Generating clean energy
for vital services.

Hetch Hetchy Water and Power and CleanPowerSF

Financial Statements June 30, 2019 and 2018
(With Independent Auditors' Report Thereon)

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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KPMG LLP
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Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hetch Hetchy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of each fund of Hetch Hetchy as of June 30, 2019 and 2018 and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in Note 1, the financial statements of the Hetch Hetchy are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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 December 23, 2019 on our consideration of the Hetch Hetchy'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 Hetch Hetchy'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 Hetch Hetchy's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
December 23, 2019

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal year ended June 30, 2019 and 2018. 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.

In May 2016, San Francisco Public Utilities Commission (SFPUC or the Commission) launched CleanPowerSF, a Community Choice Aggregation (CCA) program into operation, pooling the electricity demands of their residents and businesses for the purpose of buying electricity on behalf of those customers. CleanPowerSF provides San Francisco with new clean energy alternatives, with its objectives to reduce greenhouse gas emissions, and to provide the City and County of San Francisco's (the City) energy consumers with renewable electricity supplies at competitive rates. The SFPUC intends CleanPowerSF to be financially independent, with ability to set rates and charges with adequate revenues, and to issue debt to support its operations and future projects. CleanPowerSF is discretely presented as a fund of the Enterprise starting fiscal year 2017.

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

SFPUC is a department of the City that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Enterprise was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. The Enterprise operates the Hetch Hetchy project, which provides both electricity generation and upcountry water service; and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity.

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park, and the City may supplement water supply from an additional 191 square miles of watershed in the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in Hetch Hetchy's storage reservoirs. As water flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.4 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area. Approximately 74% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, San Francisco General Hospital, City streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 26% of electricity generated is sold to CleanPowerSF and other publicly owned utilities.

Hetch Hetchy

Hetch Hetchy provides reliable, high quality water and electric energy to the City and other customers, protects watershed resources in cooperation with Federal agencies, operates and maintains facilities to a high standard of safety and reliability, and maximizes revenue opportunities within approved levels of risk.

Hetch Hetchy, a stand-alone enterprise is comprised of three funds: 1) Hetch Hetchy Water (Hetchy Water) upcountry operations and water system; 2) Hetch Hetchy Power (Hetchy Power), also referred to as the Power Enterprise, which is wholly contained within the Hetch Hetchy fund; and 3) CleanPowerSF, which is an enterprise fund to aggregate the buying power of customers within San Francisco to purchase renewable energy sources or clean power, is reported as a separate fund of Hetch Hetchy. A number of the facilities are joint assets and used for both water and power generation.

Hetchy Water

For efficiency and to streamline the coordination of upcountry water and power operations, Hetchy Water operates upcountry and joint-asset facilities, managing resources in an environmentally responsible manner to a high standard of safety and reliability while meeting regulatory requirements. It is responsible for operating the Hetch Hetchy Reservoir, the main source of water for the Hetch Hetchy system. Hetchy Water operates, maintains, and improves water and power facilities, smaller dams and reservoirs, water transmission systems, power generation facilities, and power transmission assets, including transmission lines to the Newark substation. Hetchy Water delivers high quality water from upcountry downhill to the Bay Area while optimizing the resulting generation of clean hydropower as water is transported through the system. It maintains land and properties consistent with public health and neighborhood concerns.

Hetchy Power

The core business of Hetchy Power, as a municipal department, is to provide adequate and reliable supplies of electric power to meet the electricity needs of City and County of San Francisco's customers, and to offer, when available, power for the municipal loads and agricultural pumping demands of the Modesto Irrigation District (MID) consistent with prescribed contractual obligations and federal law.

Hetchy Power's portfolio consists of hydroelectric generation, onsite solar at SFPUC and other City facilities, generation using bio-methane produced at SFPUC wastewater treatment facilities, and third-party purchases. Consistent with its commitment to the development of cleaner and greener power, and to address environmental concerns and community objectives, Hetchy Power continues to evaluate and expand its existing resource base to include additional renewables, distributed generation, demand management, and energy efficiency programs. As part of its mission and core functions, Hetchy Power provides reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns.

Hetch Hetchy Joint Water and Power

A portion of Hetch Hetchy's operating budget, capital program, and assets, provides benefit to both Hetchy Power and Hetchy Water. This is commonly referred to as joint costs and joint assets. Both operating and capital costs that jointly benefit both funds are allocated 55% to Hetchy Power and 45% to Hetchy Water, as has historically been done by the SFPUC.

CleanPowerSF

The core business of CleanPowerSF is to provide greener electricity generation to residential and commercial consumers in San Francisco. Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including affordable and competitive electricity generation rates, a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and high-quality customer service.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

Statements of Net Position present information on Hetch Hetchy'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 Hetch Hetchy is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations as of year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of Hetch Hetchy'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 Hetch Hetchy 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, non-capital, 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 presented on the face of the financial statements.

Financial Analysis

Financial Highlights for Fiscal Year 2019

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $681,233, excluding interfund payable and receivable of $3,731 related to working capital loan between Hetchy Power and CleanPowerSF.

- Net position increased by $79,613 or 13.1% during the fiscal year.

- Capital assets, net of accumulated depreciation and amortization, increased by $71,209 or 14.9% to $550,631.

- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $153,423 or 79.9% to $345,386.

- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $112,662 or 57% to $310,277.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $198,686.
- Net position increased by $9,383 or 4.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $9,304 or 6.7% to $149,103.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $445 or 1.3% to $34,005.
- Operating expenses, excluding other non-operating expenses, increased by $10,513 or 26.4% to $50,305.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $442,675.
- Net position increased by $39,089 or 9.6% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $61,905 or 18.2% to $401,528.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $24,726 or 20.8% to $143,561.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $3,293 or 2.8% to $122,688.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by $39,872.
- Net position increased by $31,141 or 351.5% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2019.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $128,252 or 324.1% to $167,820.
- Operating expenses, excluding interest expense increased by $98,856 or 257.2% to $137,284.

(Continued)

Financial Highlights for Fiscal Year 2018

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $592,516, excluding interfund payable and receivable of $5,601 related to working capital loan between Hetchy Power and CleanPowerSF.
- Net position increased by $29,016 or 5.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $34,701 or 7.8% to $479,422.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $1,984 or 1.0% to $191,963.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $3,485 or 1.8% to $197,615.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $185,276.
- Net position increased by $23,434 or 13.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $12,068 or 9.4% to $139,799.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $1,590 or 4.5% to $33,560.
- Operating expenses, excluding other non-operating expenses, decreased by $10,307 or 20.6% to $39,792.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $398,663.
- Net position increased by $4,940 or 1.2% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $22,633 or 7.1% to $339,623.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $2,127 or 1.8% to $118,835.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $2,460 or 2.1% to $119,395.

(Continued)

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by $8,577.
- Net position increased by $642 or 7.8% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2018.
- Operating revenues, excluding interest and investment income and other non-operating revenues increased by $5,701 or 16.8% to $39,568.
- Operating expenses, excluding interest expense increased by $11,332 or 41.8% to $38,428, of which $3,501 was electricity purchased from Hetchy Power.

(Dollars in thousands, unless otherwise stated)

Financial Position

The following tables summarize Hetch Hetchy's changes in net position.

Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2019, 2018, and 2017

	2019 *	2018 *	2017 *	2019-2018 Change	2018-2017 Change
Total assets:					
Current and other assets	$ 392,967	350,263	336,106	42,704	14,157
Capital assets, net of accumulated depreciation and amortization	550,631	479,422	444,721	71,209	34,701
Total assets	943,598	829,685	780,827	113,913	48,858
Deferred outflows of resources:					
Pensions	14,665	16,963	28,132	(2,298)	(11,169)
Other post-employment benefits	3,092	1,974	—	1,118	1,974
Total deferred outflows of resources	17,757	18,937	28,132	(1,180)	(9,195)
Liabilities:					
Current liabilities:					
Bonds	2,528	2,480	2,437	48	43
Certificates of participation	366	348	331	18	17
Commercial paper	50,724	20,280	20,058	30,444	222
Other liabilities	52,128	44,165	28,042	7,963	16,123
Subtotal current liabilities	105,746	67,273	50,868	38,473	16,405
Long-term liabilities:					
Bonds	50,018	52,761	55,463	(2,743)	(2,702)
Certificates of participation	13,846	14,233	14,607	(387)	(374)
Other liabilities	92,755	102,902	106,788	(10,147)	(3,886)
Subtotal long-term liabilities	156,619	169,896	176,858	(13,277)	(6,962)
Total liabilities:					
Bonds	52,546	55,241	57,900	(2,695)	(2,659)
Certificates of participation	14,212	14,581	14,938	(369)	(357)
Commercial paper	50,724	20,280	20,058	30,444	222
Other liabilities	144,883	147,067	134,830	(2,184)	12,237
Total liabilities	262,365	237,169	227,726	25,196	9,443
Deferred inflows of resources:					
Related to pensions	8,811	4,119	2,973	4,692	1,146
Other post-employment benefits	3,290	58	—	3,232	58
Total deferred inflows of resources	12,101	4,177	2,973	7,924	1,204
Net position:					
Net investment in capital assets	450,637	410,717	388,412	39,920	22,305
Restricted for debt service	1,145	834	485	311	349
Restricted for capital projects	8,401	11,712	—	(3,311)	11,712
Unrestricted	226,706	184,013	189,363	42,693	(5,350)
Total net position	$ 686,889	607,276	578,260	79,613	29,016

*Eliminated interfund payable and receivable of $3,731, $5,601 and $7,250 working capital loan between Hetchy Power and CleanPowerSF in fiscal years 2019, 2018 and 2017, respectively.

(Dollars in thousands, unless otherwise stated)

Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Total assets:					
Current and other assets	$ 94,432	97,578	80,350	(3,146)	17,228
Capital assets, net of accumulated depreciation and amortization	149,103	139,799	127,731	9,304	12,068
Total assets	243,535	237,377	208,081	6,158	29,296
Deferred outflows of resources:					
Pensions	6,447	7,488	12,659	(1,041)	(5,171)
Other post-employment benefits	1,343	870	—	473	870
Total deferred outflows of resources	7,790	8,358	12,659	(568)	(4,301)
Liabilities:					
Current liabilities	6,726	8,978	6,293	(2,252)	2,685
Long-term liabilities	38,123	43,123	44,753	(5,000)	(1,630)
Total liabilities	44,849	52,101	51,046	(7,252)	1,055
Deferred inflows of resources:					
Related to pensions	3,874	1,818	1,338	2,056	480
Other post-employment benefits	1,429	26	—	1,403	26
Total deferred inflows of resources	5,303	1,844	1,338	3,459	506
Net position:					
Net investment in capital assets	149,103	139,799	127,731	9,304	12,068
Restricted for capital projects	8,401	11,712	—	(3,311)	11,712
Unrestricted	43,669	40,279	40,625	3,390	(346)
Total net position	$ 201,173	191,790	168,356	9,383	23,434

(Continued)

(Dollars in thousands, unless otherwise stated)

Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Total assets:					
Current and other assets	$ 239,222 *	238,023 *	243,406 *	1,199	(5,383)
Capital assets, net of accumulated depreciation and amortization	401,528	339,623	316,990	61,905	22,633
Total assets	640,750	577,646	560,396	63,104	17,250
Deferred outflows of resources:					
Pensions	7,879	9,152	15,473	(1,273)	(6,321)
Other post-employment benefits	1,641	1,064	—	577	1,064
Total deferred outflows of resources	9,520	10,216	15,473	(696)	(5,257)
Liabilities:					
Current liabilities:					
Bonds	2,528	2,480	2,437	48	43
Certificates of participation	366	348	331	18	17
Commercial paper	50,724	20,280	20,058	30,444	222
Other liabilities	28,346	30,935	17,717	(2,589)	13,218
Subtotal current liabilities	81,964	54,043	40,543	27,921	13,500
Long-term liabilities:					
Bonds	50,018	52,761	55,463	(2,743)	(2,702)
Certificates of participation	13,846	14,233	14,607	(387)	(374)
Other liabilities	52,247	57,946	61,935	(5,699)	(3,989)
Subtotal long-term liabilities	116,111	124,940	132,005	(8,829)	(7,065)
Total liabilities:					
Bonds	52,546	55,241	57,900	(2,695)	(2,659)
Certificates of participation	14,212	14,581	14,938	(369)	(357)
Commercial paper	50,724	20,280	20,058	30,444	222
Other liabilities	80,593	88,881	79,652	(8,288)	9,229
Total liabilities	198,075	178,983	172,548	19,092	6,435
Deferred inflows of resources:					
Related to pensions	4,734	2,222	1,635	2,512	587
Other post-employment benefits	1,746	31	—	1,715	31
Total deferred inflows of resources	6,480	2,253	1,635	4,227	618
Net position:					
Net investment in capital assets	301,534	270,918	260,681	30,616	10,237
Restricted for debt service	1,145	834	485	311	349
Unrestricted	143,036	134,874	140,520	8,162	(5,646)
Total net position	$ 445,715	406,626	401,686	39,089	4,940

* Included $3,731, $5,601 and $7,250 working capital loan to CleanPowerSF in fiscal years 2019, 2018 and 2017, respectively.

(Dollars in thousands, unless otherwise stated)

Table 1D - CleanPowerSF
Comparative Condensed Net Position
June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Total assets:					
Current and other assets	$ 63,044	20,263	19,600	42,781	663
Total assets	63,044	20,263	19,600	42,781	663
Deferred outflows of resources:					
Pensions	339	323	–	16	323
Other post-employment benefits	108	40	–	68	40
Total deferred outflows of resources	447	363	–	84	363
Liabilities:					
Current liabilities	17,056	4,252	6,032	12,804	(1,780)
Long-term liabilities	6,116 *	7,434 *	5,350 *	(1,318)	2,084
Total liabilities	23,172	11,686	11,382	11,486	304
Deferred inflows of resources:					
Related to pensions	203	79	–	124	79
Other post-employment benefits	115	1	–	114	1
Total deferred inflows of resources	318	80	–	238	80
Net position:					
Unrestricted	40,001	8,860	8,218	31,141	642
Total net position	$ 40,001	8,860	8,218	31,141	642

*Included $3,731, $5,601 and $7,250 working capital loan from Hetchy Power in fiscal years 2019, 2018 and 2017, respectively.

Net Position, Fiscal Year 2019

Hetch Hetchy

Hetch Hetchy's net position of $686,889 increased by $79,613 or 13.1% during the year (see Table 1A). Current and other assets were $392,967, a $42,704 or 12.2% increase from prior year with elimination of a $3,731 working capital loan from Hetchy Power to CleanPowerSF. The increases were attributed to $28,000 in charges for services receivables mainly due to completion of citywide full enrollment from CleanPowerSF, $7,383 in cash and investment mainly from increased CleanPowerSF electricity sales, $3,252 in grants receivables from State and Federal for the Lower Cherry Aqueduct Project, 2018 Moccasin Storm Project and Early Intake Switchyard Project, $2,614 in prepaid charges, advances, and other receivables, of which $2,209 billing credits from Western Area Power Administration, $373 in receivable of refund from purchased electricity, $278 in receivables for Distributed Antenna System (DAS), $18 in payroll credit, $5 in custom work receivables for the Sunnydale Housing Projects, and $2 in rental receivables, offset by decreases of $173 in vendor prepayments, $81 payment from prior year Rim Fire insurance reimbursement, and $17 from advance paid to the Recreation and Parks Department for the Civic Center Garage. Other increases included $1,214 in inventory due to recognition of the in-city warehouses, and $1,123 in restricted and unrestricted interest receivables due to higher annualized interest rates. The increases were offset by a decrease of $882 in due from other City departments including repayments of $685 from Sustainable Energy Account, $106 from the Wastewater Enterprise for the Living Machine System, and $105 from Recreation and Parks Department for Energy Efficiency Projects, offset by an increase of $14 in custom work receivables from the Department of Public Works for Hunters Point Shipyard Projects.

Capital assets, net of accumulated depreciation and amortization, increased by $71,209 or 14.9% to $550,631 primarily from construction and capital improvement activities. Deferred outflows of resources decreased by $1,180, of which $2,298 was for pensions based on actuarial report, offset by an increase of $1,118 in other post-employment benefits (OPEB) based on actuarial report.

Total liabilities increased by $25,196 or 10.6%, to $262,365. A working capital loan of $3,731 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. As of June 30, 2019, outstanding debts increased by $27,380 was attributable to an increase of $30,444 in additional Hetchy Power commercial paper issuance; offset by $2,828 in principal repayments, and $236 in amortization of premium and discount.

Other liabilities of $144,883, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, decreased by $2,184 or 1.5%, mainly attributable to decreases of $10,742 in pension liability based on actuarial report, $1,544 in unearned revenue, $528 in OPEB obligations based on actuarial assumptions, and $182 in general liability based on actuarial estimates. Decrease of $1,544 in unearned revenue included $2,257 billing true up for Modesto Irrigation District (MID) in prior year, and $952 in customer deposits from retail and commercial customers; offset by increases of $729 in sales tax, utility, and electric energy surcharge tax payables, $382 in prepayments for Distributed Antenna System (DAS), $271 in additional deposits for custom work projects, $160 from CleanPowerSF net energy metering credits to retail and commercial customers, $121 in customers' prepayments from charges for services, and $2 in rental prepayment. The decreases were offset by increases of $9,341 in restricted and unrestricted payables to vendors and contractors mainly due to $12,130 higher power purchases from CleanPowerSF; offset by decreased payables of $2,276 for Hetchy Water, and $513 for Hetchy Power due to more payments than vouchers. Employee related benefits including workers' compensation, vacation, sick leave and accrued payroll increased by $1,104 based on actuarial estimates and 3% increase of cost of living adjustment (COLA), $350 increase in payable to the Port of San Francisco for power rebate, and $17 in interest payables mainly due to higher commercial paper outstanding.

Deferred inflows of resources increased by $7,924, due to increases of $4,692 in related to pensions and $3,232 in OPEB based on actuarial reports.

Hetchy Water

Hetchy Water's net position of $201,173 increased by $9,383 or 4.9% resulting from increases of $5,590 in total assets and deferred outflows of resources, and $3,793 decreases in total liabilities and deferred inflows of resources (see Table 1B). Decrease in current and other assets of $3,146 was attributed to $6,315 decrease in cash and investment with City Treasury due primarily to increase in operating and capital project spending, and $4 in prepaid charges, advances, and other receivables, of which $7 in payment from prior year Rim Fire insurance reimbursement, and $4 in advance paid to the Recreation and Parks Department for the Civic Center Garage, offset by increases of $4 in vendor prepayments, $2 in payroll credit, and $1 in rental receivables. The decreases were offset by increases of $2,858 in State grants receivables for the Lower Cherry Aqueduct Project and 2018 Moccasin Storm Project, $252 in restricted and unrestricted interest receivables due to higher annualized interest rates, $51 in charges for services receivables mainly from Lawrence Livermore National Laboratory due to pending collection, and $12 in inventory due to more purchase than issuance.

Capital assets, net of accumulated depreciation and amortization, increased by $9,304 or 6.7% to $149,103 primarily from construction and capital improvement activities. Deferred outflows of resources decreased by $568, due to a decrease of $1,041 in pensions based on actuarial report, offset by an increase of $473 in OPEB based on actuarial report.

Hetchy Water's total liabilities decreased by $7,252 or 13.9% to $44,849, as explained by decreases of $4,826 in pension liability based on actuarial report, $2,276 in restricted and unrestricted payables to vendors and contractors, $468 in OPEB obligations based on actuarial assumptions, and $9 in general liability based on actuarial estimates, offset by increases of $321 in employee related benefits including workers' compensation, vacation, sick leave and accrued payroll based on actuarial estimates and 3% increase of COLA, and $6 in unearned revenue included $3 in sales tax payables, $2 in customers' prepayments from charges for services, and $1 in rental prepayment. Deferred inflows of resources increased by $3,459, due to increases of $2,056 in related to pensions and $1,403 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of $445,715 increased by $39,089 or 9.6% resulting from an increase of $62,408 in total assets and deferred outflows of resources, offset by an increase of $23,319 in total liabilities and deferred inflows of resources (see Table 1C). Current and other assets increased by $1,199 or 0.5%. Prepaid charges, advances, and other receivables increased by $2,512, of which $2,209 billing credits from Western Area Power Administration, $278 in receivables for DAS, $91 in vendor prepayments, $15 in payroll credit, $5 in custom work receivables for the Sunnydale Housing Projects, and $1 in rental receivables, offset by decreases of $74 payment from prior year Rim Fire insurance reimbursement, and $13 in advance paid to the Recreation and Parks Department for the Civic Center Garage. Other increases included $1,202 in inventory due to recognition of the in-city warehouses, $733 in restricted and unrestricted interest receivables due to higher annualized interest rates, $579 in cash and investment with City Treasury and outside City Treasury, and $394 in grants receivables from State and Federal mainly for the Early Intake Switchyard Project. The increases were offset by decreases of $2,752 in due from other City departments due to repayments of $1,870 from CleanPowerSF for working capital loan net of interest, $685 from Sustainable Energy Account, $106 from the Wastewater Enterprise for the Living Machine System, and $105 from Recreation and Parks Department for energy efficiency projects, offset by an increase of $14 in custom work receivables from the Department of Public Works for Hunters Point Shipyard Projects. Charges for service receivables decreased by $1,469 mainly due to higher collections from retail customers.

Capital assets, net of accumulated depreciation and amortization, increased by $61,905 or 18.2% to $401,528 primarily from construction and capital improvement activities. Deferred outflows of resources decreased by $696, due to a decrease of $1,273 in pensions based on actuarial report, offset by an increase of $577 in OPEB based on actuarial report.

Hetchy Power's total liabilities of $198,075 increased by $19,092 or 10.7%. As of June 30, 2019, outstanding debts increased by $27,380 was attributable to an increase of $30,444 in additional Hetchy Power commercial paper issuance; offset by $2,828 in principal repayments, and $236 in amortization of premium and discount.

Other liabilities of $80,593, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, decreased by $8,288 or 9.3%, mainly attributable to $5,899 in pension liability based on actuarial report, $2,019 in unearned revenues, $574 in OPEB obligations based on actuarial assumptions, $513 in payables to vendors and contractors, and $180 in general liability based on actuarial estimates, offset by increases of $530 in employee related benefits including workers' compensation, vacation, sick leave and accrued payroll based on actuarial estimates and 3% increase of COLA, $350 increase in payable due to the Port of San Francisco for power rebate, and $17 in interest payables mainly due to higher commercial paper outstanding. Decrease of $2,019 in unearned revenues included $2,257 billing true up for MID in prior year, and $952 in customer deposits from retail and commercial customers; offset by increases of $536 in utility and electric energy surcharge tax payables, $382 in prepayment for DAS, $271 in additional deposits for custom work projects, and $1 in rental prepayment.

Deferred inflows of resources increased by $4,227, of which $2,512 was related to pensions and $1,715 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of $40,001 increased by $31,141 or 351.5%, resulting from an increase of $42,865 in total assets and deferred outflows of resources, offset by an increase of $11,724 in total liabilities and deferred inflows of resources (see Table 1D). Total assets increased by $42,781 over the prior year. Charges for services receivables increased by $29,418 from higher electricity sales mainly due to completion of citywide full enrollment, $13,119 in cash and investment with City Treasury due to higher collection from electricity sales, $138 in interest receivables due to higher annualized interest rates, and $106 increase in prepaid charges, advances, and other receivables due to increases of $373 in receivable of refund from purchased electricity and $1 in payroll credit, offset by a decrease of $268 in vendor prepayments.

Deferred outflows of resources increased by $84 due to an increase of $68 in OPEB based on actuarial report and $16 in pensions based on actuarial report.

Total liabilities of $23,172 increased by $11,486 or 98.3% included $12,130 in restricted and unrestricted payables to vendors and contractors for goods and services under contractual agreements as a result of higher power purchases, $514 in OPEB obligations based on actuarial assumptions, and $469 in unearned revenue, of which $190 from utility and electric energy surcharge tax payables, $160 from net energy metering credits to retail and commercial customers, and $119 from customers' prepayments. Employee related benefits including vacation, sick leave and accrued payroll increased by $253 due to higher employment as a result of program growth. General liability increased by $7 based on actuarial estimates. The increases were offset by decreases of $1,870 due to working capital loan payment to Hetchy Power, net of accrued interest, and $17 in net pension liability based on actuarial report.

Deferred inflows of resources increased by $238 due to increases of $124 in related to pensions and $114 in OPEB based on actuarial reports.

Net Position, Fiscal Year 2018

In fiscal year 2018, the Enterprise adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As restatement of all prior periods is not practical, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017 (see New Accounting Standards Adopted in fiscal year 2018 in Significant Accounting Policies, Note 2(u)).

2018 Moccasin Storm

On March 22, 2018, the Moccasin Dam and Reservoir and surrounding areas in the town of Moccasin, Tuolumne County, experienced significant rainfall and subsequent flooding. The SFPUC activated its Emergency Action Plan and notified responsible oversight agencies. On April 19, 2018, the California State Governor issued a State of Emergency Proclamation as the storm event caused widespread damage to several counties in the State. Tuolumne County is identified as an affected county. Hetch Hetchy Enterprise sustained considerable damage to its Moccasin-area water supply, drainage, and power generation assets. Shortly after the Governor's Emergency Proclamation, SFPUC de-activated its Emergency Action Plan and shifted to cost recovery activities.

As of June 30, 2018, the emergency, clean up, repair and construction costs related to the 2018 Moccasin Storm totaled $4,094. Of this, $3,687 was capital project related and capitalized to construction work in progress (See Table 3C). $407 was emergency and cleanup costs and has been expensed. Hetchy Water and Hetchy Power impairment loss were $177 and $118, respectively, for a total of $295, which was reported under operating expenses in the Statements of Revenues, Expenses, and Change in Net Position.

Hetch Hetchy

Hetch Hetchy's net position of $607,276 increased by $29,016 or 5.0% during the year (see Table 1A). Current and other assets were $350,263, a $14,157 or 4.2% increase from prior year with elimination of a $5,601 working capital loan from Hetchy Power to CleanPowerSF. The increase was attributed to $12,145 in cash and investment with City Treasury and outside City Treasury mainly due to $30,000 transfer from the Water Enterprise to fund upcountry water projects, $3,151 increase in prepaid charges, advances, and other receivables, of which $2,803 from vendor prepayments, $287 from receivables for Distributed Antenna System (DAS), $81 from Rim Fire insurance recoveries receivables, and $35 from other receivables for CleanPowerSF related to electricity sales, offset by decreases of $21 in custom work receivables for the Sunnydale Housing projects, $18 in payroll credits, and $16 from advance paid to the Recreation and Parks Department for the Civic Center Garage. Interest receivables increased by $608 as a result of higher interest rates, and $16 in grant receivables.

These increases were offset by decreases of $1,299 in charges for services receivables due primarily to $2,040 decrease in power sales to MID, offset by an increase of $958 in San Francisco Port tenants receivables due to pending collections, $464 repayments in due from other City departments including $677 from Mayor's Energy Conservation Account, $387 from CleanPowerSF for electricity purchased from Hetchy Power in prior year, $105 from the Wastewater Enterprise for the Living Machine System, and $29 in custom work receivables for Hunters Point Shipyard and Candlestick Point projects, offset by an increase of $734 receivable from Recreation and Parks Department for energy efficiency projects.

Capital assets, net of accumulated depreciation and amortization, increased by $34,701 or 7.8% to $479,422 primarily due to additions of facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, Moccasin Facilities New Construction, Mountain Tunnel Improvement, and 2018 Moccasin Storm projects. Deferred outflows of resources decreased by $9,195, of which $11,169 was for pensions based on actuarial report, offset by an increase of $1,974 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Total liabilities increased by $9,443 or 4.1%, to $237,169. A working capital loan of $5,601 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. As of June 30, 2018, outstanding debts decreased by $2,794 was attributable to $2,764 in principal repayments, and $252 in amortization of premium and discount, offset by an increase of $222 in Hetchy Power commercial paper issuance.

Other liabilities of $147,067, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $12,237 or 9.1%. Increases included $13,399 in outstanding accounts payable to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $7,778 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $3,432 in unearned revenues, $285 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and $28 in general liability based on actuarial estimates; offset by decreases of $12,290 in net pension liability based on actuarial report, $387 due from CleanPowerSF to Hetchy Power for purchased electricity in prior year, and $8 in bond and loan interest payables. See Note 10(a), Pension Plan, for additional details.

Increase of $3,432 in unearned revenues included $1,867 in credits to MID due to year-end true-up reconciliation, $814 in deposits from DAS and the Hunters Point Shipyard projects, $618 in utility and electric energy surcharge tax payables, $535 in deposits for Sunnydale Parcel Q custom work project, $94 in DAS customer prepayments, $58 from CleanPowerSF net energy metering credits to retail and commercial customers, and $12 in prepaid rent, offset by a decrease of $566 in prior year credit due to other City department for work order billings. Deferred inflows of resources increased by $1,204, of which $1,146 was related to pensions based on actuarial report and $58 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Hetchy Water

Hetchy Water's net position of $191,790 increased by $23,434 or 13.9% resulting from an increase of $24,995 in total assets and deferred outflows of resources, and $1,561 in total liabilities and deferred inflows of resources (see Table 1B). Increase in current and other assets of $17,228 was attributed to $16,921 increase in cash and investment with City Treasury primarily due to $30,000 transfer from the Water Enterprise to fund upcountry water projects, $210 increase in interest receivables as a result of higher interest rates, $58 in prepaid charges, advances, and other receivables, of which $60 from vendor prepayments, and $6 from Rim Fire insurance recoveries receivables, offset by decreases of $5 from advance paid to the Recreation and Parks Department for the Civic Center Garage and $3 in payroll credits. Grant receivables increased by $53 from Association of Bay Area Governments for Lower Cherry Aqueduct Emergency Rehabilitation project. These increases were offset by a decrease of $14 from Charges for services receivables primarily from Groveland Community Services due to higher collection.

Capital assets, net of accumulated depreciation and amortization, increased by $12,068 or 9.4% to $139,799 primarily due to increases in facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, 2018 Moccasin Storm, Moccasin Facilities New Construction, and San Joaquin Pipeline Rehabilitation projects. Deferred outflows of resources for pensions decreased by $4,301, of which $5,171 was for pensions based on actuarial report, offset by an increase of $870 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Hetchy Water's total liabilities increased by $1,055 or 2.1% to $52,101, due increases of $4,592 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $2,753 in outstanding payables to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $77 in employee related benefits including workers' compensation, vacation and sick leave, and $5 in prepaid rent, offset by decreases of $6,019 in net pension liability, and $353 in general liability based on actuarial estimates. Deferred inflows of resources increased by $506, of which $480 was related to pensions based on actuarial report and $26 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Hetchy Power

Hetchy Power's net position of $406,626 increased by $4,940 or 1.2% resulting from an increase of $11,993 in total assets and deferred outflows of resources, offset by an increase of $7,053 in total liabilities and deferred inflows of resources (see Table 1C). A working capital loan of $5,601 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. Current and other assets decreased by $5,383 or 2.2%, of which $3,123 decrease in cash and investment with City Treasury and outside City Treasury mainly due to increased capital project spending, $2,113 in due from other City departments included repayments of $1,649 from CleanPowerSF for working capital loan, $677 from Mayor's Energy Conservation Account, $387 from CleanPowerSF electricity purchased in prior year, $105 from the

Wastewater Enterprise for the Living Machine System, and $29 decrease in custom work receivables for Hunters Point Shipyard and Candlestick Point projects, offset by an increase of $734 in receivable from Recreation and Parks Department for energy efficiency projects.

Charges for service receivables decreased by $1,128 primarily due to decreased power sales to MID, and $37 in grant receivables due to collections from the Federal Emergency Management Agency for the Hazard Mitigation Grant Project. Prepaid charges, advances, and other receivables increased by $662 including $347 in vendor prepayments, $287 in receivables for DAS, and $75 in Rim Fire insurance recoveries receivables, offset by decreases of $21 in custom work receivables for the Sunnydale Housing projects, $15 in payroll credits, and $11 in advance paid to the Recreation and Parks Department for the Civic Center Garage. Interest receivables increased by $356 due to higher interest rates.

Capital assets, net of accumulated depreciation and amortization, increased by $22,633 or 7.1% to $339,623 primarily due to additions of facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, Warnerville Substation Rehabilitation, Moccasin Facilities New Construction, and Mountain Tunnel Improvement projects. Deferred outflows of resources decreased by $5,257, of which $6,321 was for pensions based on actuarial report, offset by an increase of $1,064 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Hetchy Power's total liabilities of $178,983 increased by $6,435 or 3.7%. As of June 30, 2018, outstanding debts decreased by $2,794 attributable to $2,764 in principal repayments, and $252 in amortization of premium and discount, offset by an increase of $222 in commercial paper issuance. Other liabilities of $88,881, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $9,229 or 11.6% mainly attributed to $10,046 in outstanding accounts payable to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $3,459 in unearned revenues, $2,545 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $381 in general liability based on actuarial estimates, and $164 in employee related benefits including workers' compensation, vacation and sick leave; offset by decreases of $7,358 in net pension liability based on actuarial report and $8 in bond and loan interest payable.

Increase of $3,459 in unearned revenues included $1,867 in credits to MID due to year-end true-up reconciliation, $814 in deposits from DAS and the Hunters Point Shipyard projects, $708 in utility and electric energy surcharge tax payables, $535 in deposits for Sunnydale Parcel Q custom work project, $94 in DAS customer prepayments, and $7 in prepaid rent, offset by a decrease of $566 in prior year credit due to other City department for work order billings. Deferred inflows of resources increased by $618, of which $587 was related to pensions based on actuarial report and $31 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

CleanPowerSF

CleanPowerSF's net position of $8,860 increased by $642 or 7.8% during the fiscal year (see Table 1D). Total assets were $20,263, a $663 or 3.4% increase from prior year. Increases were attributed to $2,431 in prepaid expenses for electricity purchases and $42 in interest receivables due to higher interest rates, offset by decreases of $1,653 in cash and investment with City Treasury mainly due to higher electricity purchases and $157 in charges for services receivables from higher collections. Deferred outflows of resources increased $363, of which $323 was for pensions based on actuarial report and $40 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

(Dollars in thousands, unless otherwise stated)

Total liabilities of $11,686 increased by $304 or 2.7% due to $2,036 due to other City departments, of which $1,649 in working capital loan to Hetchy Power, $387 in payment to Hetchy Power for purchased electricity from prior year, and $90 in utility tax and electric energy surcharge tax remittance. These decreases were offset by increases of $1,087 in net pension liability based on actuarial report, $641 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $600 in outstanding payables to vendors and contractors for goods and services under contractual agreement as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $58 in unearned revenue from net energy metering credits to retail and commercial customers, and $44 in employee related benefits including accrued payroll, vacation and sick leave. Deferred inflows of resources increased by $80, of which $79 was related to pensions based on actuarial report and $1 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Results of Operations

The following tables summarize Hetch Hetchy's revenues, expenses, and changes in net position:

Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Revenues:					
Charges for services	$ 345,109	191,667	189,664	153,442	2,003
Rents and concessions	277	296	315	(19)	(19)
Interest and investment income	10,288	2,929	1,853	7,359	1,076
Other non-operating revenues	13,920	11,311	12,384	2,609	(1,073)
Total revenues	369,594	206,203	204,216	163,391	1,987
Expenses:					
Operating expenses	310,277	197,615	194,130	112,662	3,485
Interest expenses	3,066	3,204	3,270	(138)	(66)
Amortization of premium, discount, and issuance costs	(237)	(248)	(255)	11	7
Non-operating expenses	1,365	1,795	1,476	(430)	319
Total expenses	314,471	202,366	198,621	112,105	3,745
Change in net position before transfers	55,123	3,837	5,595	51,286	(1,758)
Transfers from the City and County of San Francisco	24,522	30,087	60,100	(5,565)	(30,013)
Transfers to the City and County of San Francisco	(32)	(512)	(49)	480	(463)
Net transfers	24,490	29,575	60,051	(5,085)	(30,476)
Change in net position	79,613	33,412	65,646	46,201	(32,234)
Net position at beginning of year	607,276	578,260 *	512,614	29,016	65,646
Cumulative effect of accounting change	–	(4,396)	–	4,396	(4,396)
Beginning of year as restated	607,276	573,864	512,614	33,412	61,250
Net position at end of year	$ 686,889	607,276	578,260	79,613	29,016

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

(Dollars in thousands, unless otherwise stated)

Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Revenues:					
Charges for services	$ 33,880	33,427	35,008	453	(1,581)
Rents and concessions	125	133	142	(8)	(9)
Interest and investment income	2,670	218	46	2,452	172
Other non-operating revenues	3,013	1,237	616	1,776	621
Total revenues	39,688	35,015	35,812	4,673	(797)
Expenses:					
Operating expenses	50,305	39,792	50,099	10,513	(10,307)
Non-operating expenses	–	68	68	(68)	–
Total expenses	50,305	39,860	50,167	10,445	(10,307)
Change in net position before transfers	(10,617)	(4,845)	(14,355)	(5,772)	9,510
Transfers from the City and County of San Francisco	20,000	30,000	60,000	(10,000)	(30,000)
Change in net position	9,383	25,155	45,645	(15,772)	(20,490)
Net position at beginning of year	191,790	168,356	122,711	23,434	45,645
Cumulative effect of accounting change	–	(1,721) *	–	1,721	(1,721)
Beginning of year as restated	191,790	166,635	122,711	25,155	43,924
Net position at end of year	$ 201,173	191,790	168,356	9,383	23,434

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Revenues:					
Charges for services	$ 143,409	118,672	120,789	24,737	(2,117)
Rents and concessions	152	163	173	(11)	(10)
Interest and investment income	6,883	2,537	1,718	4,346	819
Other non-operating revenues	10,907	10,073	11,764	834	(1,691)
Total revenues	161,351	131,445	134,444	29,906	(2,999)
Expenses:					
Operating expenses	122,688	119,395	116,935	3,293	2,460
Interest expenses	2,936	3,103	3,200	(167)	(97)
Amortization of premium, discount, and issuance costs	(237)	(248)	(255)	11	7
Non-operating expenses	1,365	1,727	1,408	(362)	319
Total expenses	126,752	123,977	121,288	2,775	2,689
Change in net position before transfers	34,599	7,468	13,156	27,131	(5,688)
Transfers from the City and County of San Francisco	4,522	87	100	4,435	(13)
Transfers to the City and County of San Francisco	(32)	(512)	(49)	480	(463)
Net transfers	4,490	(425)	51	4,915	(476)
Change in net position	39,089	7,043	13,207	32,046	(6,164)
Net position at beginning of year	406,626	401,686	389,903	4,940	11,783
Cumulative effect of accounting change	–	(2,103) *	–	2,103	(2,103)
Less: CleanPowerSF beginning net position	–	–	(1,424)	–	1,424
Beginning of year as restated	406,626	399,583	388,479	7,043	11,104
Net position at end of year	$ 445,715	406,626	401,686	39,089	4,940

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

(Dollars in thousands, unless otherwise stated)

Table 2D - CleanPowerSF
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019, 2018, and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Revenues:					
Charges for services	$ 167,820	39,568	33,867	128,252	5,701
Interest and investment income	735	174	89	561	85
Other non-operating revenues	–	1	4	(1)	(3)
Total revenues	168,555	39,743	33,960	128,812	5,783
Expenses:					
Operating expenses	137,284	38,428	27,096	98,856	11,332
Interest expenses	130	101	70	29	31
Total expenses	137,414	38,529	27,166	98,885	11,363
Change in net position	31,141	1,214	6,794	29,927	(5,580)
Net position at beginning of year	8,860	8,218	1,424	642	6,794
Cumulative effect of accounting change	–	(572) *	–	572	(572)
Beginning of year as restated	8,860	7,646	1,424	1,214	6,222
Net position at end of year	$ 40,001	8,860	8,218	31,141	642

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Result of Operations, Fiscal Year 2019

Hetch Hetchy

Hetch Hetchy's total revenues were $369,594, an increase of $163,391 or 79.2% over prior year (see Table 2A). Charges for services were $345,109, an increase of $153,442 or 80.1%, due to an increase of $128,252 from CleanPowerSF electricity sales resulting from citywide full enrollment, $24,737 from Hetchy Power due primarily to $11,721 in wholesale electricity, $7,462 in sales to City departments, and $5,554 in sales to non-City customers and capacity sales. Hetchy Water charges for services increased by $453 mainly due to increased water assessment fees from the Water Enterprise to fund upcountry water-related costs. Hetch Hetchy's total expenses were $314,471, an increase of $112,105 or 55.4% over prior year. (See Table 2A).

Hetchy Water

Hetchy Water's total revenues were $39,688, an increase of $4,673 or 13.3% over prior year (see Table 2B). Charges for services were $33,880, an increase of $453 or 1.4% mainly due to an increase of $978 water assessment fees from the Water Enterprise to fund upcountry water-related cost, offset by decreases of $497 from Lawrence Livermore National Laboratory and $28 from other customers. Rents and concessions decreased by $8 or 6.0% due to lower Moccasin cottage rentals. Interest and investment income increased by $2,452 or 1,124.8% due to $1,794 in unrealized gains attributed to increase in market value in cash and investments with City Treasury and $658 in interest earned resulting from higher interest rates. Other non-operating revenue increased by $1,776 or 143.6% mainly due to $1,934 from State grants for the 2018 Moccasin Storm Project and Lower Cherry Aqueduct Project, offset by decreases of $106 in overhead charges, $33 from prior year Rim Fire insurance recoveries, $12 decreased sale of fixed assets, scrap, and waste, and $7 in miscellaneous revenue.

Total operating expenses were $50,305, an increase of $10,513 or 26.4% due to increases of $9,365 in other operating expenses mainly due to higher capital project expenses, and $1,880 in general and administrative expenses mainly due to increased taxes, licenses and permit payments to National Park Service and Turlock Irrigation District, $314 in depreciation and amortization related to building, structure and equipment, $50 in services provided by other departments mainly explained by higher light, heat, and power charges, and $32 increase in materials and supplies mainly for fuels and lubricants. These increases were offset by decreases of $809 in personnel services primarily due to lower pension and OPEB obligations based on actuarial reports, and $319 in contractual services mainly from decreased engineering services.

Other non-operating expenses decreased by $68 due to no payments to community-based organization programs. Transfer in of $20,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2019 increased by $9,383 or 4.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $161,351, an increase of $29,906 or 22.8% over prior year (see Table 2C). Charges for services were $143,409, an increase of $24,737 or 20.8% primarily due to $11,721 in wholesale electricity from recognition of California Independent System Operator (CAISO) Congestion Revenue Right (CRR) credits, $7,462 in sales to City departments mainly from the Office of the City Administrator, Zuckerberg San Francisco General Hospital, and San Francisco International Airport, $5,371 in sales to non-City customers mainly from tenants of the Port of San Francisco and Transbay Joint Powers Authority, and $589 in sale of capacity to CleanPowerSF. The increases were offset by a decrease of $406 in Treasure Island utilities revenue. Rents and concessions decreased by $11 or 6.7% due to lower Moccasin cottage rentals. Interest and investment income increased by $4,346 or 171.3% due to $2,657 in unrealized gains attributed to increase in market value in cash and investments with City Treasury and $1,689 in interest earned resulting from higher interest rates.

Other non-operating revenue increased by $834 or 8.28% mainly due to $787 from Hunters Point Project, $641 in overhead charges, $446 in Cap and Trade revenues, $367 in Federal grant for the Early Intake Switchyard Project, $331 from Rim Fire insurance recovery, $192 in settlement, $88 in annual license fee received from San Francisco Port Transbay Cable Project, and $39 in State grants for the 2018 Moccasin Storm Project and Other Small Power Projects. These increases were offset by decreases of $1,671 received in prior year for Energy Efficiency Projects, Power System Impact Mitigation Project and Sunnydale Parcel Q Housing Project, $178 lower fees collected from DAS, $92 reimbursement for Central Subway Project, $56 in sale of fixed assets, scrap, and waste, $39 in Federal interest subsidy due to sequestration, and $21 in miscellaneous revenues.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $3,293 or 2.8% to $122,688. The increase was attributed to $13,002 in purchased electricity and transmission, distribution and other power costs mainly due to CAISO CRR credits were recognized as revenue instead of offsetting to expenses, $2,633 in personnel services primarily due to higher salaries and fringe benefits, $985 in legal services provided by the City Attorney, $560 in contractual services, and $435 in depreciation and amortization due to increased capitalized assets of building, structure and equipment. These increases were offset by decreases of $12,875 in other operating expenses mainly due to increased capitalization of project expenses, $869 in materials and supplies mainly explained by the recognition of material and supplies to inventory for the in-city warehouse, and $578 in general and administrative expenses mainly due to lower judgments and claims based on actuarial estimates. Interest expenses were $2,936, a decrease of $167 or 5.4% mainly due to higher capitalized interest. Amortization of premium and discount slightly decreased by $11 or 4.4% to $237.

Other non-operating expenses were $1,365, a decrease of $362 or 21% due to $716 in lower payments for GoSolarSF Incentive Program and community-based organization programs, offset by $354 in loss from sale of fixed assets. Net transfer of $4,490 included transfers in of $4,522 from the City's Education Revenue Augmentation fund for utility acquisition assessments and transfer out of $32 to the Office of the City's Administrator for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2019 increased by $39,089 or 9.6% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were $168,555, a $128,812 or 324.1% increase over prior year (see Table 2D). Charges for services increased by $128,252 or 324.1% which included $127,146 increased electricity sales to retail and commercial customers due to 1,421,175 MWh or 256% consumption increase and $1,106 from capacity sales to Hetchy Power and other entities. CleanPowerSF completed citywide full enrollment in April 2019, and the number of customer accounts have grown from 81,679 to 376,787 as of June 2019. Interest and investment income increased by $561 or 322.4% due to $328 in interest earned resulting from higher average cash balance and $233 in unrealized gains attributed to increase in market value in cash and investments with City Treasury. Other non-operating revenue decreased by $1 due to lower opt out termination fees from customers.

Total operating expenses, excluding interest expenses were $137,284, an increase of $98,856 or 257.2% from prior year. The increase was due to $92,541 or 305.4% in purchased electricity and transmission, distribution and other power costs as a result of higher enrollment and electricity sales, $2,620 in professional and contractual services for administrative support and program development, $2,462 in personnel services mainly due to program growth, $1,663 in services provided by other departments mainly explained by increased support provided by Hetchy Power for administrative, data scheduling and procurement, $754 in general and administrative expenses mainly from increased taxes, license, permits, and membership fee; and $51 in material and supplies. Other operating expenses decreased by $1,235 mainly due to decreased department overhead charges compared to prior year. Interest expenses were $130, an increase of $29 or 28.7% due to higher interest rates on working capital loan from Hetchy Power.

As a result of the above activities, net position for the year ended June 30, 2019 increased by $31,141 or 351.5% compared to prior year.

Result of Operations, Fiscal Year 2018

Hetch Hetchy

Hetch Hetchy's total revenues were $206,203, an increase of $1,987 or 1% over prior year (see Table 2A). Charges for services were $191,667, an increase of $2,003 or 1.1%, due to increase of $5,701 from CleanPowerSF electricity sales to retail and commercial customers, offset by decreases of $2,117 from Hetchy Power due primarily to decreased sales to non-City customers, and $1,581 from Hetchy Water mainly due to decreased water assessment fees from the Water Enterprise to fund upcountry water-related costs. Hetch Hetchy's total expenses were $202,366, an increase of $3,745 or 1.9% over prior year.

Hetchy Water

Hetchy Water's total revenues were $35,015, a decrease of $797 or 2.2% from prior year's revenues (see Table 2B). Charges for services were $33,427, a decrease of $1,581 or 4.5% mainly due to a decrease of $2,000 water assessment fees from the Water Enterprise to fund upcountry water-related costs, offset by an increase of $418 from Lawrence Livermore National Laboratory due to higher consumption. Rents decreased by $9 due to lower Moccasin cottage rentals. Other non-operating revenues increased by $621 mainly due to $1,050 grant revenue from Association of Bay Area Governments for Lower Cherry Aqueduct Emergency Rehabilitation Project, and $17 from miscellaneous revenue, offset by decreases of $431 from prior year Rim Fire insurance recoveries, and $15 in net gain on sale of assets. Interest and investment income increased by $172 due to $769 in interest earned resulting from higher interest rates and higher cash balances, offset by an increase in unrealized loss of $597 attributed to decline in market value in cash and investments with City Treasury.

Total operating expenses were $39,792, a decrease of $10,307 or 20.6% due to $7,482 in personnel services for lower pensions and personnel costs, $3,161 in other operating expenses mainly due to increased capitalized project expenses, $390 decrease in legal services provided by City Attorney, $282 in general and administrative expenses mainly due to judgments and claims based on actuarial estimates, and $60 in building, construction and equipment maintenance supplies. These decreases were offset by increases of $561 in depreciation and amortization related to building, structure and equipment, and $507 in contractual services mainly for engineering services. Other non-operating expenses of $68 related to the Summer Youth Program for Garden Project remained the same from prior year. Transfer in of $30,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $23,434 or 13.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $131,445, a decrease of $2,999 or 2.2% from prior year's revenues (see Table 2C). Charges for services were $118,672, a decrease of $2,117 or 1.8% was primarily due to $7,658 in power sales to MID, offset by increases of $2,359 electricity sales to other City departments, $1,677 sales to other retail customers mainly from San Francisco Port operations, and $1,491 in sale of electricity to CleanPowerSF. Rents decreased by $10 due to lower Moccasin cottage rentals.

Other non-operating revenues decreased by $1,691 or 14.4% included $2,984 lower collection from Power System Impact Mitigation Project, $751 from prior year Rim Fire insurance recovery, $45 in Federal interest subsidy due to sequestration, $37 in grant advance received from FEMA for the Rim Fire projects in prior year, and $9 in miscellaneous revenue; offset by increases of $1,000 in fees collected from DAS, $838 from energy efficiency projects, $134 in Cap and Trade revenues, $85 in annual license fee received from San Francisco Port Transbay Cable Project, $28 in collection from Sunnydale Parcel Q Housing project, $27 in overhead charges, and $23 in net gain on sale of assets. Interest and investment income increased by $819 due to $1,651 interest earned resulting from higher interest rates, offset by an increase in unrealized loss of $832 attributed to decline in market value in cash and investments with City Treasury.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $2,460 or 2.1% to $119,395 due to $7,674 in energy supply purchases and $5,791 in transmission and distribution power cost due to powerhouse shut down and to fulfill the balancing reserve requirement, $824 in depreciation and amortization related to building, structure and equipment, $610 in contractual services primarily due to increased software licensing fees, $136 in general and administrative expenses mainly due to judgments and claims based on actuarial estimates, and promotion expenses; and $31 in safety material and supplies. These increases were offset by decreases $10,011 in personnel services mainly due to lower pensions, $1,727 in other operating expenses mainly due to increased capitalized project expenses, and $868 decrease in legal services provided by City Attorney.

Other non-operating expenses increased by $319 or 22.7% to $1,727 due to higher payments for GoSolarSF Incentive Program. Interest expense decreased by $97 was due to higher capitalized interest for capital projects. Amortization of premium and discount slightly decreased by $7. Net transfer of $425 included transfers out of $480 to Department of Emergency Management for Heating, Ventilation, and Air Conditioning (HVAC) controls upgrade, and $32 to the Office of the City's Administrator for the Surety Bond Program; offset by transfer in of $87 refund from the Police Department for the HVAC Controls Upgrade Phase I project.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $4,940 or 1.2% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were $39,743, an increase of $5,783 or 17.0% over prior year's revenues (see Table 2D). Increase of $5,701 or 16.8% in charges for services included $5,666 increased electricity sales to retail and commercial customers due to consumption increase of 103,146 MWh or 23% and $47 in capacity sale, offset by a decrease of $12 from prior year electricity sales to Hetchy Power. Interest and investment income were $174, an increase of $85 or 95.5% due to higher interest rates. Other non-operating revenues decreased by $3 resulting from lower opt out termination fees collected from customers.

Total operating expenses, excluding interest expenses were $38,428, an increase of $11,332 or 41.8% from prior year. The increase was due to $7,860 in purchased electricity and transmission, distribution and other power costs from higher sales, including $1,608 or 84.9% increase in purchased electricity from Hetchy Power, $1,025 in professional and contractual services for customer billing and program development, $937 in personnel services mainly due to pensions, and $811 in services provided by other departments mainly from legal services provided by City Attorney and communication services. General and administrative increased by $526 mainly due to increases of $190 in judgments and claims expense, $180 in tax, license and permits for Pacific Gas & Electric Company (PG&E), and $144 in membership fees. Other operating expenses increased by $174 for administrative, data scheduling and procurement support. These increases were offset by $1 decrease in material and supplies. Other non-operating expense increased by $31 due to higher interest rate on loan repayment to Hetchy Power.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $642 or 7.8% compared to prior year.

(Dollars in thousands, unless otherwise stated)

Capital Assets

The following tables summarize Hetch Hetchy's changes in capital assets.

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2019, 2018 and 2017

	2019	2018	2017	2019-2018 Change	2018-2017 Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	$ 359,986	339,409	315,880	20,577	23,529
Intangible assets	25,854	26,315	26,776	(461)	(461)
Land and rights-of-way	5,181	5,181	4,787	–	394
Construction work in progress	159,610	108,517	97,278	51,093	11,239
Total	550,631	479,422	444,721	71,209	34,701
Hetchy Water					
Facilities, improvements, machinery, and equipment	97,250	97,038	86,787	212	10,251
Intangible assets	10,996	11,203	11,410	(207)	(207)
Land and rights-of-way	3,232	3,232	3,055	–	177
Construction work in progress	37,625	28,326	26,479	9,299	1,847
Total	149,103	139,799	127,731	9,304	12,068
Hetchy Power					
Facilities, improvements, machinery, and equipment	262,736	242,371	229,093	20,365	13,278
Intangible assets	14,858	15,112	15,366	(254)	(254)
Land and rights-of-way	1,949	1,949	1,732	–	217
Construction work in progress	121,985	80,191	70,799	41,794	9,392
Total	$ 401,528	339,623	316,990	61,905	22,633

Capital Assets, Fiscal Year 2019

Hetch Hetchy

Hetch Hetchy has capital assets of $550,631, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2019 (see Table 3A). This amount represents an increase of $71,209 or 14.9%, resulting from increases of $51,093 in construction work in progress, and $20,577 in facilities, improvements, machinery, and equipment; offset by a decrease of $461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress, 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, 2019 include the following:

Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2019

	Hetchy Water	Hetchy Power	2019 Total
Streetlight Replacement	$ —	15,803	15,803
Bay Corridor Project	—	14,100	14,100
Warnerville Substation Rehabilitation	—	12,099	12,099
Mountain Tunnel Improvement	4,443	5,430	9,873
2018 Moccasin Storm	8,569	—	8,569
Other Powerhouse Projects	—	8,034	8,034
Warnerville Power System Impact Mitigation	—	5,418	5,418
San Joaquin Pipeline Rehabilitation	3,268	—	3,268
Lower Cherry Aqueduct	3,047	—	3,047
Other project additions individually below $3,000	1,914	15,701	17,615
Additions to Construction Work in Progress	$ 21,241	76,585	97,826
Streetlight Replacement	$ —	15,803	15,803
Transbay Transit Center	—	8,101	8,101
Modesto Transmission Line Clearance Mitigation	—	2,804	2,804
Other project additions individually below $1,000	6,119	8,224	14,343
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 6,119	34,932	41,051

Hetchy Water

Hetchy Water has capital assets of $149,103, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2019 (see Table 3A). This amount represents an increase of $9,304 or 6.7%, primarily due to increases of $9,299 in construction work in progress and $212 in facilities, improvements, machinery, and equipment, offset by a decrease of $207 in amortization of intangible assets.

For the year ended June 30, 2019, Hetchy Water's major additions to construction work in progress totaled $21,241. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $6,119 (see Table 3B).

Hetchy Power

Hetchy Power has capital assets of $401,528, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2019 (see Table 3A). This amount represents an increase of $61,905 or 18.2%, primarily due to increases of $41,794 in construction work in progress, and $20,365 in facilities, improvements, machinery, and equipment; offset by a decrease of $254 in amortization of intangible assets.

For the year ended June 30, 2019, Hetchy Power's major additions to construction work in progress totaled $76,585. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $34,932 (see Table 3B).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2019 and 2018.

See Note 4 for additional information about capital assets.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2018

Hetch Hetchy

Hetch Hetchy has capital assets of $479,422, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $34,701 or 7.8%, resulting from increases of $23,529 in facilities, improvements, machinery, and equipment, $11,239 in construction work in progress, and $394 in land and rights-of-way; offset by a decrease of $461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress, 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, 2018 include the following:

Table 3C - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2018

	Hetchy Water	Hetchy Power	2018 Total
Cherry Dam Outlet Works Rehabilitation	$ 3,688	4,507	8,195
Moccasin Facilities New Construction	2,779	3,397	6,176
Mountain Tunnel Improvement	2,185	2,671	4,856
2018 Moccasin Storm	3,414	273	3,687
Warnerville Substation Rehabilitation	—	3,595	3,595
San Joaquin Pipeline Rehabilitation	2,615	—	2,615
Tenderloin Street Improvement	—	2,371	2,371
Bay Corridor Transmission and Distribution	—	2,285	2,285
Treasure Island Capital Improvements	—	2,127	2,127
Other project additions individually below $2,000	2,360	15,341	17,701
Additions to Construction Work in Progress	$ 17,041	36,567	53,608
Moccasin Facilities Upgrades	$ 9,087	11,109	20,196
Cherry Dam Outlet Works Rehabilitation	4,557	5,570	10,127
Streetlight Light-Emitting Diode Conversion	—	7,652	7,652
O'Shaughnessy Dam Improvement	504	616	1,120
Other project additions individually below $1,000	962	2,207	3,169
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 15,110	27,154	42,264

Hetchy Water

Hetchy Water has capital assets of $139,799, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $12,068 or 9.4%, primarily due to increases of $10,251 in facilities, improvements, machinery, and equipment, $1,847 in construction work in progress, and $177 in land and rights-of-way; offset by a decrease of $207 in intangible assets due to amortization.

For the year ended June 30, 2018, Hetchy Water's major additions to construction work in progress totaled $17,041. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $15,110 (see Table 3C).

Hetchy Power

Hetchy Power has capital assets of $339,623, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $22,633 or 7.1%, primarily due to increases of $13,278 in facilities, improvements, machinery, and equipment, $9,392 in construction work in progress, and $217 in land and rights-of-way; offset by a decrease of $254 in intangible assets due to amortization.

For the year ended June 30, 2018, Hetchy Power's major additions to construction work in progress totaled $36,567. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $27,154 (see Table 3C).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2018 and 2017.

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2019, Hetch Hetchy has outstanding certificates of participation, Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2019 and 2018. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2019, and 2018, Hetchy Power had outstanding debt of $117,482 and $90,102, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have any debt outstanding as of June 30, 2019 and 2018.

(Dollars in thousands, unless otherwise stated)

Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2019, 2018 and 2017

		2019	2018	2017	2019-2018 Change	2018-2017 Change
Clean Renewable Energy Bonds 2008	$	1,639	2,047	2,453	(408)	(406)
Certificates of Participation 2009 Series C		1,619	1,988	2,345	(369)	(357)
Certificates of Participation 2009 Series D (BABs)		12,593	12,593	12,593	–	–
Qualified Energy Conservation Bonds 2011		4,765	5,294	5,817	(529)	(523)
New Clean Renewable Energy Bonds 2012		713	1,283	1,839	(570)	(556)
New Clean Renewable Energy Bonds 2015		3,422	3,651	3,877	(229)	(226)
2015 Series A Revenue Bonds		35,585	35,720	35,851	(135)	(131)
2015 Series B Revenue Bonds		6,422	7,246	8,063	(824)	(817)
Commercial Paper		50,724	20,280	20,058	30,444	222
Total	$	117,482	90,102	92,896	27,380	(2,794)

The increase of $27,380 was mainly due to an increase of $30,444 in commercial paper issuance; offset by decreases of $2,828 in principal repayments, and $236 in amortization of premium and discount.

Credit Ratings and Bond Insurance – The Enterprise's 2015 Series AB Power Revenue Bonds have been rated "AA-" and "AA" by Fitch Inc. and Standard and Poor's (S&P), respectively, as of June 30, 2019 and "AA-" and "A+" by Fitch Inc. and S&P, respectively, as of June 30, 2018.

Debt Service Coverage – Pursuant to the Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Available Funds (except Bond Reserve Funds) which include unappropriated fund balances and reserves, and cash and book value of investments held by the Treasurer for the Hetchy Power, that the SFPUC reasonably expects would be available, to pay principal and interest becoming due and payable on all outstanding bonds as provided in the Indenture, less any refundable credits, at least equal to 1.25 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as Hetchy Power's existing CREBS, NCREBs, and QECBs. Because interest on the Series 2015 AB power revenue bonds was capitalized, Hetchy Power was not obligated to make debt service payments on the Series 2015 AB power revenue bonds until fiscal year 2018. Therefore, Hetchy Power did not calculate and report the Indenture-based debt service coverage ratio prior to fiscal year 2018. During fiscal year 2019, 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 Indenture (see Note 8).

Debt Authorization – Pursuant to Charter Section 9.107(6), the Power Enterprise can incur indebtedness upon three-fourths vote of the Board of Supervisors, for the purpose of the reconstruction or replacement of existing water facilities and electric power facilities, or combinations thereof, under the jurisdiction of the Public Utilities Commission. Pursuant to Charter Section 9.107(8), the Power Enterprise can issue revenue bonds, without voter approval, upon an affirmative vote of the Board of Supervisors, for the purpose of the acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for renewable energy and energy conservation. Pursuant to Proposition A, approved by the San Francisco voters on June 5, 2018, City Charter Section 8B.124 is amended to authorize the Power Enterprise to enter into indebtedness, including revenue bonds, notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair, improve or construct new power facilities under the jurisdiction of SFPUC or for any other purpose of the Power Enterprise, and in compliance with City Charter Section 8B.124. Proposition A expressly prohibits the SFPUC from issuing bonds to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy. As of June 30, 2019, and 2018, $39,555 of Hetchy Power revenue bonds were issued against existing authorization of $347,758 and $192,830, respectively.

Cost of Debt Capital – The Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB Power Revenue Bonds issued in May 2015, which are the first series of bonds issued under the Master Indenture and are senior in lien to all the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, range from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates range from 2.0% to 6.5%. The Enterprise's short-term debt issued under its commercial paper program has interest rates ranging from 1.3% to 1.7%, and 0.9% to 1.6% during fiscal years 2019 and 2018, respectively.

Rates and Charges

Hetchy Water

Hetchy Water charges for services relates to the storage and delivery of water. Assessment fees from the Water Enterprise, which cover the water-related upcountry costs, were $33,578 and $32,600 for the years ended June 30, 2019 and 2018, respectively. In fiscal year 2020, the assessment fees will be $34,585, an increase of $1,007 or 3% as reflected in the fiscal year 2020 adopted budget. Hetch Hetchy charges for services related to the storage and delivery of water.

Hetchy Power

Municipal Rates

Hetchy Power charges for services relates to power generation and electricity delivery to contractual and municipal customers. For municipal power services, customers are typically charged a General Use rate or Enterprise rate. Enterprise rates are charged based on projected PG&E equivalent rates by customer class. General fund department customers are mostly charged a General Use rate, a rate that is currently below cost of service. These General Use rates, however, are moving closer towards cost of service and increasing by $0.005 per kWh on an annual basis. The General Use rates have been adopted every two years.

On May 10, 2018, the Commission adopted a new General Use rate that consolidated six previous subcategories of General Use rates into a single rate. The Commission adopted two years of General Use rates effective July 1, 2018 through June 30, 2020. The adopted General Use rate for fiscal years 2020 and 2019 is $0.07877/kWh, and $0.07377/kWh, respectively. The Power Enterprise continues to develop rates under the cost of service analysis model and has started work on the next power rate study which is projected to be completed in 2021.

Retail Rates

The Commission approved a new schedule of retail electric rates, fees, and charges for residential, commercial, and industrial customers where Hetch Hetchy has been designated as the power provider for retail customers to be applied to meter readings on or after July 1, 2016. Total bundled service charges for residential service rates and low-income residential service rates are calculated using the total rates, monthly, based on monthly meter reading, plus any applicable taxes.

To date, Hetchy Power has prepared service standards, developed system plans and specifications, acquired materials and equipment, and initiated construction of primary distribution facilities.

Pursuant to City and County of San Francisco Charter Section 8B.125, an independent rate study is performed at least once every five years. The rate study is undertaken to examine future revenue requirements and cost-of-service of the Power Enterprise. In fall 2015, SFPUC engaged a consultant to perform a cost-of-service study. The informed rate setting from this study resulted in recommendation and approval by the Commission in the spring 2016 for rates to be effective July 1, 2016. Work is underway on the next power rate study which is projected to be completed in 2021 and provide power rates effective for fiscal year 2022. The SFPUC Rates Schedules and Fees is available at http://sfwater.org/modules/showdocument.aspx?documentid=7743.

CleanPowerSF

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar and wind, at competitive rates. CleanPowerSF offers two products: a "Green" product comprised of at least 48% renewable energy and a "SuperGreen" product comprised of 100% renewable energy. Most customers take service under the "Green" product rates and remaining customers have opted to upgrade to "SuperGreen" product rates. On January 23, 2018, Commission took action on SuperGreen rates which resulted in a reduction to SuperGreen rate premiums effective March 1, 2018. The adopted SuperGreen rates varied depending upon customer classes and reflect the program's policy objective to remain competitive with PG&E comparable rates. Through Resolution 18-0209, the Commission approved rates and charges on December 11, 2018, and further authorized the SFPUC General Manager to adjust final CleanPowerSF rates in order to remain competitive with final PG&E rates not otherwise adjusted by Commission action.

The CleanPowerSF Rates Schedules is available at http://sfwater.org/index.aspx?page=993.

CleanPowerSF revenues are adequate to support its own operations; the SFPUC intends that these rates be sufficient to pay for impending projects, and be financially independent from Hetch Hetchy in the future. CleanPowerSF is subject to Section 8B.125 of the City Charter, which requires an independent rate study be performed at least once every five years, and the Commission sets rates and charges for the program. CleanPowerSF rates will be included in the next power rate study which is projected to be completed in 2021.

Request for Information

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

This report is available at http://www.sfwater.org/index.aspx?page=347.

HETCHY HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2019 and 2018

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	Elimination*	2019 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Elimination*	2018 Total
Assets										
Current assets:										
Cash and investments with City Treasury	$ 77,433	188,787	25,514	–	291,734	78,283	184,193	12,395	–	274,871
Cash and investments outside City Treasury	1	–	–	–	1	2	8	–	–	10
Receivables:										
Charges for services (net of allowance for doubtful accounts from Hetchy Power of $19 and CleanPowerSF of $585 as of June 30, 2019; and Hetchy Power of $52 and CleanPowerSF of $306 as of June 30, 2018)	79	5,804	34,789	–	40,672	28	7,273	5,371	–	12,672
Due from other City departments, current portion	–	817	–	–	817	–	980	–	–	980
Due from other governments	2,911	601	–	–	3,512	53	207	–	–	260
Interest	449	1,352	197	–	1,998	263	641	59	–	963
Restricted interest	66	196	–	–	262	–	174	–	–	174
Total current receivables	3,505	8,770	34,986	–	47,261	344	9,275	5,430	–	15,049
Prepaid charges, advances, and other receivables, current portion	462	3,613	2,544	–	6,619	462	1,088	2,438	–	3,988
Inventory	198	1,417	–	–	1,615	186	215	–	–	401
Restricted cash and investments outside City Treasury, current portion	–	3,896	–	–	3,896	–	2,777	–	–	2,777
Total current assets	81,599	206,483	63,044	–	351,126	79,277	197,556	20,263	–	297,096
Non-current assets:										
Restricted cash and investments with City Treasury	12,673	19,195	–	–	31,868	18,137	23,283	–	–	41,420
Restricted cash and investments outside City Treasury, less current portion	–	–	–	–	–	–	1,038	–	–	1,038
Capital assets, not being depreciated and amortized	40,863	125,365	–	–	166,228	31,564	83,571	–	–	115,135
Capital assets, net of accumulated depreciation and amortization	108,240	276,163	–	–	384,403	108,235	256,052	–	–	364,287
Prepaid charges, advances, and other receivables, less current portion	160	780	–	–	940	164	793	–	–	957
Due from other City departments, less current portion	–	12,764	–	(3,731)	9,033	–	15,353	–	(5,601)	9,752
Total non-current assets	161,936	434,267	–	(3,731)	592,472	158,100	380,090	–	(5,601)	532,589
Total assets	243,535	640,750	63,044	(3,731)	943,598	237,377	577,646	20,263	(5,601)	829,685
Deferred outflows of resources:										
Pensions	6,447	7,879	339	–	14,665	7,488	9,152	323	–	16,963
Other post-employment benefits	1,343	1,641	108	–	3,092	870	1,064	40	–	1,974
Total deferred outflows of resources	7,790	9,520	447	–	17,757	8,358	10,216	363	–	18,937
Liabilities										
Current liabilities:										
Accounts payable	600	14,120	16,210	–	30,930	810	14,495	4,080	–	19,385
Accrued payroll	645	1,804	159	–	2,608	638	1,654	53	–	2,345
Accrued vacation and sick leave, current portion	859	1,533	142	–	2,534	835	1,504	46	–	2,385
Accrued workers' compensation, current portion	201	383	–	–	584	174	351	–	–	525
Damage claims liability, current portion	70	684	3	–	757	110	727	–	–	837
Unearned revenues, refunds, and other, current portion	14	3,995	542	–	4,551	8	6,256	73	–	6,337
Bond and loan interest payable	–	542	–	–	542	–	525	–	–	525
Bonds, current portion	–	2,528	–	–	2,528	–	2,480	–	–	2,480
Certificates of participation, current portion	–	366	–	–	366	–	348	–	–	348
Commercial paper	–	50,724	–	–	50,724	–	20,280	–	–	20,280
Current liabilities payable from restricted assets	4,337	5,285	–	–	9,622	6,403	5,423	–	–	11,826
Total current liabilities	6,726	81,964	17,056	–	105,746	8,978	54,043	4,252	–	67,273
Long-term liabilities:										
Other post-employment benefits obligations	15,404	18,826	1,242	–	35,472	15,872	19,400	728	–	36,000
Net pension liability	20,390	24,920	1,070	–	46,380	25,216	30,819	1,087	–	57,122
Accrued vacation and sick leave, less current portion	529	1,110	69	–	1,708	488	1,060	18	–	1,566
Accrued workers' compensation, less current portion	1,037	1,878	–	–	2,915	815	1,609	–	–	2,424
Damage claims liability, less current portion	154	1,369	4	–	1,527	123	1,506	–	–	1,629
Due to other City departments, less current portion	–	350	3,731	(3,731)	350	–	–	5,601	(5,601)	–
Bonds, less current portion	–	50,018	–	–	50,018	–	52,761	–	–	52,761
Unearned revenues, refunds, and other, less current portion	609	3,794	–	–	4,403	609	3,552	–	–	4,161
Certificates of participation, less current portion	–	13,846	–	–	13,846	–	14,233	–	–	14,233
Total long-term liabilities	38,123	116,111	6,116	(3,731)	156,619	43,123	124,940	7,434	(5,601)	169,896
Total liabilities	44,849	198,075	23,172	(3,731)	262,365	52,101	178,983	11,686	(5,601)	237,169
Deferred inflows of resources:										
Related to pensions	3,874	4,734	203	–	8,811	1,818	2,222	79	–	4,119
Other post-employment benefits	1,429	1,746	115	–	3,290	26	31	1	–	58
Total deferred inflows of resources	5,303	6,480	318	–	12,101	1,844	2,253	80	–	4,177
Net position:										
Net investment in capital assets	149,103	301,534	–	–	450,637	139,799	270,918	–	–	410,717
Restricted for debt service	–	1,145	–	–	1,145	–	834	–	–	834
Restricted for capital projects	8,401	–	–	–	8,401	11,712	–	–	–	11,712
Unrestricted	43,669	143,036	40,001	–	226,706	40,279	134,874	8,860	–	184,013
Total net position	$ 201,173	445,715	40,001	–	686,889	191,790	406,626	8,860	–	607,276

*Included interfund loan receivable and loan payable of $3,731 and $5,601 for fiscal years ended 2019 and 2018, between Hetchy Power and CleanPowerSF.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019 and 2018

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2019 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total
Operating revenues:								
Charges for services	$ 33,880	143,409	167,820	345,109	33,427	118,672	39,568	191,667
Rents and concessions	125	152	–	277	133	163	–	296
Total operating revenues	34,005	143,561	167,820	345,386	33,560	118,835	39,568	191,963
Operating expenses:								
Personnel services	13,707	37,583	4,612	55,902	14,516	34,950	2,150	51,616
Contractual services	1,205	6,086	4,786	12,077	1,524	5,526	2,166	9,216
Transmission/distribution and other power costs	–	37,242	296	37,538	–	24,238	231	24,469
Purchased electricity	–	10,195	122,542	132,737	–	10,197	30,066	40,263
Materials and supplies	1,133	672	51	1,856	1,101	1,541	–	2,642
Depreciation and amortization	5,380	14,484	–	19,864	5,066	14,049	–	19,115
Services provided by other departments	1,622	6,833	3,208	11,663	1,572	5,848	1,545	8,965
General and administrative and other	27,258	9,593	1,789	38,640	16,013	23,046	2,270	41,329
Total operating expenses	50,305	122,688	137,284	310,277	39,792	119,395	38,428	197,615
Operating income (loss)	(16,300)	20,873	30,536	35,109	(6,232)	(560)	1,140	(5,652)
Non-operating revenues (expenses):								
Federal and state grants	2,984	406	–	3,390	1,050	–	–	1,050
Interest and investment income	2,670	6,883	735	10,288	218	2,537	174	2,929
Interest expenses	–	(2,936)	(130)	(3,066)	–	(3,103)	(101)	(3,204)
Amortization of premium and discount	–	237	–	237	–	248	–	248
Net gain (loss) from sale of assets	–	(354)	–	(354)	6	49	–	55
Other non-operating revenues	29	10,501	–	10,530	181	10,024	1	10,206
Other non-operating expenses	–	(1,011)	–	(1,011)	(68)	(1,727)	–	(1,795)
Net non-operating revenues	5,683	13,726	605	20,014	1,387	8,028	74	9,489
Change in net position before transfers	(10,617)	34,599	31,141	55,123	(4,845)	7,468	1,214	3,837
Transfers from the City and County of San Francisco	20,000	4,522	–	24,522	30,000	87	–	30,087
Transfers to the City and County of San Francisco	–	(32)	–	(32)	–	(512)	–	(512)
Net transfers	20,000	4,490	–	24,490	30,000	(425)	–	29,575
Change in net position	9,383	39,089	31,141	79,613	25,155	7,043	1,214	33,412
Net position at beginning of year	191,790	406,626	8,860	607,276	168,356	401,686	8,218	578,260
Cumulative effect of accounting change*	–	–	–	–	(1,721)	(2,103)	(572)	(4,396)
Beginning of year as restated	191,790	406,626	8,860	607,276	166,635	399,583	7,646	573,864
Net position at end of year	$ 201,173	445,715	40,001	686,889	191,790	406,626	8,860	607,276

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2019 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total
Cash flows from operating activities:								
Cash received from customers, including cash deposits	$ 33,836	145,652	138,871	318,359	33,441	125,278	39,693	198,412
Cash received from tenants for rent	124	151	–	275	138	170	–	308
Cash paid to employees for services	(14,445)	(38,129)	(3,708)	(56,282)	(12,560)	(35,449)	(1,234)	(49,243)
Cash paid to suppliers for goods and services	(25,172)	(72,853)	(122,604)	(220,629)	(19,080)	(61,142)	(39,972)	(120,194)
Cash paid for judgments and claims	(534)	(1,730)	(37)	(2,301)	(1,356)	(2,005)	(190)	(3,551)
Net cash provided by (used in) operating activities	(6,191)	33,091	12,522	39,422	583	26,852	(1,703)	25,732
Cash flows from non-capital and related financing activities:								
Cash received from grants	126	12	–	138	997	37	–	1,034
Cash received for license fees	–	4,386	–	4,386	–	4,467	–	4,467
Cash received from miscellaneous revenues	30	5,066	–	5,096	181	4,651	1	4,833
Cash received from settlements	–	195	–	195	–	3	–	3
Cash paid for rebates, program incentives, and other	–	(1,011)	–	(1,011)	(68)	(1,727)	–	(1,795)
Cash paid for Hetchy Power loan interest	–	–	–	–	–	–	(83)	(83)
Transfers from the City and County of San Francisco	20,000	4,522	–	24,522	30,000	87	–	30,087
Transfers to the City and County of San Francisco	–	(32)	–	(32)	–	(512)	–	(512)
Net cash provided by (used in) non-capital financing activities	20,156	13,138	–	33,294	31,110	7,006	(82)	38,034
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets	(22,698)	(76,205)	–	(98,903)	(14,786)	(33,820)	–	(48,606)
Proceeds from sale of capital assets	–	–	–	–	6	130	–	136
Principal payments on long-term debt	–	(2,828)	–	(2,828)	–	(2,768)	–	(2,768)
Proceeds from commercial paper borrowings	–	30,444	–	30,444	–	222	–	222
Interest paid on long-term debt	–	(3,204)	–	(3,204)	–	(3,305)	–	(3,305)
Interest paid on commercial paper borrowings	–	(438)	–	(438)	–	(219)	–	(219)
Federal interest income subsidy	–	581	–	581	–	756	–	756
Net cash used in capital and related financing activities	(22,698)	(51,650)	–	(74,348)	(14,780)	(39,004)	–	(53,784)
Cash flows from investing activities:								
Interest Income	1,274	4,277	428	5,979	658	2,956	196	3,810
Proceeds from sale of investments outside City Treasury	–	4,840	–	4,840	–	4,990	–	4,990
Purchases of investments outside City Treasury	–	(3,802)	–	(3,802)	–	(3,446)	–	(3,446)
Net cash provided by investing activities	1,274	5,315	428	7,017	658	4,500	196	5,354
Increase (decrease) in cash and cash equivalents	(7,459)	(106)	12,950	5,385	17,571	(646)	(1,589)	15,336
Cash and cash equivalents:								
Beginning of year	97,117	211,275	12,465	320,857	79,546	211,921	14,054	305,521
End of year	$ 89,658	211,169	25,415	326,242	97,117	211,275	12,465	320,857
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	$ 77,433	188,787	25,514	291,734	78,283	184,193	12,395	274,871
Restricted	12,673	19,195	–	31,868	18,137	23,283	–	41,420
Cash and investments outside City Treasury:								
Unrestricted	1	–	–	1	2	8	–	10
Restricted	–	3,896	–	3,896	–	3,815	–	3,815
Less: Restricted (with maturity more than 90 days - see table in Note 3)	–	–	–	–	–	(1,038)	–	(1,038)
Add: Unrealized (gain) loss on investments	(449)	(709)	(99)	(1,257)	695	1,014	70	1,779
Cash and cash equivalents at end of year on statements of cash flows	$ 89,658	211,169	25,415	326,242	97,117	211,275	12,465	320,857

(Continued)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2019 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ (16,300)	20,873	30,536	35,109	(6,232)	(560)	1,140	(5,652)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	5,380	14,484	–	19,864	5,066	14,049	–	19,115
Provision for uncollectible accounts	–	(33)	279	246	–	52	256	308
Write-off of capital assets	5,948	153	–	6,101	28	30	–	58
Changes in operating assets and liabilities:								
Receivables:								
Charges for services	(51)	1,502	(29,697)	(28,246)	14	1,076	(99)	991
Prepaid charges, advances, and other	3	(2,234)	(106)	(2,337)	(58)	(375)	(2,431)	(2,864)
Due from other City departments	–	2,792	–	2,792	–	2,026	–	2,026
Inventory	(12)	(1,202)	–	(1,214)	–	–	–	–
Accounts payable	(210)	(375)	12,130	11,545	377	7,591	600	8,568
Accrued payroll	7	150	106	263	(48)	7	18	(23)
Other post-employment benefits obligations	462	564	560	1,586	2,027	(591)	30	1,466
Pension obligations	(1,729)	(2,114)	91	(3,752)	(368)	(450)	843	25
Accrued vacation and sick leave	65	79	147	291	135	167	26	328
Accrued workers' compensation	249	301	–	550	(10)	(10)	–	(20)
Damage claims liability	(9)	(180)	7	(182)	(353)	381	–	28
Due to other City departments	–	350	(2,000)	(1,650)	–	–	(2,054)	(2,054)
Unearned revenues, refunds, and other liabilities	6	(2,019)	469	(1,544)	5	3,459	(32)	3,432
Total adjustments	10,109	12,218	(18,014)	4,313	6,815	27,412	(2,843)	31,384
Net cash provided by (used in) operating activities	$ (6,191)	33,091	12,522	39,422	583	26,852	(1,703)	25,732
Noncash transactions:								
Accrued capital asset costs	$ 4,337	5,285	–	9,622	6,403	5,423	–	11,826
Payables to Hetchy Power	–	–	3,731	3,731	–	–	5,601	5,601
Receivables from CleanPowerSF	–	3,731	–	3,731	–	5,601	–	5,601
Receivables from Wastewater	–	955	–	955	–	1,061	–	1,061
Unrealized (gain) loss on investments	(449)	(709)	(99)	(1,257)	695	1,014	70	1,779

See accompanying notes to financial statements.

(1) Description of Reporting Entity

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetch Hetchy starting fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (aka the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewables.

Approximately 74% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 26% balance of electricity is sold to CleanPowerSF and other publicly owned utilities. As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to the Districts to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the CAISO. Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Until August 1, 2008, the San Francisco Public Utilities Commission (SFPUC) consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the SFPUC, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for SFPUC members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise 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 Hetch Hetchy, Wastewater, and the Water Enterprises are included in the Comprehensive Annual 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 Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019 and 2018, and 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 Hetch Hetchy are organized on the basis of proprietary fund types and are included as enterprise funds of the City. The activities of Hetch Hetchy and each fund are accounted for with a separate set of self-balancing accounts that comprise Hetch Hetchy's and each fund'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 Hetch Hetchy 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 and rental income.

Hetch Hetchy applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) *Cash and Cash Equivalents*

Hetch Hetchy 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 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.

(Continued)

(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 are valued at acquisition value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years for equipment and 1 to 200 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) *Intangible Assets*

Under GASB Statement No. 51, *Accounting and Financial Reporting for 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, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the reporting entity.

According to the standard, Hetch Hetchy is required to capitalize intangible assets with a useful life extending beyond one reporting period. Hetch Hetchy has established a capitalization threshold of $100. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, 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 expense in the year in which the decision is made to discontinue such projects.

(h) *Capitalization of Interest*

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets (see Note 4).

(i) *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.

(Dollars in thousands, unless otherwise stated)

(j) *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.

(k) *Workers' Compensation*

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

(l) *General Liability*

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 12(a)).

(m) *Arbitrage Rebate Payable*

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECBs), and the New Clean Renewable Energy Bonds (NCREBs) stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement. Hetch Hetchy did not have any arbitrage liability as of June 30, 2019 and 2018.

(n) *Income Taxes*

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

(o) *Revenue Recognition*

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position. The unbilled amounts for the fiscal years ending June 30, 2019 and 2018 are as follows:

		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2019	$	–	500	17,308	17,808
2018		–	762	2,486	3,248

(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 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) *Eliminations*

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position. There were activities requiring eliminations during the fiscal years ended June 30, 2019 and 2018.

(r) *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 13(d)).

(s) *Other Post-employment Benefits Other Than Pensions (OPEB)*

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, 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.

(Dollars in thousands, unless otherwise stated)

The provision of GASB Statement No. 75 is effective for Hetch Hetchy's year ending June 30, 2019 and 2018. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017 as follows:

Record Beginning Net OPEB Liability	$	(34,399)
Record Beginning Deferred Outflows of Resources - OPEB items		1,781
Remove Net OPEB Obligation (Change from GASB Statement No. 45)		28,222
Total Cumulative Effect of Change in Accounting Principle	$	(4,396)

(t) *New Accounting Standards Adopted in Fiscal Year 2019*

1) In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The new standard is effective for periods beginning after June 15, 2018. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

2) In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The new standard is effective for periods beginning after June 15, 2018. The Enterprise adopted the provisions of this Statement. Refer to Notes 6 and 7 for details.

(u) *GASB Statements Implemented in Fiscal Year 2018*

1) In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension Plans*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other postemployment benefits other than pensions (OPEB). The standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the provisions of this Statement. Refer to Note 10(b) for details.

2) In March 2016, the GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The standard is effective for periods beginning after December 15, 2016. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

3) In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB Statement No. 85 addresses practice issues identified during the implementation and application of certain GASB Statements. The standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

4) In May 2017, the GASB issued Statement No. 86*, Certain Debt Extinguishment Issues*. GASB Statement No. 86 improves accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the

(Continued)

provisions of this Statement, which did not have a significant impact on its financial statements.

(v) *Future Implementation of New Accounting Standards*

1) In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2018. The Enterprise will implement the provisions of Statement No. 84 in fiscal year 2020.

2) In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. The Enterprise will implement the provisions of Statement No. 87 in fiscal year 2021.

3) In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. The new standard is effective for periods beginning after December 15, 2019. The Enterprise will implement the provisions of Statement No. 89 in fiscal year 2021.

4) In August 2018, the GASB issued Statement No. 90, *Accounting and Financial Reporting for Majority Equity Interests*. GASB Statement No. 90 provides clarification when a government should report a majority equity interest in a legally separate organization as either a component unit or an investment. The new standard is effective for periods beginning after December 15, 2018. The Enterprise will implement the provisions of Statement No. 90 in fiscal year 2020.

5) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the compatibility 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, 2020. The Enterprise will implement the provisions of Statement No. 91 in fiscal year 2022.

(3) Cash, Cash Equivalents, and Investments

Hetch Hetchy'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, which 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 Hetch Hetchy's average daily cash balances. The primary objectives of Hetch Hetchy's investment policy are consistent with the City's policy.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2019 and 2018 were $3,896 and $3,815, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of treasury and government obligations. The balance as of June 30, 2019 included 2015 Series A bonds proceeds of $2,167, certificates of participation proceeds of $1,209, 2015 Series B bonds proceeds of $510, commercial paper of $10, and $1 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance. The balance as of June 30, 2018 included 2015 Series A bonds proceeds of $2,132, certificates of participation proceeds of $1,177, 2015 Series B bonds proceeds of $501, commercial paper of $5, and $10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance.

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy did not have any unrealized gain and loss in the restricted cash and investments outside City Treasury as of June 30, 2019 and 2018 due to changes in fair values on U.S. Agencies.

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

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2019 and 2018.

Hetch Hetchy Cash and Investments outside City Treasury

					Fair Value Measurements Using		
	Credit Ratings	June 30, 2019					
Investments	(S&P/Moody's)	Maturities	Fair Value	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
Hetchy Water							
Cash and Cash Equivalents	N/A		$ 1	1	–	–	–
Total Cash and Investments outside City Treasury			$ 1	1	–	–	–
Hetchy Power							
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 3,886	3,886	–	–	–
Cash and Cash Equivalents	N/A		10	10	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 3,896	3,896	–	–	–

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy Cash and Investments outside City Treasury

		June 30, 2018				Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	Maturities		Fair Value	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
Hetchy Water								
Cash and Cash Equivalents	N/A		$	2	2	–	–	–
Total Cash and Investments outside City Treasury			$	2	2	–	–	–
Hetchy Power								
U.S. Agencies	AA+/Aaa	March 20, 2020	$	1,038	–	–	1,038	–
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days		2,772	2,772	–	–	–
Cash and Cash Equivalents	N/A			5	5	–	–	–
Total Restricted Cash and Investments outside City Treasury			$	3,815	2,777	–	1,038	–
Cash and Cash Equivalents	N/A		$	8	8	–	–	–
Total Cash and Investments outside City Treasury			$	8	8	–	–	–

For fiscal year 2019, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of $2,677 were invested in U.S. Treasury Money Market with maturity date less than 90 days. The credit ratings of the U.S. Treasury Money Market as of June 30, 2019 were “AAAm” by S&P and “Aaa-mf” by Moody’s. For fiscal year 2018, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of $2,633 were invested in U.S. Treasury Money Market with maturity date less than 90 days, and $5 in cash and cash equivalents. The credit ratings of the U.S. Treasury Money Market as of June 30, 2018 were “AAAm” by S&P and “Aaa-mf” by Moody’s.

Hetch Hetchy’s cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2019 and 2018:

		Hetchy Water	Hetchy Power	CleanPowerSF	Total 2019
Current assets:					
Cash and investments with City Treasury	$	77,433	188,787	25,514	291,734
Cash and investments outside City Treasury		1	–	–	1
Restricted cash and investments outside City Treasury		–	3,896	–	3,896
Non-current assets:					
Restricted cash and investments with City Treasury		12,673	19,195	–	31,868
Total cash, cash equivalents, and investments	$	90,107	211,878	25,514	327,499

		Hetchy Water	Hetchy Power	CleanPowerSF	Total 2018
Current assets:					
Cash and investments with City Treasury	$	78,283	184,193	12,395	274,871
Cash and investments outside City Treasury		2	8	–	10
Restricted cash and investments outside City Treasury		–	2,777	–	2,777
Non-current assets:					
Restricted cash and investments with City Treasury		18,137	23,283	–	41,420
Restricted cash and investments outside City Treasury		–	1,038	–	1,038
Total cash, cash equivalents, and investments	$	96,422	211,299	12,395	320,116

(Dollars in thousands, unless otherwise stated)

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

Fiscal years ended June 30	Investment maturities (in months) Under 1	1 to less than 6	6 to less than 12	12 to 60
2019	17.4%	22.2%	16.3%	44.1%
2018	14.3%	22.1%	18.5%	45.1%

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, power stations, certain water mains and pipelines, transmission and distribution systems, tunnels, and bridges.

a) Hetch Hetchy capital assets as of June 30, 2019 and 2018 consist of the following:

	2018	Increases	Decreases	2019
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 5,181	–	–	5,181
Intangible assets	1,437	–	–	1,437
Construction work in progress	108,517	97,826	(46,733) *	159,610
Total capital assets not being depreciated and amortized	115,135	97,826	(46,733)	166,228
Capital assets being depreciated and amortized:				
Facilities and improvements	642,606	38,071	(1,315)	679,362
Intangible assets	45,715	–	–	45,715
Machinery and equipment	130,397	2,980	–	133,377
Total capital assets being depreciated and amortized	818,718	41,051 *	(1,315)	858,454
Less accumulated depreciation and amortization for:				
Facilities and improvements	(361,109)	(13,584)	244	(374,449)
Intangible assets	(20,837)	(461)	–	(21,298)
Machinery and equipment	(72,485)	(5,819)	–	(78,304)
Total accumulated depreciation and amortization	(454,431)	(19,864)	244	(474,051)
Total capital assets being depreciated and amortized, net	364,287	21,187	(1,071)	384,403
Total capital assets, net	$ 479,422	119,013	(47,804)	550,631

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by $6,101 in capital project write-offs, mainly related to Mountain Tunnel Lining Project, 2018 Moccasin Storm Project, and San Joaquin Pipeline Rehabilitation Project.

(Dollars in thousands, unless otherwise stated)

		2017	Increases	Decreases		2018
Capital assets not being depreciated and amortized:						
Land and rights-of-way	$	4,787	394	–		5,181
Intangible assets		1,437	–	–		1,437
Construction work in progress		97,278	53,608	(42,369)	*	108,517
Total capital assets not being depreciated and amortized		103,502	54,002	(42,369)		115,135
Capital assets being depreciated and amortized:						
Facilities and improvements		603,694	38,912	–		642,606
Intangible assets		45,715	–	–		45,715
Machinery and equipment		128,041	3,352	(996)		130,397
Total capital assets being depreciated and amortized		777,450	42,264 *	(996)		818,718
Less accumulated depreciation and amortization for:						
Facilities and improvements		(348,258)	(12,851)	–		(361,109)
Intangible assets		(20,376)	(461)	–		(20,837)
Machinery and equipment		(67,597)	(5,803)	915		(72,485)
Total accumulated depreciation and amortization		(436,231)	(19,115)	915		(454,431)
Total capital assets being depreciated and amortized, net		341,219	23,149	(81)		364,287
Total capital assets, net	$	444,721	77,151	(42,450)		479,422

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by $58 in capital project write-offs, mainly related to Communication Systems Upgrades, Road Improvement Project, and San Joaquin Pipeline Rehabilitation Project.

b) Hetchy Water capital assets as of June 30, 2019 and 2018 consist of the following:

		2018	Increases	Decreases		2019
Capital assets not being depreciated and amortized:						
Land and rights-of-way	$	3,232	–	–		3,232
Intangible assets		6	–	–		6
Construction work in progress		28,326	21,241	(11,942)	*	37,625
Total capital assets not being depreciated and amortized		31,564	21,241	(11,942)		40,863
Capital assets being depreciated and amortized:						
Facilities and improvements		249,678	5,686	(734)		254,630
Intangible assets		20,522	–	–		20,522
Machinery and equipment		26,499	433	–		26,932
Total capital assets being depreciated and amortized		296,699	6,119 *	(734)		302,084
Less accumulated depreciation and amortization for:						
Facilities and improvements		(162,067)	(3,950)	–		(166,017)
Intangible assets		(9,325)	(207)	–		(9,532)
Machinery and equipment		(17,072)	(1,223)	–		(18,295)
Total accumulated depreciation and amortization		(188,464)	(5,380)	–		(193,844)
Total capital assets being depreciated and amortized, net		108,235	739	(734)		108,240
Total capital assets, net	$	139,799	21,980	(12,676)		149,103

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by $5,948 in capital project write-offs, mainly related to Hetchy Water's share of Mountain Tunnel Lining Project, 2018 Moccasin Storm Project, and San Joaquin Pipeline Rehabilitation Project.

(Dollars in thousands, unless otherwise stated)

		2017	Increases	Decreases	2018
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	3,055	177	–	3,232
Intangible assets		6	–	–	6
Construction work in progress		26,479	17,041	(15,194) *	28,326
Total capital assets not being depreciated and amortized		29,540	17,218	(15,194)	31,564
Capital assets being depreciated and amortized:					
Facilities and improvements		235,604	14,074	–	249,678
Intangible assets		20,522	–	–	20,522
Machinery and equipment		25,535	1,036	(72)	26,499
Total capital assets being depreciated and amortized		281,661	15,110	(72)	296,699
Less accumulated depreciation and amortization for:					
Facilities and improvements		(158,429)	(3,638)	–	(162,067)
Intangible assets		(9,118)	(207)	–	(9,325)
Machinery and equipment		(15,923)	(1,221)	72	(17,072)
Total accumulated depreciation and amortization		(183,470)	(5,066)	72	(188,464)
Total capital assets being depreciated and amortized, net		98,191	10,044	–	108,235
Total capital assets, net	$	127,731	27,262	(15,194)	139,799

* Decrease in construction work in progress includes $28 in capital project write-offs, mainly related to Hetchy Water's share of Communication Systems Upgrades, Road Improvement Project, and San Joaquin Pipeline Rehabilitation Project.

c) Hetchy Power capital assets as of June 30, 2019 and 2018 consist of the following:

		2018	Increases	Decreases	2019
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	1,949	–	–	1,949
Intangible assets		1,431	–	–	1,431
Construction work in progress		80,191	76,585	(34,791) *	121,985
Total capital assets not being depreciated and amortized		83,571	76,585	(34,791)	125,365
Capital assets being depreciated and amortized:					
Facilities and improvements		392,928	32,385	(581)	424,732
Intangible assets		25,193	–	–	25,193
Machinery and equipment		103,898	2,547	–	106,445
Total capital assets being depreciated and amortized		522,019	34,932	(581)	556,370
Less accumulated depreciation and amortization for:					
Facilities and improvements		(199,042)	(9,634)	244	(208,432)
Intangible assets		(11,512)	(254)	–	(11,766)
Machinery and equipment		(55,413)	(4,596)	–	(60,009)
Total accumulated depreciation and amortization		(265,967)	(14,484)	244	(280,207)
Total capital assets being depreciated and amortized, net		256,052	20,448	(337)	276,163
Total capital assets, net	$	339,623	97,033	(35,128)	401,528

* Decrease in construction work in progress included $153 in capital project write-offs, mainly related to Hetchy Power's share of 2018 Moccasin Storm Project, Other Powerhouse Projects, and Road Improvement Project.

(Dollars in thousands, unless otherwise stated)

		2017	Increases	Decreases	2018
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	1,732	217	–	1,949
Intangible assets		1,431	–	–	1,431
Construction work in progress		70,799	36,567	(27,175) *	80,191
Total capital assets not being depreciated and amortized		73,962	36,784	(27,175)	83,571
Capital assets being depreciated and amortized:					
Facilities and improvements		368,090	24,838	–	392,928
Intangible assets		25,193	–	–	25,193
Machinery and equipment		102,506	2,316	(924)	103,898
Total capital assets being depreciated and amortized		495,789	27,154 *	(924)	522,019
Less accumulated depreciation and amortization for:					
Facilities and improvements		(189,829)	(9,213)	–	(199,042)
Intangible assets		(11,258)	(254)	–	(11,512)
Machinery and equipment		(51,674)	(4,582)	843	(55,413)
Total accumulated depreciation and amortization		(252,761)	(14,049)	843	(265,967)
Total capital assets being depreciated and amortized, net		243,028	13,105	(81)	256,052
Total capital assets, net	$	316,990	49,889	(27,256)	339,623

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by $30 in capital project write-offs, mainly related to Hetchy Power's share of Communication Systems Upgrades, and Road Improvement Project.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, requires that interest expense incurred during construction of assets be capitalized. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2019 and 2018 are as follows:

Hetchy Power		2019	2018
Interest expensed	$	2,936	3,103
Interest included in construction work in progress		724	413
Total interest incurred	$	3,660	3,516

(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the "Indenture"), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds, and have a priority lien on the pledge of net revenues to the outstanding CREBs, QECBs, and NCREBs (the "Subordinate Obligations"). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledge for the 2015 Series AB Bonds (the "Bonds" or "Bond").

In the Indenture, the SFPUC covenants and agrees that it will pay into the Revenue Fund as received all Revenues of Hetchy Power and shall be used and applied, as provided by the Indenture, solely for the purposes of operating and maintaining Hetchy Power and paying all costs, charges, and expenses in connection therewith and for the purpose of making repairs, renewals, and replacements to Hetchy Power and constructing additions, betterments, and extensions thereto.

(Dollars in thousands, unless otherwise stated)

The Indenture provides that Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC by resolution;
7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;
9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

In the Indenture, the SFPUC covenants and agrees to transfer to the Trustee for deposit in the Interest Account of each applicable Bond Fund all Refundable Credits received by the SFPUC.

In accordance with the Agreements, Hetch Hetchy maintains certain restricted cash and investment balances in trust.

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2019 and 2018:

	2019	2018
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 12,673	18,137
Interest receivable:		
Hetch Hetchy bond construction fund	66	–
Total restricted assets	$ 12,739	18,137

(Dollars in thousands, unless otherwise stated)

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2019 and 2018:

	2019	2018
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 19,195	23,283
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	245	237
2009 Series D Certificates of participation - 525 Golden Gate	964	940
2015 Series A Revenue Bonds	2,167	2,132
2015 Series B Revenue Bonds	510	501
Commercial Paper	10	5
Total restricted cash and investments outside City Treasury	3,896	3,815
Interest receivable:		
Hetch Hetchy bond construction fund	196	174
Total restricted assets	$ 23,287	27,272

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

(6) Short-Term Debt

Effective March 2019, under Charter Sections 9.107(6) and 9.107(8), and 2018 Proposition A, the Commission and Board of Supervisors authorized the issuance of up to $250,000 in commercial paper notes for the purpose of reconstructing, replacing, expanding, repairing or improving power facilities of Hetchy Power. Interest rates for the commercial paper ranged from 1.3% to 1.7% in fiscal year 2019. The Enterprise had $50,724 and $20,280 commercial paper outstanding as of June 30, 2019 and 2018, respectively. The Enterprise had $199,276 and $69,720 in unused authorization as of June 30, 2019 and 2018, respectively.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, Significant Events of default as specified in the Reimbursement Agreements include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements and 3) bankruptcy, 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, 2019, there were no such events described herein.

(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

a) Hetch Hetchy's long-term liability activities for the years ended June 30, 2019 and 2018 are as follows:

	Interest rate	Maturity (Calendar Year)	2018	Additions	Reductions	2019	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,109	–	(422)	1,687	422
Qualified Energy Conservation Bonds	4.74	2027	5,294	–	(529)	4,765	536
New Clean Renewable Energy Bonds 2012	4.74	2020	1,283	–	(570)	713	583
New Clean Renewable Energy Bonds 2015	4.62	2032	3,651	–	(229)	3,422	232
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	6,820	–	(730)	6,090	755
Less issuance discount			(62)	–	14	(48)	–
Add issuance premiums			4,121	–	(229)	3,892	–
Total bonds payable			55,241	–	(2,695)	52,546	2,528
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	1,928	–	(348)	1,580	366
2009 Series C COPs issuance premiums			60	–	(21)	39	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			36,000	5,281	(5,809)	35,472	–
Net pension liability			57,122	5,231	(15,973)	46,380	–
Accrued vacation and sick leave			3,951	2,537	(2,246)	4,242	2,534
Accrued workers' compensation			2,949	1,251	(701)	3,499	584
Damage claims liability			2,466	2,947	(3,129)	2,284	757
Total			$ 172,310	17,247	(30,922)	158,635	6,769

	Interest rate	Maturity (Calendar Year)	2017	Additions	Reductions	2018	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,527	–	(418)	2,109	422
Qualified Energy Conservation Bonds	4.74	2027	5,817	–	(523)	5,294	529
New Clean Renewable Energy Bonds 2012	4.74	2020	1,839	–	(556)	1,283	570
New Clean Renewable Energy Bonds 2015	4.62	2032	3,877	–	(226)	3,651	229
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	(710)	6,820	730
Less issuance discount			(74)	–	12	(62)	–
Add issuance premiums			4,359	–	(238)	4,121	–
Total bonds payable			57,900	–	(2,659)	55,241	2,480
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,259	–	(331)	1,928	348
2009 Series C COPs issuance premiums			86	–	(26)	60	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			28,222	9,244	(1,466)	36,000	–
Net pension liability			69,412	9,387	(21,677)	57,122	–
Accrued vacation and sick leave			3,623	6,218	(5,890)	3,951	2,385
Accrued workers' compensation			2,969	561	(581)	2,949	525
Damage claims liability			2,438	2,975	(2,947)	2,466	837
Total			$ 179,502	28,385	(35,577)	172,310	6,575

(Dollars in thousands, unless otherwise stated)

b) Hetchy Water's long-term liability activities for the years ended June 30, 2019 and 2018 are as follow:

	2018	Additions	Reductions	2019	Due within one year
Other post-employment benefits obligations	$ 15,872	2,054	(2,522)	15,404	–
Net pension liability	25,216	2,212	(7,038)	20,390	–
Accrued vacation and sick leave	1,323	662	(597)	1,388	859
Accrued workers' compensation	989	462	(213)	1,238	201
Damage claims liability	233	323	(332)	224	70
Total	$ 43,633	5,713	(10,702)	38,644	1,130

	2017	Additions	Reductions	2018	Due within one year
Other post-employment benefits obligations	$ 11,280	5,238	(646)	15,872	–
Net pension liability	31,235	3,639	(9,658)	25,216	–
Accrued vacation and sick leave	1,188	1,655	(1,520)	1,323	835
Accrued workers' compensation	999	207	(217)	989	174
Damage claims liability	586	786	(1,139)	233	110
Total	$ 45,288	11,525	(13,180)	43,633	1,119

c) Hetchy Power's long-term liability activities for the years ended June 30, 2019 and 2018 are as follow:

	Interest rate	Maturity (Calendar Year)	2018	Additions	Reductions	2019	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,109	–	(422)	1,687	422
Qualified Energy Conservation Bonds	4.74	2027	5,294	–	(529)	4,765	536
New Clean Renewable Energy Bonds 2012	4.74	2020	1,283	–	(570)	713	583
New Clean Renewable Energy Bonds 2015	4.62	2032	3,651	–	(229)	3,422	232
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	6,820	–	(730)	6,090	755
Less issuance discount			(62)	–	14	(48)	–
Add issuance premiums			4,121	–	(229)	3,892	–
Total bonds payable			55,241	–	(2,695)	52,546	2,528
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	1,928	–	(348)	1,580	366
2009 Series C COPs issuance premiums			60	–	(21)	39	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			19,400	2,510	(3,084)	18,826	–
Net pension liability			30,819	2,703	(8,602)	24,920	–
Accrued vacation and sick leave			2,564	1,679	(1,600)	2,643	1,533
Accrued workers' compensation			1,960	789	(488)	2,261	383
Damage claims liability			2,233	2,580	(2,760)	2,053	684
Total			$ 126,798	10,261	(19,598)	117,461	5,494

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2017	Additions	Reductions	2018	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,527	–	(418)	2,109	422
Qualified Energy Conservation Bonds	4.74	2027	5,817	–	(523)	5,294	529
New Clean Renewable Energy Bonds 2012	4.74	2020	1,839	–	(556)	1,283	570
New Clean Renewable Energy Bonds 2015	4.62	2032	3,877	–	(226)	3,651	229
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	(710)	6,820	730
Less issuance discount			(74)	–	12	(62)	–
Add issuance premiums			4,359	–	(238)	4,121	–
Total bonds payable			57,900	–	(2,659)	55,241	2,480
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,259	–	(331)	1,928	348
2009 Series C COPs issuance premiums			86	–	(26)	60	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			16,855	3,335	(790)	19,400	–
Net pension liability			38,177	4,447	(11,805)	30,819	–
Accrued vacation and sick leave			2,397	4,495	(4,328)	2,564	1,504
Accrued workers' compensation			1,970	354	(364)	1,960	351
Damage claims liability			1,852	2,189	(1,808)	2,233	727
Total			$ 134,089	14,820	(22,111)	126,798	5,410

d) CleanPowerSF's long-term liability activities for the years ended June 30, 2019 and 2018 are as follows:

	2018	Additions	Reductions	2019	Due within one year
Other post-employment benefits obligations	$ 728	717	(203)	1,242	–
Net pension liability	1,087	316	(333)	1,070	–
Accrued vacation and sick leave	64	196	(49)	211	142
Damage claims liability	–	44	(37)	7	3
Total	$ 1,879	1,273	(622)	2,530	145

	2017	Additions	Reductions	2018	Due within one year
Other post-employment benefits obligations	$ 87	671	(30)	728	–
Net pension liability	–	1,301	(214)	1,087	–
Accrued vacation and sick leave	38	68	(42)	64	46
Total	$ 125	2,040	(286)	1,879	46

GASB Statement No. 88 Implemented in Fiscal Year 2019

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This Statement applies to all Hetchy Power bonds and is discussed in each bond hereafter.

(a) *Clean Renewable Energy Bonds*

In November 2008, Hetchy Power issued $6,325 of taxable CREBs to finance the installation of solar energy equipment on City-owned facilities, including Chinatown Branch Library, Maxine Hall Medical Center, City Distribution Division Warehouse, North Point Wastewater Plant, Chinatown Public Health Center, Municipal Transportation Agency Woods, and Municipal

(Dollars in thousands, unless otherwise stated)

Transportation Agency Ways and Structures. The CREBs were non-rated and privately-placed with Banc of America Leasing. The net effective interest rate on the CREBs, after the federal tax subsidy, is 0% through 2022. Hetchy Power began making principal payments in the amount of $422 on December 15, 2008 and will continue annual payments for 15 years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

Significant events of default as specified in the Equipment Lease/Purchase Agreement, include 1) payment defaults, 2) material breach of warranty, representation, or covenants of the Equipment Lease/Purchase Agreement (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which could cause acceleration of all Rental Payments. Assets constructed by the projects funded from proceeds of this debt obligation are pledged as collateral. As of June 30, 2019, there were no such events described herein. The future annual debt service relating to the CREBs outstanding as of June 30, 2019 is as follows:

Fiscal years ending June 30:	Principal
2020	$ 422
2021	422
2022	422
2023	421
	1,687
Less: Current portion	(422)
Less: Unamortized bond discount	(48)
Long-term portion as of June 30, 2019	$ 1,217

(b) *Qualified Energy Conservation Bonds*

In December 2011, Hetchy Power issued $8,291 of taxable QECBs. The QECBs were issued to fund certain qualified green components for the SFPUC's 525 Golden Gate Headquarters project. The QECBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the QECBs, after the federal tax subsidy, is 1.2% through 2028.

Significant events of default as specified in the Equipment Lease/Purchase Agreement, include 1) payment defaults 2) material breach of warranty, representation, or covenants of the Equipment Lease/Purchase Agreement (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which could cause acceleration of all Rental Payments. Assets constructed by the projects funded from proceeds of this debt obligation are pledged as collateral. As of June 30, 2019, there were no such events described herein.

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the QECBs outstanding as of June 30, 2019 is as follows:

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2020	$	536	219	(154)	65
2021		542	194	(136)	58
2022		549	168	(118)	50
2023		555	142	(100)	42
2024		562	116	(81)	35
2025-2028		2,021	193	(137)	56
		4,765	1,032	(726)	306
Less: Current portion		(536)			
Long-term portion as of June 30, 2019	$	4,229			

* The SFPUC received IRS notice dated July 9, 2019 that the federal interest subsidy is reduced by 5.9% or a total reduction of $46 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(c) *New Clean Renewable Energy Bonds 2012*

In April 2012, Hetchy Power issued $6,600 of taxable NCREBs. The NCREBs were issued to fund certain qualified facilities that provide clean, renewable energy at Davies Symphony Hall, City Hall, and University Mound Reservoir. The NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the NCREBs, after the federal tax subsidy, is 1.5% through 2021. $288 and $2,523 of principal was prepaid in fiscal year 2017 and 2016, respectively. There was no prepayment thence after.

Significant events of default as specified in the Equipment Lease/Purchase Agreement, include 1) payment defaults 2) material breach of warranty, representation, or covenants of the Equipment Lease/Purchase Agreement (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which could cause acceleration of all Rental Payments. Assets constructed by the projects funded from proceeds of this debt obligation are pledged as collateral. As of June 30, 2019, there were no such events described herein. The future annual debt service relating to the 2012 NCREBs outstanding as of June 30, 2019 is as follows:

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2020	$	583	27	(18)	9
2021		130	3	(2)	1
		713	30	(20)	10
Less: Current portion		(583)			
Long-term portion as of June 30, 2019	$	130			

* The SFPUC received IRS notice dated July 9, 2019 that the federal interest subsidy is reduced by 5.9% or a total reduction of $1 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(d) *New Clean Renewable Energy Bonds 2015*

In October 2015, Hetchy Power issued $4,100 of taxable 2015 NCREBs. The 2015 NCREBs were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the 2015 NCREBs, after the federal tax subsidy, is 1.4% through 2033.

(Dollars in thousands, unless otherwise stated)

Significant events of default as specified in the Equipment Lease/Purchase Agreement, include 1) payment defaults 2) material breach of warranty, representation, or covenants of the Equipment Lease/Purchase Agreement (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which could cause acceleration of all Rental Payments. Assets constructed by the projects funded from proceeds of this debt obligation are pledged as collateral. As of June 30, 2019, there were no such events described herein.

The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2019 is as follows:

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2020	$	232	155	(102)	53
2021		235	145	(95)	50
2022		239	134	(88)	46
2023		242	123	(81)	42
2024		245	111	(73)	38
2025-2029		1,279	384	(253)	131
2030-2033		950	88	(59)	29
		3,422	1,140	(751)	389
Less: Current portion		(232)			
Long-term portion as of June 30, 2019	$	3,190			

* The SFPUC received IRS notice dated July 9, 2019 that the federal interest subsidy is reduced by 5.9% or a total reduction of $47 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(e) *Power Revenue Bonds 2015 Series A (Green) and Series B*

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of $32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of $7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015 Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Final maturity for 2015 Series AB are November 1, 2045 and November 1, 2026, respectively. The true interest cost is 3.95%. As of June 30, 2019, the outstanding principal amount was $38,115.

Significant events of default as specified in the Power Enterprise Indenture (applicable to Power Revenue Bonds) 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), declare the principal and the interest accrued theron to be due and payable immediately. As of June 30, 2019, there were no such events described herein.

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2019 are as follows:

Hetchy Power - Power Revenue Bonds 2015 Series A (Green)

Fiscal years ending June 30:		Principal	Interest	Total
2020	$	–	1,593	1,593
2021		–	1,593	1,593
2022		–	1,593	1,593
2023		–	1,593	1,593
2024		–	1,593	1,593
2025-2029		2,925	7,778	10,703
2030-2034		6,225	6,527	12,752
2035-2039		7,940	4,765	12,705
2040-2044		10,135	2,516	12,651
2045-2046		4,800	243	5,043
		32,025	29,794	61,819
Add: Unamortized bond premium		3,560		
Long-term portion as of June 30, 2019	$	35,585		

Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:		Principal	Interest	Total
2020	$	755	220	975
2021		785	189	974
2022		815	157	972
2023		850	124	974
2024		880	93	973
2025-2027		2,005	89	2,094
		6,090	872	6,962
Less: Current portion		(755)		
Add: Unamortized bond premium		332		
Long-term portion as of June 30, 2019	$	5,667		

(f) *Certificates of Participation Issued for the 525 Golden Gate Headquarters Building*

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

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City’s use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. Hetchy Power's share is reflected on the Hetchy Power fund statements. There are no events of default stated in this memorandum of understanding.

(Dollars in thousands, unless otherwise stated)

The Power, Water, and Wastewater Enterprises have 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 C and D outstanding as of June 30, 2019 are as follow:

Hetchy Power - Certificates of Participation 2009 Series C (Tax Exempt)

Fiscal years ending June 30:	Principal	Interest	Total
2020	$ 366	70	436
2021	384	51	435
2022	405	31	436
2023	425	10	435
	1,580	162	1,742
Less: Current portion	(366)		
Add: Unamortized bond premium	39		
Long-term portion as of June 30, 2019	$ 1,253		

Hetchy Power - Certificates of Participation 2009 Series D (Taxable BABs)

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2020	$ –	812	(268)	544
2021	–	812	(268)	544
2022	–	812	(268)	544
2023	–	812	(268)	544
2024	445	798	(263)	535
2025-2029	2,520	3,533	(1,164)	2,369
2030-2034	3,099	2,637	(868)	1,769
2035-2039	3,822	1,519	(500)	1,019
2040-2042	2,707	271	(87)	184
Total		12,006	(3,954)	8,052
Long-term portion as of June 30, 2019	$ 12,593			

* The SFPUC received IRS notice dated July 9, 2019 that the federal interest subsidy is reduced by 5.9% or a total reduction of $248 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(8) Revenue Pledge

Hetchy Power has pledged future power revenues to repay the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

(Dollars in thousands, unless otherwise stated)

The original amount of bonds issued, total principal and interest remaining, principal and interest paid during fiscal years 2019 and 2018, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power		2019	2018
Bonds issued with revenue pledge	$	64,871	64,871
Principal and interest remaining due at the end of the year		81,570	86,356
Principal and interest paid during the year*		4,784	4,824
Net revenues for the year ended June 30		39,798	30,687
Funds available for debt service		71,013	67,212

*Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 series AB power revenue bonds, which has a senior lien on power enterprise revenues; principal and interest paid during the year for the 2015 Series AB power revenue bonds was $2,569.

(9) Other Non-Operating Revenues – Trans Bay Cable Construction and Licensing Fees

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Trans Bay Cable LLC (the Licensee) for the Trans Bay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable running from the City of Pittsburg to the City. The first license is a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee has paid Hetchy Power $3,500 in Renewable Energy, Transmission and Grid Reliability to use the payments for study and development of two City-owned transmission projects, a Newark-San Francisco project, and a Potrero-Embarcadero project. Of the $3,500, only $1,904 has been spent to date. For fiscal years ended June 30, 2019 and 2018, expenses were $0 and $2, respectively.

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The Licensee agrees to pay Hetchy Power in excess of $20,000 in 10 separate installments of $2,000 annually with adjustments for inflation, as the "San Francisco Electric Reliability Payment" to implement, advance, promote, or enhance policies and projects consistent with City Energy Policies. The project came on line November 29, 2010, and Hetchy Power received the first installment of $2,000. As of June 30, 2019, cumulative revenues to date of $20,134 were recorded, with $2,522 and $2,434 recorded in fiscal years 2019 and 2018, respectively. Per agreement, the SFPUC shall consult with Departments of Environment and Public Health, as well as community members, including the Power Plant Task Force, in developing its proposals to the Board of Supervisors on how to spend the San Francisco Electricity Reliability Payment, and shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2019, cumulative expenses of $7,480 have been incurred, with $1,702 and $648 in fiscal years 2019 and 2018, respectively.

(10) Employee Benefits

(a) *Pension Plan*

Hetch Hetchy participates in a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (SFERS). 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 plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the 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 reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

San Francisco Employees' Retirement System (SFERS) – Cost Sharing

	Fiscal Year 2019	Fiscal Year 2018
Valuation Date (VD)	June 30, 2017 updated to June 30, 2018	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2018	June 30, 2017
Measurement Period (MP)	July 1, 2017 to June 30, 2018	July 1, 2016 to June 30, 2017

The City is an employer of the plan with a proportionate share of 94.10% as of June 30, 2018 (measurement date), and 94.07% as of June 30, 2017 (measurement date). Hetch Hetchy's allocation percentage was determined based on its employer contributions divided by the City's total employer contributions for fiscal years 2018 and 2017. Hetch Hetchy'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. Hetchy Water's and Hetchy Power's allocation of the City's proportionate share was 1.12% as of June 30, 2018 and 1.19% as of June 30, 2017 (measurement dates). CleanPowerSF's allocation of the City's proportionate share was 0.03% as of June 30, 2018 and 0.02% as of June 30, 2017 (measurement dates).

Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco 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 Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City.

The four main categories of Plan members are:

a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
b) Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.

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

The membership groups and the related service retirement benefits are included in the Notes to the 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 Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy – Contributions are made to the basic plan 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 13.0% as a percentage of gross covered salary in fiscal years 2019 and 2018. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2017 actuarial report, the required employer contribution rate for fiscal year 2019 was 18.81% to 23.31%. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2018 and 2017 (measurement years) were $582,568 and $519,073, respectively. Hetchy Water's allocation of employer contributions were $3,128 and $2,961 or 45%, and Hetchy Power's allocation of employer contributions were

(Dollars in thousands, unless otherwise stated)

$3,822 and $3,618 or 55%, respectively, for fiscal years 2018 and 2017 (measurement periods). CleanPowerSF's allocation of employer contributions were $135 and $0, respectively, for fiscal years 2018 and 2017 (measurement periods).

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

Fiscal Year 2019

As of June 30, 2019, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4,030,207. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportion of the net pension liability 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. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2019 was $46,380, of which $20,390 for Hetchy Water, $24,920 for Hetchy Power, and $1,070 for CleanPowerSF.

For the year ended June 30, 2019, the City's recognized pension expense was $488,255 including amortization of deferred outflow/inflow related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $3,239, of which $1,344 for Hetchy Water, $1,643 for Hetchy Power, and $252 for CleanPowerSF. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

At June 30, 2019, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
Fiscal Year 2019	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Pension contribution subsequent to the measurement date	$ 3,073	3,756	161	6,990	–	–	–	–
Differences between expected and actual experience	166	202	9	377	577	705	30	1,312
Changes in assumptions	3,179	3,886	167	7,232	–	–	–	–
Net difference between projected and actual earnings on pension plan investments	–	–	–	–	3,278	4,005	172	7,455
Change in employer's proportion	29	35	2	66	19	24	1	44
Total	$ 6,447	7,879	339	14,665	3,874	4,734	203	8,811

(Dollars in thousands, unless otherwise stated)

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

Fiscal years		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2020	$	1,301	1,591	68	2,960
2021		572	700	30	1,302
2022		(1,677)	(2,049)	(88)	(3,814)
2023		(696)	(853)	(35)	(1,584)
	$	(500)	(611)	(25)	(1,136)

Fiscal Year 2018

As of June 30, 2018, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4,697,129. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability 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. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2018 was $57,122, of which $25,216 for Hetchy Water, $30,819 for Hetchy Power, and $1,087 for CleanPowerSF.

For the years ended June 30, 2018, the City's recognized pension expense was $732,895 including amortization of deferred outflow/inflow related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $6,144, of which $2,765 for Hetchy Water, $3,379 for Hetchy Power, and $978 for CleanPowerSF. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings. At June 30, 2018, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

		Schedules of Deferred Outflows and Inflows of Resources							
		Deferred Outflows of Resources				Deferred Inflows of Resources			
Fiscal Year 2018		Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Pension contribution subsequent to the measurement date	$	3,127	3,823	135	7,085	–	–	–	–
Differences between expected and actual experience		234	286	10	530	761	931	33	1,725
Changes in assumptions		4,089	4,997	176	9,262	74	91	3	168
Net difference between projected and actual earnings on pension plan investments		–	–	–	–	942	1,149	41	2,132
Change in employer's proportion		38	46	2	86	41	51	2	94
Total	$	7,488	9,152	323	16,963	1,818	2,222	79	4,119

(Dollars in thousands, unless otherwise stated)

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

Deferred Outflows/(Inflows) of Resources					
Fiscal years		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2019	$	117	143	5	265
2020		2,120	2,590	91	4,801
2021		1,346	1,645	58	3,049
2022		(1,040)	(1,271)	(45)	(2,356)
	$	2,543	3,107	109	5,759

Actuarial Assumptions

Fiscal Year 2019

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2018 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2017 actuarial valuation. Refer to the July 1, 2017 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions	
Valuation Date	June 30, 2017 updated to June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	3.58% as of June 30, 2017
	3.87% as of June 30, 2018
	Bond Buyer 20-Bond GO Index, June 29, 2017 and June 28, 2018
Inflation	3.00%
Salary Increases	3.50% plus merit component based on employee classification and years of service
Discount Rate	7.50% as of June 30, 2017
	7.50% as of June 30, 2018
Administrative Expenses	0.60% of payroll as of June 30, 2017
	0.60% of payroll as of June 30, 2018

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, 2017	2.00%	2.70%	3.30%	4.40%
June 30, 2018	2.00%	2.50%	3.10%	4.20%

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2018

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2017 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2016 actuarial valuation. Refer to the July 1, 2016 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	2.85% as of June 30, 2016
	3.58% as of June 30, 2017
	Bond Buyer 20-Bond GO Index, June 30, 2016 and June 29, 2017
Inflation	3.25%
Salary Increases	3.75% plus merit component based on employee classification and years of service
Discount Rate	7.50% as of June 30, 2016
	7.50% as of June 30, 2017
Administrative Expenses	0.60% of payroll as of June 30, 2016
	0.60% of payroll as of June 30, 2017

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, 2016	2.00%	2.70%	3.30%	4.40%
June 30, 2017	2.00%	2.70%	3.30%	4.40%

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Discount Rate

Fiscal Year 2019

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 7.50% as of June 30, 2018 (measurement date) and June 30, 2017 (measurement date), respectively.

The discount rate used to measure the Total Pension Liability as of the June 30, 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2017 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. 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 3.50% 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 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, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2018 for the probability and amount of Supplemental COLA for each future year. We have assumed that a full Supplemental COLA will be paid to all Post 97 Retirees effective July 1, 2018. 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
2019	0.750 %	0.000 %
2022	0.750	0.290
2025	0.750	0.350
2028	0.750	0.360
2031+	0.750	0.380

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 System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2097 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.87% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2018 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. 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)

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	5.4 %
Private Equity	18.0	6.6
Real Assets	17.0	4.5
Hedge Funds/Absolute Returns	15.0	3.7
Private Credit	10.0	4.6
Treasuries	6.0	0.5
Liquid Credit	3.0	3.3
Total	100.0	

Fiscal Year 2018

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 7.50% as of June 30, 2017 (measurement date) and June 30, 2016 (measurement date), respectively.

The discount rate used to measure the Total Pension Liability as of the June 30, 2017 measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 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. 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 3.75% 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 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, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2017 measurement date for the probability and amount of Supplemental COLA for each future year. 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
2018	0.750 %	0.000 %
2023	0.750	0.290
2028	0.750	0.350
2033	0.750	0.380
2038+	0.750	0.380

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 System’s fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2096 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.58% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2017 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. 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.

(Dollars in thousands, unless otherwise stated)

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:

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0 %	5.3 %
Fixed Income	20.0	1.6
Private Equity	18.0	6.5
Real Assets	17.0	4.6
Hedge Funds/Absolute Returns	5.0	3.6
Total	100.0	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what Hetch Hetchy'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 2019		Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease Share of NPL @ 6.50%	$	38,187	46,673	2,004	86,864
Share of NPL @ 7.50%		20,390	24,920	1,070	46,380
1% Increase Share of NPL @ 8.50%		5,672	6,933	298	12,903

Fiscal Year 2018		Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease Share of NPL @ 6.50%	$	43,199	52,798	1,862	97,859
Share of NPL @ 7.50%		25,216	30,819	1,087	57,122
1% Increase Share of NPL @ 8.50%		10,336	12,633	445	23,414

(b) *Other Post-Employment Benefits*

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

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 2019	Fiscal Year 2018
Valuation Date (VD)	June 30, 2018	June 30, 2016 updated to June 30,2017
Measurement Date (MD)	June 30, 2018	June 30, 2017
Measurement Period (MP)	July 1, 2017 to June 30, 2018	July 1, 2016 to June 30, 2017

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the year ended June 30, 2018. Hetch Hetchy'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 its allocated percentage. Hetch Hetchy's proportionate share of the City's OPEB elements was 0.98%, of which 0.43% for Hetchy Water, 0.52% for Hetchy Power, and 0.03% for CleanPowerSF as of June 30, 2018 (measurement date). Hetch Hetchy's proportionate share of the City's OPEB elements was 0.97%, of which 0.43% for Hetchy Water, 0.52% for Hetchy Power, and 0.02% for CleanPowerSF as of June 30, 2017 (measurement date).

Benefits

Fiscal Year 2019

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[3]		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 hire on or after January 7, 2012.
[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.
[3] Effective with Proposition B passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

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

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental, DeltaCare USA and United Healthcare 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.

Fiscal Year 2018

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.

(Dollars in thousands, unless otherwise stated)

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[3]		Age 50 with 5 years of credited service at separation
Active Death[2]		Any age with 10 years of credited service

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.
[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.
[3] Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

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

Medical:	PPO – City Health Plan (self-insured)
	HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental and DeltaCare USA
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 GASB 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.

(Continued)

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2019

For the fiscal year ended June 30, 2019, the City's funding was based on "pay-as-you-go" plus a contribution of $32,786 to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was $185,839 for a total contribution of $218,625 for the fiscal year ended June 30, 2019. Hetch Hetchy's proportionate share of the City's contributions for fiscal year 2019 were $2,153: $935 for Hetchy Water, $1,143 for Hetchy Power, and $75 for CleanPowerSF.

Fiscal Year 2018

For the fiscal year ended June 30, 2018, the City's funding was based on "pay-as-you-go" plus a contribution of $25,839 to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was $178,019 for a total contribution of $203,858 for the fiscal year ended June 30, 2018. Hetch Hetchy's proportionate share of the City's contributions for fiscal year 2018 were $1,974: $870 for Hetchy Water, $1,064 for Hetchy Power, and $40 for CleanPowerSF.

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

Fiscal Year 2019

As of June 30, 2019, the City reported net OPEB liabilities related to the Plan of $3,600,967. Hetch Hetchy's proportionate share of the City net OPEB liability as of June 30, 2019 was $35,472: $15,404 for Hetchy Water, $18,826 for Hetchy Power, and $1,242 for CleanPowerSF.

For the year ended June 30, 2019, the City's recognized OPEB expense was $320,332. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was $3,740: $1,397 for Hetchy Water, $1,708 for Hetchy Power, and $635 for CleanPowerSF.

As of June 30, 2019, Hetch Hetchy's reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

Schedules of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources				Deferred Inflows of Resources			
		Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	$	935	1,143	75	2,153	–	–	–	–
Differences between expected and actual experience		–	–	–	–	1,415	1,729	114	3,258
Changes in assumptions		408	498	33	939	–	–	–	–
Net difference between projected and actual earnings on plan investments		–	–	–	–	14	17	1	32
Total	$	1,343	1,641	108	3,092	1,429	1,746	115	3,290

(Dollars in thousands, unless otherwise stated)

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

Deferred Outflows/(Inflows) of Resources					
Fiscal years		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2020	$	(173)	(211)	(14)	(398)
2021		(173)	(211)	(14)	(398)
2022		(173)	(211)	(14)	(398)
2023		(167)	(205)	(14)	(386)
2024		(168)	(205)	(13)	(386)
Thereafter		(167)	(205)	(13)	(385)
	$	(1,021)	(1,248)	(82)	(2,351)

Fiscal Year 2018

As of June 30, 2018, the City reported net OPEB liabilities related to the Plan of $3,717,207. Hetch Hetchy's proportionate share of the City net OPEB liability as of June 30, 2018 was $36,000: $15,872 for Hetchy Water, $19,400 for Hetchy Power, and $728 for CleanPowerSF.

For the year ended June 30, 2018, the City's recognized OPEB expense was $355,186. Amortization of the City's deferred inflow is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was $3,439: $1,516 for Hetchy Water, $1,854 for Hetchy Power, and $69 for CleanPowerSF.

As of June 30, 2018, Hetch Hetchy's reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

		Schedules of Deferred Outflows and Inflows of Resources							
		Deferred Outflows of Resources				Deferred Inflows of Resources			
		Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	$	870	1,064	40	1,974	–	–	–	–
Net difference between projected and actual earnings on plan investments		–	–	–	–	26	31	1	58
Total	$	870	1,064	40	1,974	26	31	1	58

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:

Deferred Outflows/(Inflows) of Resources					
Fiscal years		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2019	$	(6)	(8)	(1)	(15)
2020		(6)	(8)	–	(14)
2021		(6)	(8)	–	(14)
2022		(8)	(7)	–	(15)
	$	(26)	(31)	(1)	(58)

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2019

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2018 (measurement year) is provided below:

Key Actuarial Assumptions	
Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.50% and trends down to ultimate rate of 3.93% in 2076
	Medicare trend starts at 7.5% and trends down to ultimate rate of 3.93% in 2076
	10-County average trend starts at 5.90% and trends down to ultimate rate of 3.93% in 2076
	Vision and expenses trend remains a flat 3.5% for all years
Expected Rate of Return on Plan Assets	7.40%
Discount Rate	7.40%
Salary Increase Rate	Wage Inflation Component: 3.50%
	Additional Merit Component (dependent on years of service):
	Police: 1.50% - 8.00%
	Fire: 1.50% - 15.00%
	Muni Drivers: 0.00% - 15.00%
	Craft: 0.00% - 3.50%
	Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually
	Consumer Price Inflation: 2.75% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disable Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disables Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment	Base Year
Female	0.983	2009
Male	0.909	2009

The mortality rates in the base tables are projected generationally from the base year using the modified version of the MP-2015 projection scale. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2017 (instead of 2029) and an ultimate rate of improvement of 0.85% (instead of 1.00%) up to age 85 decreasing to 0.70% (instead of 0.85%) at age 95.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2018

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2017 (measurement year) is provided below:

Key Actuarial Assumptions	
Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
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 7.25% and trends down to ultimate rate of 4.5% Medicare trend starts at 7.0% and trends down to ultimate rate of 4.5% 10-County average trend starts at 6.0% and trends down to ultimate rate of 4.5%
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 0.00% - 8.00% Fire: 0.00% - 15.00% Muni Drivers: 0.00% - 15.00% Craft: 0.00% - 3.50% Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 3.00% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disable Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disables Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

(Continued)

(Dollars in thousands, unless otherwise stated)

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

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what its 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 as of June 30, 2019 and June 30, 2018:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2019
1% Decrease	$ 13,388	16,364	1,079	30,831
Healthcare Trend	15,404	18,826	1,242	35,472
1% Increase	17,903	21,882	1,443	41,228

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2018
1% Decrease	$ 13,852	16,930	635	31,417
Healthcare Trend	15,872	19,400	728	36,000
1% Increase	18,370	22,453	842	41,665

Discount Rate

Fiscal Year 2019

The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.40%. 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 7.40% 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 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Equities	41.0 %	7.3 %
Developed Market Equity (non-U.S.)	20.0	7.1
Emerging Market Equity	16.0	9.4
Credit		
High Yield Bonds	3.0	5.4
Bank Loans	3.0	5.0
Emerging Market Bonds	3.0	4.9
Rate Securities		
Investment Grade Bonds	9.0	3.6
Treasury Inflation Protected Securities	5.0	3.3
	100.0	

The asset allocation targets summarized above have a 20-year return estimate of 7.50%, which was weighted against a 10-year model estimating a 6.30% return, resulting in the ultimate long-term expected rate of return of 7.40%.

(Dollars in thousands, unless otherwise stated)

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy'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:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.40%	$ 17,709	21,645	1,427	40,781
Discount Rate 7.40%	15,404	18,826	1,242	35,472
1% Increase 8.40%	13,517	16,521	1,089	31,127

Fiscal Year 2018

The discount rate used to measure the total OPEB liability as of June 30, 2017 was 7.50%. 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 7.50% 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 are summarized in the following table:

Asset Class	Target Allocation	20-year Expected Return
U.S. Equities	41.0 %	7.3 %
Developed Market Equity (non-U.S.)	20.0	7.1
Emerging Market Equity	16.0	9.4
High Yield Bonds	3.0	5.4
Bank Loans	3.0	5.0
Emerging Market Bonds	3.0	5.4
Treasury Inflation Protected Securities	5.0	3.3
Investment Grade Bonds	9.0	3.6
	100.0	

The asset allocation targets summarized above have a 20-year return estimate of 7.75%, which was weighted against a 10-year model estimating a 6.59% return, resulting in the ultimate long-term expected rate of return of 7.50%.

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy'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:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.50%	$ 18,183	22,224	833	41,240
Discount Rate 7.50%	15,872	19,400	728	36,000
1% Increase 8.50%	13,978	17,084	640	31,702

(11) Related Parties

(a) *Hetch Hetchy*

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2019 and 2018, the SFPUC allocated $17,359, or 20.4%, and $14,809, or 17.7%, respectively, in administrative costs, which is included in the financial statements under various expense categories. These costs are then allocated to Hetchy Water, Hetchy Power, and CleanPowerSF in the Hetch Hetchy financial statements, using the periodically reviewed department overhead allocation model.

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 overhead allocation paid to the General Fund of the City by Hetch Hetchy was $0 and $119 for the years ended June 30, 2019 and 2018, respectively, and is included in other operating expenses in the accompanying financial statements. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately $11,663 and $8,965 for the years ended June 30, 2019 and 2018, respectively, have been included in services provided by other departments in the accompanying financial statements.

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, 2019, Hetch Hetchy's allocable shares of expenses and prepayment were $16 and $957, respectively, and as of June 30, 2018 were $16 and $973, respectively.

(b) *Hetchy Water*

For the years ended June 30, 2019 and 2018, the SFPUC allocated $3,735, or 4.4%, and $3,499 or 4.2%, respectively, in administrative costs to Hetchy Water.

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of $33,578 and $32,600 for the years ended June 30, 2019 and 2018, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

Hetchy Water received $20,000 and $30,000 for the years ended June 30, 2019 and 2018, respectively, from the Water Enterprise to fund upcountry projects.

(c) *Hetchy Power*

For the years ended June 30, 2019 and 2018, the SFPUC allocated $11,696, or 13.7%, and $11,310 or 13.5%, respectively, in administrative costs to Hetchy Power.

(Dollars in thousands, unless otherwise stated)

As of June 30, 2019, and 2018, operating revenues in sales of power to departments within the City were $97,715 and $90,019, respectively.

The Water Enterprise also purchases electricity and gas from Hetchy Power. This amount totaled $9,480 and $9,047 for the years ended June 30, 2019 and 2018, respectively.

The Wastewater Enterprise purchases electricity and gas from Hetchy Power. This amount totaled $10,907 and $10,195 for the years ended June 30, 2019 and 2018, respectively.

Hetchy Power facilitates all electric and gas service connections between PG&E and City departments. In this capacity, Hetchy Power facilitates and coordinates the terms and payment for the service connections that are performed by PG&E. As of June 30, 2019, and 2018, there was no outstanding amount due from City departments related to this work. In the event Hetchy Power received money from PG&E after project completion, monies are to be refunded to the City departments for their respective credits.

Due from other City departments was $9,850 and $10,732 with elimination of a $3,731 and $5,601 working capital loan to CleanPowerSF for the years ended June 30, 2019 and 2018, respectively. Hetchy Power serves as the City's department for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2019 and 2018, projects completed or under way throughout the City amounted to $5,569 and $6,254, respectively, and are recorded as due from other government agencies.

Besides funding the SEA projects, in fiscal year 2010, Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded $2,599 as due from other government agencies. Hetchy Power and the Moscone Center have renegotiated the memoranda of understanding to extend the payment terms of the receivables to match the useful life of underlying assets.

As of June 30, 2019, and 2018, Hetchy Power recorded receivables of $955 and $1,061, respectively, due from the Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. Details of due from other City departments are as follows:

	2019	2018
Moscone Center	$ 5,569	6,075
San Francisco General Hospital	–	179
Total SEA-related projects	5,569	6,254
Treasure Island Development Authority	2,599	2,599
Wastewater - 525 Golden Gate Headquarters Project	955	1,061
San Francisco Recreation and Park	629	734
Department of Public Works	98	84
Total due from other City departments	9,850	10,732
Less: current portion	(817)	(980)
Long-term portion as of June 30, net	$ 9,033	9,752

(d) ***CleanPowerSF***

For the years ended June 30, 2019 and 2018, the SFPUC allocated $1,928, or 2.3%, and $0, respectively, in administrative costs to CleanPowerSF.

(Dollars in thousands, unless otherwise stated)

As of June 30, 2019, and 2018, operating revenue in sales of power to Hetchy Power were $572 and $0, respectively. Operating expenses in purchase of power from Hetchy Power were $3,026 and $3,501, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled $1,840 and $207 for the years ended June 30, 2019 and 2018, respectively.

(12) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Enterprise 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 are 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.

Primary Risks	Typical Coverage Approach
General liability	Self-Insured
Property	Purchased Insurance and Self-Insured
Electronic data processing	Purchased Insurance and Self-Insured
Workers' compensation	Self-Insured through Citywide Pool

Other Risks	Typical Coverage Approach
Surety bonds	Purchased and Contractually Transferred
Errors and omissions	Combination of Self-Insured and Contractual Risk Transfer
Professional liability	Combination of Self-Insured and Contractual Risk Transfer
Public officials liability	Purchased Insurance
Employment practices liability	Purchased Insurance
Builders' risk	Contractually Transferred
Crime	Purchased Insurance

(a) *General Liability*

Through coordination with the Controller 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 booked as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Comprehensive Annual 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, 2019 and 2018 are as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy				
2019	$ 2,466	2,758	(2,940)	2,284
2018 *	2,438	2,975	(2,947)	2,466
Hetchy Water				
2019	$ 233	314	(323)	224
2018	586	786	(1,139)	233
Hetchy Power				
2019	$ 2,233	2,400	(2,580)	2,053
2018	1,852	2,189	(1,808)	2,233
CleanPowerSF				
2019	$ —	44	(37)	7

*CleanPowerSF had no general liability as of June 30, 2018.

(b) *Property and Electronic Data Processing*

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

(c) *Workers' Compensation*

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

(Dollars in thousands, unless otherwise stated)

The changes for the workers' compensation liabilities for the years ended June 30, 2019 and 2018 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy*					
2019	$	2,949	1,251	(701)	3,499
2018		2,969	561	(581)	2,949
Hetchy Water					
2019	$	989	462	(213)	1,238
2018		999	207	(217)	989
Hetchy Power					
2019	$	1,960	789	(488)	2,261
2018		1,970	354	(364)	1,960

*CleanPowerSF had no workers' compensation liabilities as of June 30, 2019 and 2018.

(d) *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.

(e) *Errors and Omissions, Professional Liability*

Errors and omissions and 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.

(f) *Public Officials Liability, Employment Practices Liability*

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy. An Employment Practices Liability Policy is retained to protect against employment-related claims and liabilities.

(g) *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.

(h) *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.

(i) *Energy Risk Management*

Similar to other electric utilities with a heavy reliance on hydroelectric generation, Hetch Hetchy is exposed to risks that could impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the Hetch Hetchy revenues can vary with watershed hydrology, unexpected generator outages, and market prices for energy. Given the inherent risk for all hydroelectric generation, several risk management interventions have been developed to mitigate exposure.

(j) *Enterprise Risk Management*

The Power Enterprise adopted the ISO 31000 standard for Hetchy Power and the CleanPowerSF program as the framework for implementing Enterprise Risk Management (ERM). The Enterprise utilizes this framework to systematically and proactively identify and mitigate risks that threatens its business objectives. Since not all risks are insurable or transferable contractually, the ERM program provides an additional method to manage risks and protect the Enterprise's current and expanding business allowing for increased operational resiliency and the ability to capitalize on opportunities.

(13) Commitments and Litigation

(a) *Commitments*

As of June 30, 2019, and 2018, Hetch Hetchy, has outstanding commitments with third parties of $96,467 and $113,361, respectively, for various capital projects and other purchase agreements for materials and services.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the MID and TID in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's operating expenses. The payment amounts were $5,687 and $4,793 for fiscal years 2019 and 2018, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

District Sales

In April 1988, Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement was subsequently approved to extend both agreements for an additional year to June 30, 2017, with an automatic six months extension through December 31, 2017. Terms and conditions for the MID extension agreement were the same as the original agreement. The second extension agreement for TID removed the District's rights to excess energy from the project and terminated those conditions with the first extension agreement on June 30, 2016. Extended agreements for MID and TID expired on December 31, 2017.

The SFPUC will continue to comply with the Raker Act by making Hetch Hetchy generated hydropower available at cost to MID and TID for their agricultural pumping and municipal loads as energy from the Hetch Hetchy project is available after meeting the SFPUC's municipal load obligations.

For fiscal year 2018, energy sales to the Districts totaled 46,651 Megawatt hours (MWh) or $2,636. There were no sales to the Districts in fiscal year 2019 primarily due to purchase agreement with MID and TID ended on December 31, 2017.

1987 Interconnection Agreement and 2015 Replacement Agreements

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver the City's Hetchy power and purchases to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal years 2019 and 2018, Hetchy Power purchased $10,404 and $9,570, respectively, of distribution services and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2019 and 2018, Hetchy Power purchased $8,269 and $6,656 of power and other related products, respectively. Sales of excess power, after meeting Hetch Hetchy's obligations, were $0 for 2019 and 15,900 MWh, or $668, for 2018, respectively.

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

The PPA sets the starting purchase price of generated energy at $235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2019, the facility generated 6,427 MWh and the rate was at $306/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2019 and 2018, purchases of energy under the Agreement were $1,957, or 6,427 MWh, and $2,015, or 6,887 MWh, respectively.

CleanPowerSF

CleanPowerSF began serving customers in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF had executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine required a reserve balance of $2,663 and $3,049 as of June 30, 2019 and 2018, respectively, which is equivalent to two months' worth of estimated payment. CleanPowerSF's obligation to maintain the reserve balance under the Calpine contract expired upon the payment of the final invoice on June 6, 2019. As of June 30, 2019, and 2018, total electricity purchased from Calpine and Shiloh were $34,271 and $19,796, respectively.

Since its launch, CleanPowerSF has added multiple additional short-term and medium-term contracts to purchase renewable, carbon-free and conventional energy and resource adequacy capacity, as well as long-term contracts for renewable energy with sPower and Terra-Gen. These contracts have been entered to allow CleanPowerSF to both meet its existing retail sales obligations and to support future retail sales from the citywide expansion of the CleanPowerSF program. Citywide enrollment was substantively completed with the enrollment of residential accounts in April 2019. The total power purchase cost, net of wholesale sales in fiscal year 2019 equaled $119,812. The total contract cost of long-term renewable energy contracts with sPower (a 22-year contract starting delivery in July 2019) and Terra-Gen (a 15-year contract starting delivery in December 2020) are $219,219 and $102,339, respectively, over each contract's term. Additional short-term and medium-term contracts (of commitments ranging from less than 1 year to 5 years) for renewable, carbon-free and conventional energy and resource adequacy capacity executed during 2019 totaled $44,623.

CleanPowerSF entered into a contract with Noble Americas Energy Solutions in November 2015 for a three-year term, not to exceed $5,600 to provide data management, billing administration and customer care services. On December 1, 2016, Noble Americas Energy Solutions was acquired by Calpine Corporation and was renamed Calpine Energy Solutions. Subsequently, CleanPowerSF's contract was assigned to Calpine Energy Solutions under its new name and ownership. In August 2018, CleanPowerSF exercised its option under the contract to extend the term for three years, through October 31, 2021, and increased the contract's not-to-exceed value to $18,769. During fiscal year 2019 and 2018, amounts paid were $2,602 and $1,526, respectively.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, $75,000 Credit Agreement with J.P. Morgan Chase in order for the program to secure letters of credit to guarantee certain payment obligations of CleanPowerSF and to meet working capital needs of CleanPowerSF, if necessary. The Credit Agreement is secured by CleanPowerSF net revenues; there is no pledge of or Lien on CleanPowerSF net revenues that ranks senior to the obligations of the Credit Agreement. The letters of credit, issued by J.P. Morgan Chase, were in the amount of $21,410 and $18,091 as of June 30, 2019 and 2018, respectively. There was no draw against the Credit Agreement during fiscal years 2019 and 2018. The unused credit under the credit agreement was $53,590 and $56,909 during fiscal years 2019 and 2018, respectively. In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements,* Significant Events of default as specified in the Credit Agreement include 1) non-payment 2) material breach of warranty representation, or other non-remedied breach of covenants as specified in the respective agreement and 3) bankruptcy, 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.

(b) *Litigation*

Hetch Hetchy 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 Hetch Hetchy.

(c) *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.

(d) *Environmental Issue*

As of June 30, 2019, and 2018, there was no pollution remediation liability recorded.

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Independent Auditors' 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*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

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, the financial statements of the business-type activities and each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hetch Hetchy's internal control over financial reporting (internal control) to determine the 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 Hetch Hetchy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hetch Hetchy'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hetch Hetchy'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 determination of financial statement amounts. 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 Hetch Hetchy'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 Hetch Hetchy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
December 23, 2019

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

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.

Warnerville Substation Rehabilitation Project

This project will rehabilitate and upgrade major components of the switchyard that will meet regulatory and safety requirements.

Photo by: Robin Scheswohl

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Si necesita una traducción o asistencia en español llame al: (415) 554-3289.

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