Pumping	2,102,414	—
Treatment	55,985,294	36,614,550
Transmission and distribution	75,038,338	19,091,825
Customer accounts	11,223,326	220,786
Total Water Enterprise Operation and Maintenance Expenses	$ 183,941,909	$ 78,032,940
Hetch Hetchy Water and Power (Hetch Hetchy):		
Hetch Hetchy Operation and Maintenance Expenses	$ 184,927,558	$ 19,979,270
Administrative and General (A&G) Expenses:		
Countywide cost allocation plan:		
Water Enterprise	2,802,293	1,188,733
Hetch Hetchy	1,734,411	515,510
San Francisco Public Utilities Commission (Bureaus):		
Water Enterprise	39,185,883	17,296,123
Hetch Hetchy	20,067,511	3,516,646
Other A&G – Water Enterprise	24,111,427	8,340,115
Other A&G – Hetch Hetchy	35,363,621	3,916,577
Compliance audit	58,204	29,102
Total Administrative and General Expenses	$ 123,323,350	$ 34,802,806
Property Taxes (Outside City Only):		
Water Enterprise	1,960,484	1,298,429
Hetch Hetchy	601,182	178,686
Total Property Taxes	$ 2,561,666	$ 1,477,115
Capital Cost Contribution – New Regional Assets:		
Debt-funded capital projects:		
Water Enterprise (note 4a)		150,828,973
Hetch Hetchy Water (note 4a)		4,649,519
True-up of substantially expended bonds (note 4b)		(532)
Revenue-funded capital projects:		
Water Enterprise (note 4c)		16,557,500
Hetch Hetchy		—
True-up of Wholesale Capital Fund (note 4e)		(6,131,293)
Total Capital Cost Contribution		$ 165,904,167
Total Wholesale Revenue Requirement		**$ 300,196,298**

See accompanying notes to the statement of changes in the balancing account.

SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account (Continued)

Year ended June 30, 2023

Balance due to Wholesale Customers, July 1, 2022	$	(30,641,321)
Interest on Beginning Balance		(649,596)
Net Wholesale Revenue Billed (note 5)		(273,153,247)
Deposit to Wholesale Coverage Reserve (note 6a)		14,151,740
Transfer from Balancing Account for BAWSCA Water Projects (note 2a)		75,000
Calculated Wholesale Revenue Requirement		300,196,298
FY 20-21 Net Interest on Wholesale Coverage Reserve / Working Capital (note 6b)		(232,781)
Balance due from Wholesale Customers, June 30, 2023	**$**	**9,746,093**
Wholesale revenue coverage reserve shortfall, as of June 30, 2023	$	424,695

See accompanying notes to the statement of changes in the balancing account.

1) Summary of Significant Accounting Policies

a) Water Supply Agreement

The City and County of San Francisco (City), acting by and through its Public Utilities Commission (SFPUC), and certain wholesale customers in the counties of San Mateo, Santa Clara, and Alameda (Wholesale Customers), as represented by the Bay Area Water Supply and Conservation Agency (BAWSCA), ratified the November 2021 Amended and Restated Wholesale Water Supply Agreement (WSA) in January 2023. The term of the WSA began on July 1, 2009 and shall end on June 30, 2034, with two options for five-year extensions., and contains provisions on rate-setting (including emergency and drought-pricing adjustments), accounting, and dispute resolution. The WSA has a supply assurance of 184 million gallons per day (mgd). During the period from 2009 to 2028, the WSA limits the quantity of water delivered to retail customers and Wholesale Customers from the watersheds to 81 mgd and 184 mgd, respectively, or a total of 265 mgd.

b) Basis of Accounting

Pursuant to the terms of the WSA, the accounts of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), are maintained in conformity with accounting principles generally accepted in the United States of America. The financial activities of the Water Enterprise and Hetch Hetchy Funds are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statements of net position; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. For copies of the Water Enterprise and Hetch Hetchy audited financial statements for the year ended June 30, 2023, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

c) Balancing Account under the WSA

Pursuant to the terms of the WSA, the SFPUC is required to establish water rates applicable to the Wholesale Customers at the beginning of each fiscal year. The wholesale water rates are based on an estimate of revenues necessary to recover the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Articles V and VI of the WSA.

Pursuant to Article VII, Section 7.02 of the WSA, the City is required to prepare the Wholesale Revenue Requirement (WRR) of the Water Enterprise and Hetch Hetchy after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenue billed to the Wholesale Customers during the year and the “actual” WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if wholesale revenue billed exceed the WRR) or owed to the SFPUC (if the WRR exceeds wholesale revenues billed). The Balancing Account is reflected on the Water Enterprise’s financial statements as either an asset or a liability depending on the amount due from or owed to the Wholesale Customers.

In accordance with Article VI, Section 6.05B of the WSA, the amount recorded in the Balancing Account will earn interest at a rate equal to the average rate earned on the invested pooled funds of the City Treasurer, and is taken into consideration in the determination of subsequent wholesale water rates.

d) Proportional Annual Use and Adjusted Proportional Annual Use

The WSA states that Wholesale Customers will pay their share of expenses incurred by the SFPUC in delivering water on the basis of Proportional Annual Use unless otherwise indicated in the WSA. Under the WSA, current operating expenditures, including regional revenue-funded capital projects and debt service on bonds sold to finance regional water system improvements, are allocated between Retail Customers and the Wholesale Customers on the basis of Proportional Annual Use.

The Proportional Annual Use is defined as the share of deliveries from the Regional Water System used by City retail customers and by the Wholesale Customers in a fiscal year, expressed as a percentage. The Adjusted Proportional Annual Use is defined as the respective percentages of annual water use, as adjusted to reflect deliveries of water by Hetch Hetchy to Retail Customers outside of the city limits of the City and County of San Francisco.

WSA Attachment J prescribes the calculation methodology to determine Proportional Annual Use. At the end of each fiscal year, the SFPUC and BAWSCA review and approve Table J-1 to memorialize the annual water deliveries to retail and Wholesale Customers. The information in the Table J-1 is the basis for the Proportional Annual Use calculation.

e) Minimum Annual Purchases

Alameda County Water District and the cities of Milpitas, Mountain View, and Sunnyvale have agreed to a minimum annual purchases requirement, which requires each to purchase a minimum annual quantity of water from the SFPUC. These minimum quantities are included in the Individual Water Sales Contracts between SFPUC and each of these four Wholesale Customers.

These Wholesale Customers are billed for minimum quantities only if minimum annual purchase quantities have not been met in any fiscal year. Minimum annual purchase payments are considered wholesale water revenues. Additionally, the Proportional Annual Use is based on minimum quantities for each of these four customers if minimum annual purchase quantities are not met. Any differences between minimum quantities and below-minimum actuals are referred to as imputed water sales.

During the year ended June 30, 2023 the minimum purchase requirements were waived due to the Governor’s July 8, 2021 drought emergency declaration, as authorized by Section 3.07 of the WSA.

f) Basis of Allocating Operating Expenses

Pursuant to the terms of the WSA, direct Water Enterprise and specific Hetch Hetchy expenses are allocated to the applicable user(s). Regional Water Enterprise operating and maintenance expenses related to source of supply, treatment, transmission and distribution are allocated based on Proportional Annual Use.

Two percent of Water Enterprise customer service expenses are allocated to the Wholesale Customers. Water Enterprise administrative and general expenses, including the assigned costs under the City's Countywide Cost Allocation Plan, services provided by other City departments and water administration, are allocated based on the ratio of total allocated wholesale operating and maintenance expenses to total Water Enterprise operating and maintenance expenses. Certain SFPUC bureau expenses are identified as regional operations and maintenance expenses and allocated to the Wholesale Customers on Proportional Annual Use basis. Remaining SFPUC bureau expenses are allocated to the Water Enterprise on the basis of labor costs incurred by the various SFPUC enterprises, and then allocated to the Wholesale Customers on the basis of Proportional Annual Use.

Water Enterprise property taxes are levied against properties owned by the City in Alameda, San Mateo, and Santa Clara counties, and operated and managed by the SFPUC. Hetch Hetchy property taxes are levied against properties owned by the City in Tuolumne, Stanislaus, San Joaquin, and Alameda counties, and operated and managed by the SFPUC. All property taxes paid, net of (1) reimbursements received from lessees and permit holders and (2) refunds from taxing authorities, are considered Water Enterprise regional expenses or joint Hetch Hetchy expenses. The Wholesale Customers are allocated a share of Water Enterprise and Hetch Hetchy property tax expenses on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively.

Forty-five percent of joint Hetch Hetchy expenses are water-related expenses. The water-related share of joint Hetch Hetchy operating, maintenance, and administrative and general expenses is allocated based upon on Adjusted Proportional Annual Use.

Fifty percent of the cost of the compliance audit is allocated to the Wholesale Customers.

g) Wholesale Customers Review

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual Wholesale Revenue Requirement and changes in the Balancing Account. The review shall be completed within 60 days after the compliance auditor's report is issued. At the conclusion of the review, representatives of SFPUC and BAWSCA meet to discuss any differences noted. Adjustments agreed by both parties are adjusted to the Balancing Account. If differences cannot be resolved, the dispute shall be submitted to the arbitration in accordance with Article VIII, Section 8.01 of the WSA.

SFPUC and the Wholesale Customers have clarified certain procedures relating to the administration of the accounting, debt administration, and capital cost contribution components of Articles V and VI as part of the Settlement Agreements for various fiscal years. For copies of the Settlement Agreements (Article VII, Section 7.06 of the WSA) for the year ended June 30, 2010, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

h) Capital Cost Contribution – New Regional Assets

The wholesale share of Water Enterprise and Hetch Hetchy capital expenditures incurred during the term of the WSA are allocated on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively. These costs include net annual debt service and appropriations for revenue-funded regional capital additions.

Capital expenditures financed by debt are allocated to bond proceeds on a first-in, first-out basis to the extent allowable by law and the terms of the applicable indenture. In accordance with Article V, Section 5.04A of the WSA, the SFPUC issues a certificate on the expected use of bond proceeds within 15 days of issuance (WSA Attachment L-2), and a report on actual expenditures of and earnings on bond proceeds after the proceeds are considered substantially expended (WSA Attachment L-3). The Wholesale Customers' proportionate share of net annual debt service is based on the expected use of bond proceeds on regional projects. Any differences between expected and actual expenditures on regional projects are applied in the year the proceeds are substantially expended. For copies of WSA Attachments L-2 or L-3 previously issued for each indenture, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

The regional share of appropriations for revenue-funded regional asset expenditures are allocated to the Water Enterprise and Hetch Hetchy on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively. Adjustments to reflect actual vs. appropriated expenditures are made in accordance with Article VI, Section 6.08 of the WSA, as amended.

i) Allocation of 525 Golden Gate Avenue Expenses

525 Golden Gate Avenue is the headquarters of the SFPUC as of July 2012. This building consolidated divisions of the SFPUC that were renting space at multiple locations in the Civic Center area, and consists of a new 277,500 square-foot Class A office building that spans 13 floors plus a basement level. In allocating 525 Golden Gate Avenue costs, building tenants occupy 10,709 square feet (3.9% of total building square footage), which reduces the costs allocated to the Wholesale Customers.

Certificates of Participation, 2009 Series C and D, were issued by the City in October 2009 to fund the SFPUC headquarters building at 525 Golden Gate Avenue.

Operating, maintenance, capital expenses, and debt service payments pertaining to 525 Golden Gate Avenue are classified as administrative and general expenses and are allocated to the three enterprises (Water, Hetch Hetchy, and Wastewater) based on square footage occupied by each enterprise based at 525 Golden Gate Avenue.

j) Interest Earnings and Excess Funds Related to Bond Issuance

Interest earnings and excess funds available from funds associated with regional bonds – including Debt Service Reserves and Capital Projects Funds – are allocated between the Wholesale and Retail Customers based on the debt service allocation of the underlying bond series (see Note 4)a)).

All interest earnings on Debt Reserve Funds are accounted for as credits against gross debt service in determining the net debt service amounts. Interest earnings from unexpended bond proceeds in the Capital Projects Funds are typically treated as additional funds available for project expenditures; in some cases they may be allocated as credits against gross debt service.

k) Grants

The Wholesale Customers are allocated a proportional benefit from funds received by the SFPUC from (a) governmental grants, rebates, reimbursements, or other subventions or (b) private-sector grants for regional capital or operating purposes. The Wholesale Customers' allocated benefit is based on any excess of grant revenues over expenses.

Revenues bonds 2010 Series B, 2010 Series E, and 2010 Series G were issued as Build America Bonds, with the federal government subsidizing a portion of the annual interest payments. The subsidy amount changes based on the federal government's budget. Per the Fiscal Year 2015-16 Settlement Agreement, cash receipts in a fiscal year are credited proportionally to the Wholesale Customers based on the underlying debt service allocation of each series.

l) Wholesale Revenue Coverage Reserve and Working Capital Requirements

Under Article VI, Section 6.06 of the WSA, the SFPUC may require periodic deposits by the Wholesale Customers to fund a debt service coverage reserve account (the Wholesale Revenue Coverage Reserve) established and maintained by the SFPUC to meet debt service and minimum working capital requirements. The WSA sets the formula to calculate the debt service coverage and the working capital requirement. The ceiling of the Wholesale Revenue Coverage Reserve is the greater amount between the required debt service coverage and the working capital. Under Article VI, Section 6.06B of the WSA, any balance in the Wholesale Revenue Coverage Reserve in excess of the actual wholesale coverage requirement may be applied as a credit against wholesale rates in the following fiscal year, unless otherwise instructed by BAWSCA.

The Debt Service Coverage is calculated as the lesser of: (i) 35% of the Wholesale Customers' share of net annual debt service for the applicable fiscal year or (ii) the amount necessary to meet the Wholesale Customers' proportionate share of debt service coverage, less any credits for previous deposits and interest accruing to the Wholesale Revenue Coverage Reserve.

The working capital requirement prescribed in Article VI, Section 6.07 of the WSA is one-sixth (two months) of the annual wholesale allocation of operation and maintenance, administrative and general, and property tax expenses for the Water Enterprise and Hetch Hetchy.

Interest on the Wholesale Coverage Reserve is included as an adjustment to the Balancing Account in the subsequent fiscal year based on the Wholesale Coverage Reserve balances, calculated working capital requirement and the City's pooled fund rate from the prior fiscal year. The entire Wholesale Coverage Reserve accrues interest at the City's pooled funds rate. If the average monthly Wholesale Coverage reserve balance is less than the calculated working capital requirement, interest on the Wholesale Coverage Reserve is reduced by calculated interest on the difference between the balance and the calculated working capital requirement. No adjustment is made to interest earnings for a year-end deficiency in the Debt Service Coverage requirement.

2) Balancing Account under the WSA

a) Application of Balancing Account for Water Supply Projects

In June 2023, $75,000 from the Balancing Account was transferred to BAWSCA to support water supply projects, as authorized by WSA Section 6.05.B.2. This amount was deducted during the Fiscal Year and reflected in the Balancing Account as of June 30, 2023.

3) Proportional Annual Use and Adjusted Proportional Annual Use

The Proportional Annual Use and the Adjusted Proportional Annual Use for the Wholesale and Retail Customers since the inception of the WSA in Fiscal Year 2009–10 are summarized below:

Table 3.1. Proportional Annual Use and Adjusted Proportional Annual Use

	Proportional Annual Use		Adjusted Proportional Annual Use	
Fiscal Year	Wholesale	Retail	Wholesale	Retail
2009-10	66.67%	33.33%	66.48%	33.52%
2010-11*	65.86	34.14	65.70	34.30
2011-12*	65.83	34.17	65.72	34.28
2012-13	66.56	33.44	66.43	33.57
2013-14	67.63	35.37	67.52	32.48
2014-15	65.67	34.33	65.56	34.44
2015-16	63.28	36.72	63.15	36.85
2016-17	64.27	35.73	64.12	35.88
2017-18*	66.04	33.96	65.91	34.09
2018-19*	65.68	34.32	65.52	34.48
2019-20*	66.99	33.01	66.90	33.10
2020-21*	69.94	30.06	69.76	30.24
2021-22	68.70	31.30	68.51	31.49
2022-23	66.23	33.77	66.05	33.95

*adjusted for imputed water sales

4) Capital Cost Contribution – New Regional Assets

a) Debt-Funded Capital Projects

The Water Enterprise has previously issued revenue bonds to fund the construction of new regional capital assets. As of June 30, 2023, outstanding debt related to the construction of new regional capital assets included 11 different Water Revenue Bond Series, as well as 10 different Water Revenue Bond Series refunding all or a portion of other bonds. When a bond refunds more than one underlying bond series, the debt service is split out and allocated to the Wholesale Customers proportionally based on the allocation of the underlying bond. The following tables summarize the net debt service expenditures on outstanding debt related to the construction of new regional assets that was determined to be allocable to the Retail and Wholesale Customers.

Net Annual Debt Service is reduced by payments made from proceeds of indebtedness, earnings on bond proceeds used to pay debt service, and debt-related governmental grants. In the year ended June 30, 2023, this included Build America Bond Subsidy (BABS) revenues on the 2010 Series B, 2010 Series E, and 2010 Series G taxable bonds and interest earnings on funds held by the trustee and applied to reduce debt service payments.

Table 4.1. Adjustments to Debt Service Interest

	Interest and Other Cash on Hand	Build America Bond Subsidy	Total Adjustments to Interest
Water Enterprise Bonds			
2010 Series B	$ (60,552)	$ (6,709,545)	$ (6,770,097)
2010 Series E	(58,741)	(6,518,073)	(6,576,814)
2010 Series G	(71,594)	(8,062,186)	(8,133,780)
2015 Series A/2006 Series A Refunding	(10,337)	—	(10,337)
2015 Series A/2009 Series A Refunding	(597)	—	(597)
2016 Series A/2009 Series A Refunding	(7,697)	—	(7,697)
2016 Series A/2009 Series B Refunding	(8,166)	—	(8,166)
2016 Series A/2010 Series F Refunding	(5,749)	—	(5,749)
2016 Series C	(4,490)	—	(4,490)
2017 Series A	(1,307)	—	(1,307)
2017 Series B	(2)	—	(2)
2017 Series D/2011 Series A Refunding	(2,958)	—	(2,958)
2017 Series D/2012 Series A Refunding	(1,442)	—	(1,442)
2017 Series G/2011 Series A Refunding	(5,879)	—	(5,879)
2019 Series A/2011 Series A Refunding	(3,224)	—	(3,224)
2019 Series A/2012 Series A Refunding	(2,529)	—	(2,529)
2020 Series A	(1,594)	—	(1,594)
2020 Series B	(683)	—	(683)
2020 Series E/2012 Series A Refunding	(1,552)	—	(1,552)
2020 Series E/2017 Series A Refunding	(749)	—	(749)
2020 Series F/2017 Series B Refunding	(786)	—	(786)
Subtotal Water Enterprise Bonds	$ (250,628)	$ (21,289,804)	$ (21,540,432)
Hetch Hetchy Water Bonds			
2017 Series C	(1)	—	(1)
2017 Series F/2011 Series B Refunding	(400)	—	(400)
2019 Series B/2011 Series B Refunding	—	—	—
2020 Series D	(2,459)	—	(2,459)
2020 Series H/2017 Series C Refunding	(2)	—	(2)
Subtotal Hetch Hetchy Water Bonds	$ (2,862)	$ —	$ (2,862)
Total Adjustments to Interest	**$ (253,490)**	**$ (21,289,804)**	**$ (21,543,294)**

The Water Enterprise and Hetch Hetchy Water paid $298,230,225 in gross debt service on the bonds listed in the table below during the year ended June 30, 2023. The gross debt service is decreased to $276,686,931 as of June 30, 2023 when of the adjustments to interest shown in Table 4.1 of $21,543,294 are applied against the gross debt service payments.

Table 4.2. Debt Service Expenditures – New Regional Assets

	Principal	Net Interest	Total
Water Enterprise Bonds			
2010 Series B	$ 12,780,000	$ 13,558,778	$ 26,338,778
2010 Series E	12,745,000	13,171,931	25,916,931
2010 Series G	—	16,293,385	16,293,385
2015 Series A/2006 Series A Refunding	16,045,000	15,853,757	31,898,757
2015 Series A/2009 Series A Refunding	—	1,843,653	1,843,653
2016 Series A/2009 Series A Refunding	11,030,000	12,313,053	23,343,053
2016 Series A/2009 Series B Refunding	10,745,000	14,019,959	24,764,959
2016 Series A/2010 Series F Refunding	11,015,000	6,421,126	17,436,126
2016 Series C	5,955,000	8,609,649	14,564,649
2017 Series A	2,325,000	1,290,568	3,615,568
2017 Series B	2,835,000	1,575,623	4,410,623
2017 Series D/2011 Series A Refunding	1,455,000	11,080,967	12,535,967
2017 Series D/2012 Series A Refunding	—	6,113,308	6,113,308
2017 Series G/2011 Series A Refunding	13,070,000	700,551	13,770,551
2019 Series A/2011 Series A Refunding	2,200,000	10,587,431	12,787,431
2019 Series A/2012 Series A Refunding	1,295,000	8,734,551	10,029,551
2020 Series A	—	7,293,156	7,293,156
2020 Series B	—	3,065,817	3,065,817
2020 Series E/2012 Series A Refunding	455,000	6,303,495	6,758,495
2020 Series E/2017 Series A Refunding	45,000	3,215,721	3,260,721
2020 Series F/2017 Series B Refunding	—	3,596,810	3,596,810
Subtotal Water Enterprise Bonds	$ 103,995,000	$ 165,643,289	$ 269,638,289
Hetch Hetchy Water Bonds			
2017 Series C	1,355,000	753,624	2,108,624
2017 Series F/2011 Series B Refunding	700,000	417,350	1,117,350
2019 Series B/2011 Series B Refunding	70,000	557,825	627,825
2020 Series D	—	1,473,541	1,473,541
2020 Series H/2017 Series C Refunding	—	1,721,302	1,721,302
Subtotal Hetch Hetchy Water Bonds	$ 2,125,000	$ 4,923,642	$ 7,048,642
Total Debt Service Expenditures	**$ 106,120,000**	**$ 170,566,931**	**$ 276,686,931**

The following tables show the allocation of each bond series to retail and regional projects, as well as the fiscal year during which each bond reached substantially expended. Bond 2020 Series A reached substantially expended during the year ended June 30, 2023.

Table 4.3. Wholesale Customers Debt Service Allocation (%)

	Excluded Costs	Retail Projects	Regional Projects	Total	Substantially Expended Fiscal Year
Water Enterprise Bonds					
2010 Series B	0.02	7.13	92.85	100.00	FY 11-12, adj. FY 15-16 7.06
2010 Series E	–	3.14	96.86	100.00	FY 15-16, adj. FY 21-22
2010 Series G	–	–	100.00	100.00	FY 14-15
2015 Series A/2006 Series A Refunding	33.71	13.10	53.19	100.00	FY 07-08, adj. FY 09-10 7.06
2015 Series A/2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10, adj. FY 09-10 7.06
2016 Series A/2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10, adj. FY 09-10 7.06
2016 Series A/2009 Series B Refunding	0.85	10.31	88.84	100.00	FY 10-11, adj. FY 21-22
2016 Series A/2010 Series F Refunding	–	–	100.00	100.00	FY 14-15
2016 Series C	–	0.98	99.02	100.00	FY 20-21
2017 Series A	–	0.54	99.46	100.00	FY 18-19
2017 Series B*	–	70.40	29.60	100.00	
2017 Series D/2011 Series A Refunding	–	6.47	93.53	100.00	FY 14-15
2017 Series D/2012 Series A Refunding	–	8.83	91.17	100.00	FY 18-19
2017 Series G/2011 Series A Refunding	–	6.47	93.53	100.00	FY 14-15
2019 Series A/2011 Series A Refunding	–	6.47	93.53	100.00	FY 14-15
2019 Series A/2012 Series A Refunding	–	8.83	91.17	100.00	FY 18-19
2020 Series A	–	7.45	92.55	100.00	FY 22-23
2020 Series B*	–	–	100.00	100.00	
2020 Series E/2012 Series A Refunding	–	8.83	91.17	100.00	FY 18-19
2020 Series E/2017 Series A Refunding	–	0.54	99.46	100.00	FY 18-19
2020 Series F/2017 Series B Refunding*	–	70.40	29.60	100.00	
Hetch Hetchy Water Bonds					
2017 Series C	–	–	100.00	100.00	FY 18-19
2017 Series F/2011 Series B Refunding	–	0.53	99.47	100.00	FY 18-19
2019 Series B/2011 Series B Refunding	–	0.53	99.47	100.00	FY 18-19
2020 Series D	–	–	100.00	100.00	FY 21-22
2020 Series H/2017 Series C Refunding	–	–	100.00	100.00	FY 18-19

* Expected allocation to be trued up when bond reaches Substantially Expended status (note 4b)

The table below shows the allocation of the net debt service in Table 4.2 using the percentages from Table 4.3. The regional share of all bonds except for 2011 Series B, 2017 Series C, and 2020 Series D is allocated based on Proportional Annual Use, which was 66.23%. Because 2011 Series B, 2017 Series C, and 2020 Series D fund Hetch Hetchy water-related capital project expenditures, the Wholesale share of the debt on these series for the year ended June 30, 2023 was allocated using the Adjusted Proportional Annual Use percentage of 66.05%

In total, $155,478,492 in net debt service is allocated to the Wholesale Customers.

Table 4.4. Wholesale Customers Debt Service Allocation ($)

	Excluded Costs	Retail Projects	Regional Projects	Total	Proportional Annual Use	Total Wholesale Debt Service
Water Enterprise Bonds						
2010 Series B	$ 5,268	$ 1,877,955	$ 24,455,555	$ 26,338,778	66.23%	$ 16,196,914
2010 Series E	–	813,792	25,103,139	25,916,931	66.23%	16,625,809
2010 Series G	–	–	16,293,385	16,293,385	66.23%	10,791,109
2015 Series A/ 2006 Series A Refunding	10,753,071	4,178,737	16,966,949	31,898,757	66.23%	11,237,210
2015 Series A/ 2009 Series A Refunding	583,516	192,293	1,067,844	1,843,653	66.23%	707,233
2016 Series A/ 2009 Series A Refunding	7,388,076	2,434,681	13,520,296	23,343,053	66.23%	8,954,492
2016 Series A/ 2009 Series B Refunding	210,502	2,553,267	22,001,190	24,764,959	66.23%	14,571,388
2016 Series A/ 2010 Series F Refunding	–	–	17,436,126	17,436,126	66.23%	11,547,946
2016 Series C	–	142,734	14,421,915	14,564,649	66.23%	9,551,634
2017 Series A	–	19,524	3,596,044	3,615,568	66.23%	2,381,660
2017 Series B	–	3,105,079	1,305,544	4,410,623	66.23%	864,662
2017 Series D/ 2011 Series A Refunding	–	811,077	11,724,890	12,535,967	66.23%	7,765,395
2017 Series D/ 2012 Series A Refunding	–	539,805	5,573,503	6,113,308	66.23%	3,691,331
2017 Series G/ 2011 Series A Refunding	–	890,955	12,879,596	13,770,551	66.23%	8,530,156
2019 Series A/ 2011 Series A Refunding	–	827,347	11,960,084	12,787,431	66.23%	7,921,164
2019 Series A/ 2012 Series A Refunding	–	885,609	9,143,942	10,029,551	66.23%	6,056,033
2020 Series A	–	543,340	6,749,816	7,293,156	66.23%	4,470,403
2020 Series B	–	–	3,065,817	3,065,817	66.23%	2,030,491
2020 Series E/ 2012 Series A Refunding	–	596,775	6,161,720	6,758,495	66.23%	4,080,907
2020 Series E/ 2017 Series A Refunding	–	17,608	3,243,113	3,260,721	66.23%	2,147,914
2020 Series F/ 2017 Series B Refunding	–	2,532,154	1,064,656	3,596,810	66.23%	705,122
Subtotal Water Enterprise Bonds	$ 18,940,433	$ 22,962,732	$ 227,735,124	$ 269,638,289		$ 150,828,973
Hetch Hetchy Water Bonds						
2017 Series C	–	–	2,108,624	2,108,624	66.05%	1,392,746
2017 Series F/ 2011 Series B Refunding	–	5,922	1,111,428	1,117,350	66.05%	734,098
2019 Series B/ 2011 Series B Refunding	–	3,327	624,498	627,825	66.05%	412,481
2020 Series D	–	–	1,473,541	1,473,541	66.05%	973,274
2020 Series H/ 2017 Series C Refunding	–	–	1,721,302	1,721,302	66.05%	1,136,920
Subtotal Hetch Hetchy Water Bonds	$ –	$ 9,249	$ 7,039,393	$ 7,048,642		$ 4,649,519
Total Debt Service Allocation	**$ 18,940,433**	**$ 22,971,981**	**$ 234,774,517**	**$ 276,686,931**		**$ 155,478,492**

b) True-Up of Substantially Expended Bonds

Article V, Section 5.04 of the WSA requires the revised allocation factor be used in the year when a bond series becomes substantially expended and thereafter. The difference between the amount of net debt service paid by the Wholesale Customers prior to the year that the bond series became substantially expended and the amount of the net debt service that they should have paid will be included in the calculation of the Balancing Account in the year the bond series becomes substantially expended. Table 4.3 shows the Fiscal Year during which each bond reached substantially expended.

As of June 30, 2023, 2020 Series A reached substantially expended status. A true-up of ($532) is included in the Wholesale Revenue Requirement for the year ended June 30, 2023 to account for the change from the estimated allocation of 97.96% regional water to the final allocation of 92.55% regional projects.

c) Revenue-Funded Capital Projects – Water Enterprise

The following is a summary of the wholesale share of appropriations for regional revenue-funded capital projects under the Water Enterprise for the year ended June 30, 2023.

Table 4.5. Revenue-Funded Capital Projects – Water Enterprise

Project Description	Appropriations	Allocation %	Wholesale Share
Buildings & Grounds	$ 4,824,092	66.23%	$ 3,194,996
Communications & Monitoring	2,969,645	66.23%	1,966,796
Water Supply & Storage	50,000	66.23%	33,115
Water Transmission	14,182,044	66.23%	9,392,768
Water Treatment	9,566,070	66.23%	6,335,608
Watershed & Land Management	(6,591,851)	66.23%	(4,365,783)
Total Revenue-Funded Capital Appropriation	**$ 25,000,000**		**$ 16,557,500**

d) Revenue-Funded Capital Projects – Hetch Hetchy Share

There were no appropriations for Hetch Hetchy Water revenue-funded capital projects for the year ended June 30, 2023.

e) Excess Accumulation of Unexpended and Unencumbered Appropriation

Collections for revenue-funded regional capital assets are based on appropriation rather than actual expenditures. To prevent excess accumulation of unexpended and unencumbered appropriation, WSA Section 6.08 requires a review and adjustment of the Wholesale Revenue-Funded Capital Fund balance.

As of June 30, 2023, the Wholesale Revenue-Funded Capital Fund balance is $6,131,293 more than the target amount based on cumulative annual appropriations and expenditures. This excess balance is transferred to the Balancing Account. Activity in the Wholesale Revenue Funded Capital Fund is shown in the tables below.

Table 4.6. Annual Activity in Wholesale Capital Fund

Beginning Wholesale Capital Fund Balance	$ 48,391,515
Annual Appropriation	16,557,500
Annual Expenditures	(17,224,027)
Interest Earnings	1,018,835
Subtotal Balance Before Transfers	48,743,823
Amount Encumbered as of June 30, 2023	(11,934,552)
Unencumbered Balance Before Transfers	**$ 36,809,271**

Table 4.7. True-Up of Balance in Wholesale Capital Fund

Lesser of		
Target Balance, or	30,677,978	
Cumulative Unspent Wholesale Capital Fund	59,578,800	
Target Balance		30,677,978
(Less) Unencumbered Balance Before Transfer		(36,809,271)
Deficiency/(Excess) in Reserve		(6,131,293)
Lesser of		
$4,000,000 or	4,000,000	
Calculated Reserve Deficiency	(6,131,293)	
Wholesale Capital Fund, Before Adjustments		48,743,823
Transfer From/(To) Balancing Account		(6,131,293)
Ending Total Balance		**$ 42,612,530**

5) Wholesale Revenue Billings

During the year ended June 30, 2023, the SFPUC billed a total of $273,153,247 (net of amounts remitted to BAWSCA) in wholesale revenue for costs of service associated with deliveries from the regional water system. As applicable, a portion of these billings relate to deposits by the Wholesale Customers to meet their Wholesale Revenue Coverage Reserve and Working Capital Reserve requirements per Article VI, Section 6.06 and Section 6.07 of the WSA, respectively. For the year ended June 30, 2023, the balance in the Wholesale Revenue Coverage Reserve was lower than required, and so $14,151,740 was transferred to the Wholesale Revenue Coverage Reserve and Working Capital Reserve from the Balancing Account, decreasing total revenues for the Fiscal Year. The net amount billed after transfer from the Coverage Reserve, and which is applied to the revenue requirement, is $259,001,507.

Gross and net wholesale revenue billings are summarized below:

Table 5.1. Wholesale Revenue Billings

Gross wholesale amounts billed – net of adjustments	$ 273,153,247
Transfer to wholesale revenue coverage reserve	(14,151,740)
Net wholesale revenues billed	**$ 259,001,507**

6) Wholesale Revenue Coverage Reserve

a) Activity in the Wholesale Revenue Coverage Reserve During the Year ended June 30, 2023

During the year ended June 30, 2023, $14,151,740 was transferred to the Wholesale Revenue Coverage Reserve in accordance with Article VI, Section 6.06 of the WSA. As of June 30, 2023, the Wholesale Revenue Coverage Reserve balance was $53,992,777, representing total deposits since July 1, 2009.

Table 6.1. Wholesale Revenue Coverage Reserve

Wholesale Revenue Coverage Reserve Balance, June 30, 2022	$ 39,841,037
Deposits to wholesale revenue coverage reserve	14,151,740
Wholesale Coverage Reserve Balance, June 30, 2023	**$ 53,992,777**

b) Net Interest on Wholesale Coverage Reserve

As of July 1, 2022, the Wholesale Revenue Coverage Reserve amount exceeded the Working Capital Requirement of 60 days of the wholesale share of Operations and Maintenance, Administrative and General, and Property Taxes, as shown in the below table. Net interest of $232,781, calculated as the annual interest on the Wholesale Revenue Coverage Reserve less any Working Capital Requirement not met, is credited to the Balancing Account in favor of the Wholesale Customers during the year ended June 30, 2023, in accordance with Article VI, Section 6.06 of the WSA.

Table 6.2. Net Interest on Wholesale Coverage Reserve, Year Ended June 30, 2022

	Debt service coverage requirement	Working capital coverage requirement	Net interest
Calculation of adequacy of reserve requirement:			
Wholesale revenue coverage reserve balance, July 1, 2022	$ 39,841,037	39,841,037	
Coverage reserve requirement, July 1, 2022	(40,424,111)	(21,230,153)	
Coverage reserve excess/(deficiency)	$ (583,074)	18,610,884	
Net interest due (to) from Wholesale Customers			**$ (232,781)**

7) 2013 Rim Fire

In August 2013, the SFPUC's Hetch Hetchy Water and Power was challenged by the third largest fire in California history, the Rim Fire, in Stanislaus National Forest and Yosemite National Park, which burned over 250,000 acres. Through the U.S. Department of Homeland Security Federal Emergency Management Agency and the State of California Office of Emergency Services, federal and state awards are available on a cost-sharing basis to the City to help offset the costs of emergency work and the repair or replacement of facilities damaged by the Rim Fire. Additionally, many of the SFPUC assets affected by the Rim Fire were insured.

Cumulative total expenses through June 30, 2023 related to facilities and infrastructure damage and costs related to emergency response, net of reimbursements to-date from insurance and federal and state awards, total approximately $7.1 million. The WRRs for the years ended June 30, 2014 through June 30, 2023 did not include complete allocation of the Rim Fire related costs because insurance reimbursements, government grants, and expenditures have not been finalized. SFPUC will finalize the allocation of Rim Fire related costs to Wholesale Customers once final expense amounts and related cost reimbursements are known. That allocation will include a proportional allocation of all reimbursements, and account for debt service already paid by the Wholesale Customers on any projects funded by bond series. An estimate of $1.7 million may be due from the Wholesale Customers.

8) Implementation of WSA Asset Classification Amendment

Timing for implementation of the SFPUC adopted December 11, 2018 WSA amendments directly affecting the calculation of the Wholesale Revenue Requirement is still to be discussed and agreed upon. The SFPUC will share a plan for implementation of these amendments with Wholesale Customers before proceeding with implementation. While the other amendments which impact the WRR have been implemented, a true-up of expenditures relating to Hetch Hetchy Water asset classification remains outstanding as of Fiscal Year 2022-23.

WSA section 5.11 and definitions, section 5.12, and Attachment R clarify the classification of Hetch Hetchy Water assets. For the assets shown in the table below, the classification of operating expenses will remain as shown in the "Asset Classification" column, but specific capital project expenses will be reclassified prospectively and retroactively to specified dates in the WSA. The methodology for implementing these changes, especially the required retroactive adjustment, will be discussed between the SFPUC and Wholesale Customers. Adjustments to the Balancing Account to reflect the revised capital classification will be incorporated as expediently as possible; the amount of adjustments is not known at this time.

Table 8.1. Capital Project Expenses Classification

Asset	Asset Classification	Project Classification
Lower Cherry Aqueduct	Joint	Water
Mountain Tunnel Interim Work	Joint	Water
Mountain Tunnel Long Term Repairs	Joint	Water
Mountain Tunnel Flow Control Facility	Joint	Joint
Kirkwood Penstock	Power	Joint
Moccasin Penstock	Power	Joint
Moccasin Lower Dam	Water	Joint

9) Wholesale Customer Review of Fiscal Years 2020-21 and 2021-22 Wholesale Revenue Requirements

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual changes in the Balancing Account.

The Wholesale Customer review of the Fiscal Year 2020-21 and Fiscal Year 2021-22 calculations are ongoing. All prior fiscal years have been resolved via settlement agreements described in prior Statements to the Changes in the Balancing Account, with the exception of the asset classification amendment reallocation described in Note (8).

As part of the annual review of the Fiscal Year 2022-23 calculation of the annual changes in the Balancing Account, SFPUC identified a potential adjustment related to the allocation of commercial paper expenses paid from bond funds between Wholesale Customers and retail customers. The methodology in use was adopted in a settlement agreement, which included all of Hetch Hetchy's joint project costs instead of the water-related portion only.

The SFPUC plans to revisit the methodology with BAWSCA to verify proper interpretation of the settlement agreement with respect to the allocation of commercial paper expenses paid from bond funds. The amount of potential impact has not been determined. Any agreed-upon adjustments may be incorporated into the beginning balance of the Balancing Account through the Wholesale Customer review process.