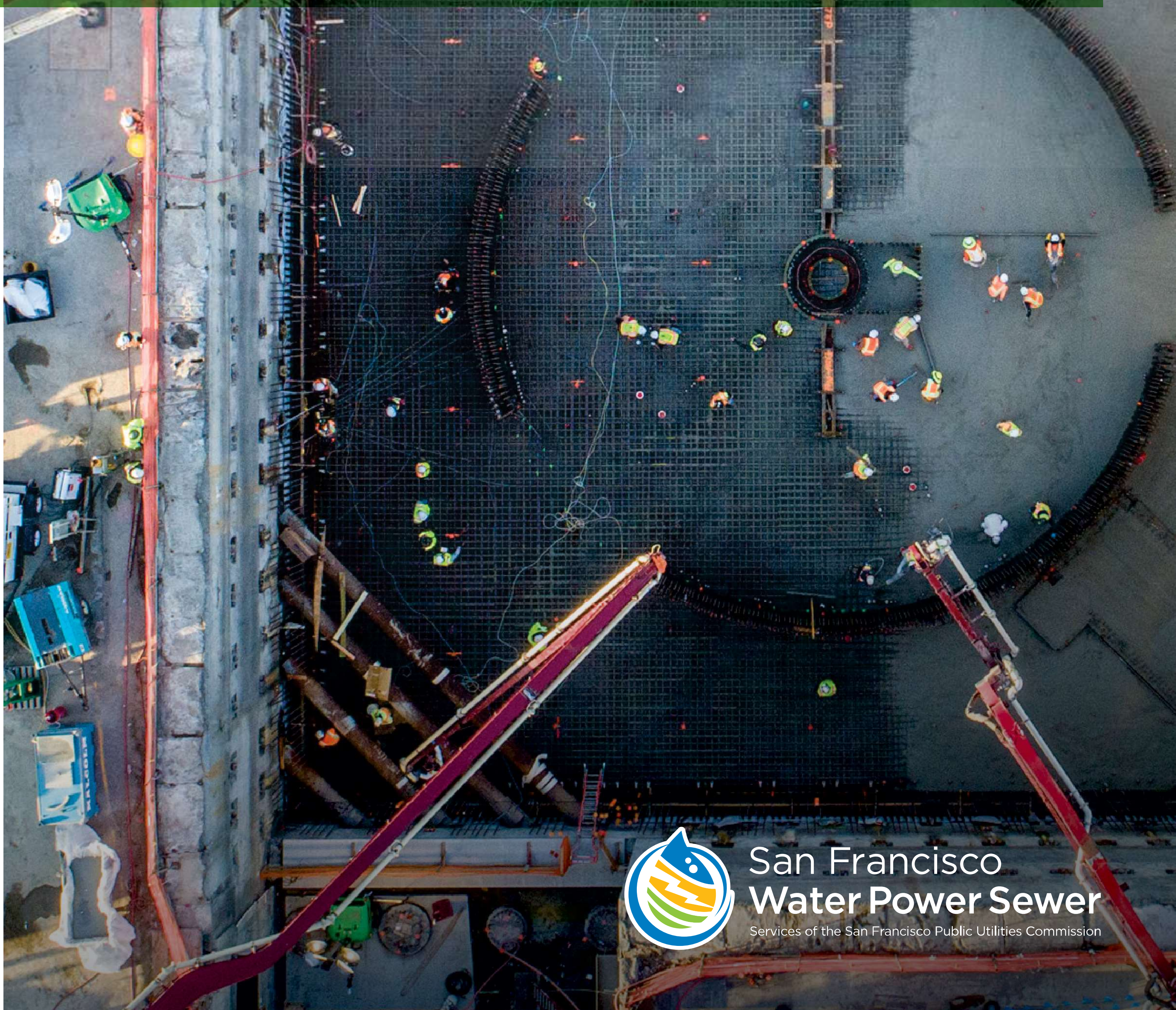
PROTECTING PUBLIC HEALTH AND THE ENVIRONMENT.

Wastewater Enterprise

Basic Financial Statements June 30, 2022 and 2021
(With Independent Auditors' Report Thereon)



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

SAN FRANCISCO WASTEWATER ENTERPRISE

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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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Francisco Wastewater Enterprise (the Enterprise), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise, as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements of the Enterprise are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City and county of San Francisco, California that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2022 and 2021, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 January 27, 2023 on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 27, 2023

This section presents management's analysis of the San Francisco Wastewater Enterprise's (the Enterprise) financial condition and activities as of and for the fiscal years ended June 30, 2022 and 2021. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

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

- Organization and Business
- Overview of the Financial Statements
- COVID-19
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

The San Francisco Public Utilities Commission (SFPUC or the Commission) is a department of the City and County of San Francisco (the City) that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater (the Enterprise). The primary responsibility of the Enterprise is to protect the public health and the surrounding bay and ocean receiving waters by collecting, transmitting, treating, and discharging storm and sanitary flows generated in the service area. This includes 1,131 miles of combined, sanitary, and storm collection system pipes including: gravity mains, force mains, culverts, transport storage boxes, and tunnels. San Francisco is the only coastal city in California with a combined sewer system that collects both wastewater and stormwater in the same network of pipes and provides treatment to remove harmful pollutants before discharging into the San Francisco Bay and Pacific Ocean. In addition, the Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Enterprise recovers costs of service through user fees based on the volume and strength of sanitary flow. As of June 30, 2022, the Enterprise serves 148,381 residential accounts, which discharge about 15.7 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and 26,790 non-residential accounts, which discharge about 5.3 million ccf per year. These reflected an increase of 0.7 million discharge units in non-residential accounts due to 360 increase in the number of accounts and a decrease of 0.9 million discharge units in residential accounts compared to prior year.

Overview of the Financial Statements

The Enterprise's financial statements include the following:

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

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

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

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

COVID-19

On February 25, 2020, the City's Mayor issued a proclamation declaring a local emergency to exist in connection with the imminent spread within the City of the novel coronavirus ("COVID-19"). On March 16, 2020, the City's Health Officer issued a stay safe at home order, Health Officer Order No. C19-07 (the "Stay Safe At Home Order"), requiring most people and City employees to remain in their homes subject to certain exceptions including obtaining essential goods such as "food and necessary supplies", and requiring the closure of nonessential businesses. In addition, Section 2 of the second supplement to the emergency proclamation authorized the SFPUC to suspend the (a) discontinuation or shut off of water service for residents and businesses in the City for non-payment of water and sewer bills and (b) the imposition of late payment penalties or fees for delinquent water and/or sewer bills through July 11, 2020. The proclamation was extended on December 8, 2020 through June 30, 2021 and then again on April 27, 2021, through to March 31, 2022. The suspension was extended again to July 31, 2022 for shut off of water service and to June 30, 2023 for late payment penalties. This proclamation did not have a material effect on the operations of the Wastewater enterprise.

Financial Analysis

Financial Highlights for Fiscal Year 2022

- Total assets of the Enterprise exceeded total liabilities by $1,447,672.
- Net position increased by $60,114 or 4.6% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $439,601 or 12.2% to $4,046,451.
- Operating revenues increased by $41,217 or 12.6% to $368,882.
- Operating expenses decreased by $35,002 or 12.0% to $257,171.

(Dollars in thousands, unless otherwise stated)

Financial Highlights for Fiscal Year 2021

- Total assets of the Enterprise exceeded total liabilities by $1,266,577.
- Net position increased by $9,647 or 0.7% during the year.
- Capital assets, net of accumulated depreciation and amortization, increased by $544,562 or 17.8% to $3,606,850.
- Operating revenues decreased by $16,463 or 4.8% to $327,665.
- Operating expenses increased by $29,961 or 11.4% to $292,220.

Financial Position

The following table summarizes the Enterprise's changes in net position.

Table 1
Comparative Condensed Net Position
June 30, 2022, 2021, and 2020

	2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Total assets:					
Current and other assets	$ 628,368	360,711	473,620	267,657	(112,909)
Capital assets, net of accumulated depreciation and amortization	4,046,451	3,606,850	3,062,288	439,601	544,562
Total assets	4,674,819	3,967,561	3,535,908	707,258	431,653
Deferred outflows of resources:					
Unamortized loss on refunding of debt	33	91	189	(58)	(98)
Pensions	25,369	30,219	30,422	(4,850)	(203)
Other post-employment benefits	12,898	15,109	10,065	(2,211)	5,044
Total deferred outflows of resources	38,300	45,419	40,676	(7,119)	4,743
Liabilities:					
Current liabilities:					
Revenue bonds	34,345	22,880	23,240	11,465	(360)
Certificates of participation	830	785	747	45	38
Commercial paper	379,157	638,518	207,939	(259,361)	430,579
State revolving fund loans	2,481	2,483	2,458	(2)	25
Other liabilities	165,139	149,357	148,585	15,782	772
Subtotal current liabilities	581,952	814,023	382,969	(232,071)	431,054
Long-term liabilities:					
Revenue bonds	1,896,908	1,567,042	1,598,493	329,866	(31,451)
Revenue notes	350,356	—	—	350,356	—
Certificates of participation	24,458	25,302	26,112	(844)	(810)
State revolving fund loans	300,178	106,076	86,091	194,102	19,985
Other liabilities	73,295	188,576	168,906	(115,281)	19,670
Subtotal long-term liabilities	2,645,195	1,886,996	1,879,602	758,199	7,394
Total liabilities:					
Revenue bonds	1,931,253	1,589,922	1,621,733	341,331	(31,811)
Revenue notes	350,356	—	—	350,356	—
Certificates of participation	25,288	26,087	26,859	(799)	(772)
Commercial paper	379,157	638,518	207,939	(259,361)	430,579
State revolving fund loans	302,659	108,559	88,549	194,100	20,010
Other liabilities	238,434	337,933	317,491	(99,499)	20,442
Total liabilities	3,227,147	2,701,019	2,262,571	526,128	438,448
Deferred inflows of resources:					
Related to pensions	114,670	2,148	16,892	112,522	(14,744)
Other post-employment benefits	8,640	7,265	4,185	1,375	3,080
Total deferred inflows of resources	123,310	9,413	21,077	113,897	(11,664)
Net position:					
Net investment in capital assets	1,092,705	1,253,789	1,183,288	(161,084)	70,501
Restricted for debt service	5,391	2,992	1,227	2,399	1,765
Restricted for capital projects	114,657	—	—	114,657	—
Unrestricted	149,909	45,767	108,421	104,142	(62,654)
Total net position	$ 1,362,662	1,302,548	1,292,936	60,114	9,612

*Restated due to the implementation of GASB 87 - *Leases*

Net Position, Fiscal Year 2022

For the year ended June 30, 2022, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,362,662. The Enterprise's total net position increased by $60,114 or 4.6% as a result of increases of $114,657 in restricted for capital projects, $104,142 in unrestricted net position, and $2,399 in restricted for debt service offset by a decrease of $161,084 in net investment in capital assets (see Table 1).

During the fiscal year 2022, current and other assets increased by $267,657 or 74.2%. The increase was mainly due to $182,040 in receivables from the State Water Resources Control Board (SWRCB) attributed to $202,795 aggregate new State Revolving Fund (SRF) reimbursement requests consisting of $132,000 for the Southeast Water Pollution Control Plant (SEP) Biosolids Digester Project, $64,678 for the SEP New Headworks (Grit) Replacement Project, and $6,117 for the Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project, offset by $20,755 cash receipts from prior year receivables relating to the OSP Digester Gas Utilization Upgrade Project, an increase of $48,770 in net pension asset based on actuarial report and $32,650 increase in restricted and unrestricted cash and investments mainly from the issuance proceeds of tax-exempt 2021 Series AB (Green) revenue notes and 2021 Series AB revenue bonds. Other increases included $7,241 in receivables for charges for services mainly due to increased billings of $6,143, $1,098 decrease in allowance for doubtful accounts due to utility arrearage relief payment received from the State as Federal pass-through from the California Water and Wastewater Arrearages Payment Program (CWWAPP), $1,014 due from the Treasure Island Development Authority (TIDA) for capacity fees, $301 in inventory as there were more purchases than issuances during the year, $190 in capacity charges net of allowance for doubtful accounts, $118 in interest receivable, and $25 in State grant receivable for the Baker Beach reimbursement. These increases in current and other assets were offset by a decrease of $2,325 in lease assets, net of accumulated amortization, due to amortization, $1,763 in Federal interest subsidy receivable (attributed to $5,817 subsidy received offset by $4,054 subsidy accrual during the year), $324 decrease in rent receivable mainly due to $304 collection of prior year balance from the San Francisco Community College, $219 decrease in prepaid charges mainly due to $652 prior year prepaid expenses recognized in current year and $39 lease prepayments amortizations for the Civic Center Garage and the Mariposa Pump Station & Force, offset by $472 prepaid expenses in the current year, $56 decrease in interfund receivables and due from component unit consisting of $118 from the Department of Public Works (DPW) for the Mission Bay South and Hunters View Development Projects, $24 from the San Francisco Port Commission (Port), and $20 from component unit for the TIDA Replacement & Repair Project, offset by an increase of $106 in receivable from the Academy of Sciences and Office of Community Investment Infrastructure, and $5 decrease in custom work receivable.

Capital assets, net of accumulated depreciation and amortization, increased by $439,601 or 12.2% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of $1,092,705 or 80.2%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources decreased by $7,119 mainly due to decreases in pensions and other post-employment benefits by $4,850 and $2,211, respectively based on actuarial report and $58 amortization of the 2013 Series A bonds loss on refunding.

Total liabilities increased by $526,128 or 19.5%. As of June 30, 2022, total debt outstanding balance of $2,988,713 for revenue bonds and notes payable, certificates of participation (COP), commercial paper, and State Revolving Fund (SRF) loans, represented 92.6% of total liabilities, an increase of $625,627 or 26.5%. The increase was mainly due to $373,700 issuance of 2021 Series AB revenue bonds, consisting of $297,880 par amounts and $75,820 premiums, $350,823 issuance of 2021 Series AB revenue notes consisting of $347,465 par amounts and $3,358 premiums, $200,702 new SRF loans to finance the SEP Biosolids Digester Facilities, the SEP New Headworks Replacement, and the OSP Digester Gas Utilization Upgrade projects, and $80,639 issuance of commercial paper. These increases were offset by $340,000 retirement of commercial paper, $26,148 in debt principal repayments, $9,970 in premium amortization during the year, and $4,000 loan principal forgiveness for the SRF OSP Digester Gas Utilization Upgrade Project along with $119 unreimbursed loan claim. Other liabilities of $238,434 such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements and employees, decreased by $99,499 or 29.4%, mainly due to decreases of $103,746 in net pension liability based on actuarial report, $4,668 in general liability based on actuarial estimates, $2,314 in lease liability due to implementation of GASB 87 *Leases*, $1,588 in other post-employment benefits obligations based on actuarial report, and $110 in payable to Hetch Hetchy Power related to the 525 Golden Gate Living Machine System. These decreases were offset by increases of $7,229 in restricted and unrestricted payable due to increased vouchers, $4,184 in bond and loan interest payable due to higher outstanding debt principal, $792 in unearned revenues mainly due to $892 in customer credit balances mainly due to overpayments offset by decreases of $81 in deposits from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project and $19 in liens payable, $462 in employee related benefits including vacation, workers' compensation, accrued payroll mainly due to actuarial estimates, and 3.5% increase of cost of living adjustment (COLA), and $260 in pollution remediation obligation. Deferred inflows of resources increased by $113,897 due to increases in pensions and other post-employment benefits by $112,522 and $1,375, respectively based on actuarial report.

Net Position, Fiscal Year 2021

For the year ended June 30, 2021, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,302,583. The Enterprise's total net position increased by $9,647 or 0.7% as a result of increases of $70,501 in net investment in capital assets and $1,765 in restricted for debt service offset by a decrease of $62,619 in unrestricted net position (see Table 1).

During the fiscal year 2021, current and other assets decreased by $118,831 or 25.1%. The decrease was mainly due to a decrease of $136,773 in restricted and unrestricted cash and investments largely attributed to increased spending for the Sewer System Improvement Program (SSIP) and debt principal and interest repayment. Other decreases included $666 in receivables for charges for services mainly due to $2,172 increase in allowance for doubtful accounts as there were more sewer charge receivables aging over 120 days attributable to the suspension of collection efforts in response to the COVID-19 emergency proclamation issued by the City Mayor. These decreases in current and other assets were offset by an increase of $17,490 in receivables from the State Water Resources Control Board (SWRCB) due to $20,755 in reimbursement receivable for disbursements claim relating to the Oceanside Plant (OSP) Digester Gas Utilization Upgrade Project offset by cash receipts of $3,265 in State Revolving Fund (SRF) reimbursement requests consisting of $2,041 for the Southeast Plant (SEP) 521/522 and Disinfection Upgrade and $1,224 for the Lake Merced Green Infrastructure projects. The other increases included $680 in prepaid charges, advances, and other receivable consisting of $546 prepayments to the San Francisco Estuary Institute, Bay Area Air Quality Management District, and Water Research Foundation, $290 in rent receivable mainly due a receivable from the San Francisco Community College, and $17 in custom work receivable offset by $173 prepaid expenses recognized to expense for the current year, $181 in inventory as there were more purchases than issuances during the year, $166 in restricted and unrestricted interest and other receivable mainly due to an increase in Federal interest subsidy receivable, and $91 increase in interfund receivables consisting of $47 from the Department of Public Works (DPW) for the Mission Bay

South and Hunters View Development Projects, $24 from the San Francisco Port Commission (Port), and $20 from the Treasure Island Development Authority (TIDA).

Capital assets, net of accumulated depreciation and amortization, increased by $544,562 or 17.8% reflecting an increase in construction and capital improvement activities. The largest portion of the Enterprise's net position of $1,253,789 or 96.3%, represents net investment in capital assets (see Capital Assets section of the MDA for more information). Deferred outflows of resources increased by $4,743 mainly due to $5,044 increase in other post-employment benefits based on actuarial report offset by $203 decrease in pensions based on actuarial report and $98 amortization of the 2013 Series A bonds loss on refunding.

Total liabilities increased by $432,491 or 19.1%. As of June 30, 2021, total outstanding balance of $2,363,086 for revenue bonds payable, commercial paper, certificates of participation, and SRF loans represented 87.7% of total liabilities, an increase of $418,006 or 21.5%. The increase was mainly due to $435,450 additional commercial paper issuance and $22,468 SRF loan to fund the OSP Digester Gas Utilization Upgrade, the SEP 521/522 and Disinfection Upgrade, and the Lake Merced Green Infrastructure projects offset by $31,316 in debt repayments and $8,596 in amortization of premium during the year. Other liabilities of $331,976 such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements and employees, increased by $14,485 or 4.6%, due to increases of $17,511 in net pension liability based on actuarial report, $3,912 in employee related benefits including vacation, workers' compensation, and accrued payroll mainly due to actuarial estimates, 3% increase of cost of living adjustment (COLA), and more days in current year-end payroll accrual compared to prior year-end accrual, $822 in general liability based on actuarial estimates, $130 in customer credit balances mainly due to overpayments, and $26 in liens payable. These increases were offset by decreases of $7,472 in other post-employment benefits obligations based on actuarial report, $145 in bond and loan interest payable due to lower outstanding debt principal and lower interest rates , $135 in restricted and unrestricted payable due to higher voucher payments than vouchers generated, and $109 in payable to Hetch Hetchy Power due to payment for the 525 Golden Gate Living Machine System, $54 decrease in deposit from Pacific Gas & Electric due to expenses incurred for the Cross Bore Project, and $1 interfund payable to City Attorney's Office. Deferred inflows of resources decreased by $11,664 due to $14,744 decrease in pensions based on actuarial report offset by $3,080 increase in other post-employment benefits based on actuarial report.

(Dollars in thousands, unless otherwise stated)

Results of Operations

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

Table 2
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2022, 2021, and 2020

		2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Revenues:						
Charges for services	$	356,041	318,236	331,721	37,805	(13,485)
Rents and concessions		705	642	664	63	(22)
Other operating revenues		12,136	8,787	11,743	3,349	(2,956)
Interest and investment (loss) income		(7,087)	(1,187)	12,137	(5,900)	(13,324)
Other non-operating revenues		25,454	4,911	5,596	20,543	(685)
Total revenues		387,249	331,389	361,861	55,860	(30,472)
Expenses:						
Operating expenses		257,171	292,173	262,259	(35,002)	29,914
Interest expenses		77,743	34,944	43,216	42,799	(8,272)
Amortization of premium, refunding loss, and issuance cost		(8,422)	(8,497)	(8,647)	75	150
Non-operating expenses		482	409	52	73	357
Total expenses		326,974	319,029	296,880	7,945	22,149
Change in net position before transfers		60,275	12,360	64,981	47,915	(52,621)
Transfers from the City and County of San Francisco		—	1,440	280	(1,440)	1,160
Transfers to the City and County of San Francisco		(161)	(4,188)	(1,468)	4,027	(2,720)
Net transfers		(161)	(2,748)	(1,188)	2,587	(1,560)
Change in net position		60,114	9,612	63,793	50,502	(54,181)
Net position at beginning of year as restated		1,302,548	1,292,936	1,229,143	9,612	63,793
Net position at end of year	$	1,362,662	1,302,548	1,292,936	60,114	9,612

*Restated due to the implementation of GASB 87 - *Leases*

Results of Operations, Fiscal Year 2022

The Enterprise's total revenues were $387,249, an increase of $55,860 or 16.9% from prior year (see Table 2). Charges for services increased by $37,805 or 11.9% mainly due to an average 8% adopted rate increase and a decrease in allowance for doubtful accounts by $1,098 as there were less sewer charge receivables aging over 120 days due to utility arrearage relief payments received from the State, offset by a sanitary flow decrease of 257,472 ccf or 1.2% from residential and non-residential customers. Other non-operating revenues increased by $20,543 mainly due to $9,302 utility arrearage relief payment received from the State as Federal pass-through from the CWWAPP, $8,000 SRF loan principal forgiveness component of the SEP Biosolids Digester Facilities Project and the OSP Digester Gas Handling Utilization Upgrade Project, $3,409 Baker Beach grant, and $4 gain from sale of assets offset by decreases of $164 in miscellaneous revenue due to less overhead recovery, redemption penalty and stormwater control plan review fees, and $8 in Federal interest subsidy. Other operating revenues increased by $3,349 or 38.1% mainly due to increases of $2,570 in capacity fees resulting from a 58.9% increase in average permit price and a 5.4% increase in permits issued attributed to new developments on Treasure Island and the City's re-opening and eliminating local restrictions on business operations, and $779 in other operating revenues to other City departments such as the Recreation & Park, Academy of Sciences, and the San Francisco

General Hospital. Rents and concessions increased by $63 or 9.8% mainly due to increases in rental income of $34 from the Sheriff Department, $22 from tenants with 3.6% consumer price index average rate increase, and $7 from a short-term tenant, Young Community Developers. Interest and investment income decreased by $5,900 or 497.1% mainly due to $5,618 increase in unrealized loss in City Treasury pooled investments attributed to the decline in market value of investments and rising interest rates and $292 decrease in interest earned from pooled cash due to lower annualized interest rate offset by $10 increase in interest earned from fiscal agent account due to increase in fiscal agent cash balances.

Total expenses were $326,974, an increase of $7,945 or 2.5% due to increases of $42,799 in interest expenses mainly due to increased outstanding bond principal balance and the implementation of Governmental Accounting Standards Board (GASB) 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which eliminated the capitalization of interest to capital assets beginning in fiscal year 2022, a decrease of $75 in amortization, refunding loss, and issuance cost, and $73 increase in City grants program expenses due to increased participation in the flood water management program for San Francisco properties offset by $35,002 decrease in operating expenses. The decrease of $35,002 in operating expenses was mainly due to decreases of $26,993 in personnel services due to $38,115 decrease in expenses related to GASB 68 pension adjustment offset by a 3.5% increase in cost of living adjustment (COLA) and $17,952 in general and administrative and other operating expenses mainly due to lower capital project expenses particularly for the Biosolids/Digester Project and Southeast Community Center Project, offset by increases of $3,232 in depreciation expense due to more capitalized assets put in service, $2,753 in materials and supplies mainly due to water sewage treatment supplies for Bayside Operations, $2,626 in contractual services mainly due to higher maintenance for building structures and professional and specialized services, and $1,332 in services provided by other departments mainly for electricity from Hetch Hetchy Power, water from Water Enterprise, and for facilities management services from the General Services Agency (GSA).

Net transfers of $161 included transfer out of $129 in art enrichment fund to the San Francisco Art Commission for the Westside Reliability Improvement and $32 to the Office of the City Administrator for the Surety Bond Program.

Results of Operations, Fiscal Year 2021

The Enterprise's total revenues were $331,389 a decrease of $30,472 or 8.4% from prior year (see Table 2). Charges for services decreased by $13,485 or 4.1% mainly due to a sanitary flow decrease of 2,474,116 ccf or 10.2% from residential and non-residential customers and $2,172 increase in allowance for doubtful accounts as there were more sewer charge receivables aging over 120 days attributable to the suspension of collection efforts in response to the COVID-19 emergency proclamation issued by the City Mayor offset by an average 8% adopted rate increase. Interest and investment income decreased by $13,324 or 109.8% due to lower pooled and fiscal agent cash balances, and a lower annualized interest rate. Other operating revenues decreased by $2,956 or 25.2% mainly due to decreases of $2,186 in capacity fees resulting from a 25.2% decrease in average permit price and a 7.9% decrease in permits issued as only essential construction projects were allowed due to SF Health Order related to COVID-19 and $770 in other operating revenues to other City departments such as the Real Estate, Human Services Agency, and Academy of Sciences due to the COVID-19 shelter in place order. Other non-operating revenues decreased by $685 mainly due to decreases of $667 in miscellaneous revenue largely attributed to $642 receipts from California State Parks Foundation for a project at Yosemite Slough Site in prior year, $20 in gain from sale of assets, and $22 in Federal Emergency Management Agency (FEMA) grant relating to COVID-19 offset by $27 increase in federal interest subsidy. Rents and concessions decreased by $22 or 3.3% mainly due to the COVID-19 past due rent collection suspension as approved by the Commission.

Total expenses were $318,994, an increase of $22,114 or 7.4% due to increases of $29,961 in operating expenses, $357 in City grants program expenses as there were more expenses incurred for community-based organization services, and $150 decrease in amortization, refunding loss, and issuance cost due to $230 decrease in bond premium offset by decreases of $40 in issuance cost, and $40 in refunding loss amortization offset by a decrease of $8,354 in interest expenses due to lower interest rate compared to prior year and a decrease in outstanding bond principal balance. The increase of $29,961 in operating expenses was mainly due to increases of $20,866 in general and administrative and other operating expenses mainly due to higher capital project expenses related to the SSIP Biosolids Digester Project, $9,051 in depreciation expense due to more capitalized assets put in service, $1,004 in services provided by other departments mainly for Department of Public Works general administration and building repair services, General Services Agency (GSA) facilities management services, and City risk management services, and $100 in materials and supplies mainly due to water sewage treatment supplies for Bayside Operations. These increases were offset by a decrease of $564 in personnel services mainly due to $7,873 decrease in other post-employment benefits based on actuarial report offset by increases of $4,574 in expenses related to pension due to increase in retirement contribution rates, $2,051 in salaries and fringe benefits due to a 3% increase in cost of living adjustment (COLA), and $684 in workers’ compensation claims. Other decrease included $496 in contractual services mainly due to lower professional and specialized services.

Net transfers of $2,748 included transfer out of $4,000 in art enrichment fund to the San Francisco Art Commission for the Southeast Plant Biosolids Digester Facilities, 1550 Southeast Community Center, and Treasure Island Capital Improvement Projects, $156 to Recreation & Park for Crocker Amazon Park, and $32 to the Office of the City Administrator for the Surety Bond Program, offset by $1,440 transfer in from General Fund for the Sidewalk Garden Grants Project.

(Dollars in thousands, unless otherwise stated)

Capital Assets

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

Table 3
Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2022, 2021, and 2020

		2022	2021	2020	2022-2021 Change	2021-2020 Change
Facilities, improvements, machinery, and equipment	$	2,270,355	2,214,227	2,104,332	56,128	109,895
Intangible assets		7,107	7,407	3,046	(300)	4,361
Land and rights-of-way		44,572	44,572	44,572	—	—
Construction work in progress		1,724,417	1,340,644	910,338	383,773	430,306
Total	$	4,046,451	3,606,850	3,062,288	439,601	544,562

Capital Assets, Fiscal Year 2022

The Enterprise has capital assets of $4,046,451, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2022 (see Table 3). This amount represents an increase of $439,601 or 12.2% from prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Construction work in progress increased by $383,773 or 28.6%. Facilities, improvements, machinery, and equipment increased by $56,128 or 2.5%. Intangible assets decreased by $300 or 4.1% due to $872 depreciation expense and $780 transfers out to non-capitalized repair and other expenses, offset by asset additions of $1,352 for the Customer Billing System Project.

Major additions to construction work in progress during the year ended June 30, 2022 include the following:

Southeast Plant Biosolids and Digester Facilities Project	$	133,997
Southeast Plant New Headworks Grit Replacement		131,458
Southeast Community Center		30,582
Southeast Plant Power Feed and Primary Switchgear Upgrades		26,911
Wawona Area Stormwater Improvement Project		15,644
Westside Pump Station Reliability Improvements		13,895
North Shore Pump Station Wet Weather Improvements		13,366
Large Sewer Condition Improvements		11,656
As-Needed Spot Sewer Replacement Number 41 (WW-698)		9,514
Public Works 19th Avenue Infrastructure Improvements		8,782
Oceanside Plant Digester Gas Handling Utilization Upgrade		8,175
As-Needed Spot Sewer Replacement Number 40 (WW-693)		5,007
Various Locations Sewer Replacement Number 8 (WW-679)		4,927
Folsom Area Stormwater Improvement Project		4,728
Public Works 41st and 44th Avenues Infrastructure Improvements		4,676
Mariposa Dry-Weather Pump Station & Force Main Improvements		4,527
Taraval Sewer Improvements		4,401
Ocean Beach Climate Change Adaptation Project		4,301
Southeast Plant Facility-Wide Distributed Control System Upgrades		4,275
Other project additions individually below $4,000		73,857
	$	514,679

(Dollars in thousands, unless otherwise stated)

Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2022 include the following:

Southeast Plant Seismic Reliability and Condition Assessment Improvements	$	23,679
Force Main Rehabilitation at Embarcadero and Jackson Streets		11,480
As-Needed Spot Sewer Replacement Number 41 (WW-698)		9,571
Combined Sewer Discharge Backflow Prevention and Monitoring		9,029
Cargo Way Sewer Box Odor Reduction		8,615
Mission Street, 16th to Cesar Chavez Streets, Brick Sewer Rehabilitation		7,783
Public Works Various Locations Number 40 Infrastructure Improvements		6,575
Various Locations Sewer Replacement Number 8 (WW-679)		5,553
Various Locations Sewer Replacement Number 6 (WW-677)		5,347
As-Needed Spot Sewer Replacement Number 40 (WW-693)		5,006
Taraval Sewer Improvements		4,401
Public Works Sunset Parkside Pavement Renovations		4,360
Oceanside Plant Egg Shaped Digester Interior Lining Rehabilitation (WW-706)		3,499
Other project additions individually below $3,000		26,181
	$	131,079

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

The Sewer System Improvement Program (SSIP) is the SFPUC's wastewater capital improvement program which includes multiple projects to improve the existing wastewater system. The implementation of the SSIP projects and their associated expenditures will be phased over 20 years. In March 2016, the refined program scope and budget increased from $6.9 billion to $7.0 billion was endorsed by the Commission, referred to as the "2016 SSIP Baseline". In December 2020, the Commission approved the 2020 SSIP Baseline, increasing the budget for SSIP Phase 1 program to $3,655 million from $2,910.4 million in 2016. The SFPUC is transitioning away from the original intent of three distinct SSIP phases and instead implementing capital improvement projects as part of a rolling Ten-Year capital plan.

As of June 30, 2022, 38 projects or 54.3% totaling $373 million were completed, 7 projects in pre-construction phase, 12 projects in construction phase, and 13 projects in close-out phase. The SEP 521/522 and Disinfection Upgrades Project was completed on June 30, 2021 with reported project expenditures of $44.8 million. The major components of the project are modifications to the existing SEP 521 building to include a new Effluent Sampling Station, new DCS Control Station, and upgrade to the existing bathroom for ADA compliance, new building (SEP 522) to house electrical and hydraulic controls, among others. The Southeast Water Pollution Control Plant New Headworks Facility is on-going construction. The project is reported at 47.0% completion and forecasted final completion is on February 29, 2024. Program expenditures as of June 30, 2022 totaled $1,943.8 million. Additional details regarding the SSIP are available at https://sfpuc.org/construction-contracts/sewer-system-improvement-program.

(Dollars in thousands, unless otherwise stated)

Capital Assets, Fiscal Year 2021

The Enterprise has capital assets of $3,606,850, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2021 (see Table 3). This amount represents an increase of $544,562 or 17.8% from prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment. Construction work in progress increased by $430,306 or 47.3%. Facilities, improvements, machinery, and equipment increased by $109,895 or 5.2%, and intangible assets increased by $4,361 or 143.2% due to asset additions of $2,457 for the Operational Decision System Project and $1,904 for the Customer Billing System Project.

Major additions to construction work in progress during the year ended June 30, 2021 include the following:

Southeast Plant Biosolids and Digester Facilities Project	$ 259,938
Southeast Plant New Headworks Grit Removal and Influent Pump Station	110,472
Southeast Community Center	47,373
Southeast Plant Power Feed and Primary Switchgear Upgrades	18,881
Mariposa Pump Station & Force Main	11,031
Oceanside Plant Digester Gas Handling Utilization	8,856
Seismic Reliability - Phase 1	7,647
Public Works Various Locations Number 35 Infrastructure Improvements	7,134
As-Needed Spot Sewer Replacement Number 40	7,101
Ocean Beach Project	6,727
Force Main Rehabilitation at Embarcadero and Jackson Streets	6,615
Facility-Wide Distributed Control System Upgrade	5,998
Van Ness Bus Rapid Transit Sewer Improvements	5,482
As-Needed Spot Sewer Replacement Number 38	4,972
Public Works Various Locations Number 40 Infrastructure Improvements	4,918
Southeast Plant 062 Archimedes Screw Pump	4,697
Taraval Sewer Improvements	4,070
As-Needed Main Sewer Replacement Number 7	4,043
Other project additions individually below $4,000	93,864
	$ 619,819

(Dollars in thousands, unless otherwise stated)

Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2021 include the following:

Van Ness Bus Rapid Transit Sewer Improvements	$	20,665
Richmond Early Implementation Project		13,620
Geary Bus Rapid Transit Sewer Improvements		12,287
Public Works Lombard Street Infrastructure Improvements		11,794
Southeast Plant 062 Archimedes Screw Pump		10,421
Taraval Sewer Improvements		10,397
Sunset Green Infrastructure		9,932
Public Works Various Locations Number 35 Infrastructure Improvements		8,722
As-Needed Spot Sewer Replacements Number 40		7,112
Public Works Various Locations Number 39 Infrastructure Improvements		6,493
Public Works Various Locations Number 36 Infrastructure Improvements		6,056
Public Works Various Locations Number 43 Infrastructure Improvements		6,023
As-Needed Spot Sewer Replacement Number 38		4,972
Public Works Alemany Blvd Infrastructure Improvements		4,956
Beach And Sansome Street Combined Sewer Distribution Rehabilitation		4,708
Public Works Second Street Infrastructure Improvements		4,560
As-Needed Main Sewer Replacement Number 7		4,043
North Point Facility Dewatering Pump Replacement		3,725
Public Works Palou Avenue Infrastructure Improvements		3,514
Various Locations Sewer Replacements Number 7		3,429
Oceanside Plant Door Replacement		3,082
Other project additions individually below $3,000		25,763
	$	186,274

See Note 4 for additional information about capital assets.

Sewer System Improvement Program

The Sewer System Improvement Program (SSIP) includes three phases over 20 years to improve the existing wastewater system. In March 2016, the refined program scope and budget increased from $6.9 billion to $7.0 billion was endorsed by the Commission, which is now referred to as the 2016 SSIP Baseline program.

As of June 30, 2021, 37 projects or 52.9% totaling $367 million were completed, 8 projects in pre-construction phase, 18 projects in construction phase, and 7 projects in close-out phase. The OSP Condition Assessment Repairs was completed on January 29, 2021 with reported project expenditures of $11.6 million. The project includes planning, design, and environmental review of major improvements to the plant including rehabilitation of building structures, rehabilitation or replacement of mechanical and electrical equipment, and seismic retrofit of process tanks and buildings. Improvements focus on maintaining operational reliability and extending the service life of buildings that are required to remain in operation for 30 years or more. The SEP Seismic Reliability and Condition Assessment Improvements Project is on-going construction. The project is reported at 86.0% completion and forecasted final completion is on March 8, 2022. Program expenditures as of June 30, 2021 totaled $1,546.1 million. Additional details regarding the SSIP are available at https://sfpuc.org/construction-contracts/sewer-system-improvement-program.

(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2022, 2021, and 2020, the Enterprise's debt from revenue bonds, revenue notes, commercial paper, certificates of participation, and State revolving fund loans were $2,988,713, $2,363,086, and $1,945,080, respectively, as shown in Table 4. More detailed information about the Enterprise's debt activity is presented in Notes 6, 7, and 8 to the financial statements.

Table 4
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2022, 2021, and 2020

		2022	2021	2020	2022-2021 Change	2021-2020 Change
Revenue bonds	$	1,931,253	1,589,922	1,621,733	341,331	(31,811)
Revenue notes		350,356	—	—	350,356	—
Commercial paper		379,157	638,518	207,939	(259,361)	430,579
Certificates of participation		25,288	26,087	26,859	(799)	(772)
State revolving fund loans		302,659	108,559	88,549	194,100	20,010
Total	$	2,988,713	2,363,086	1,945,080	625,627	418,006

The increase of $625,627 was mainly due to $373,700 Revenue Bonds 2021 Series A (SSIP/Green) and 2021 Series B (Non-SSIP) net of premium, $350,823 Revenue (Green) Notes 2021 Series AB net of premium, $200,702 aggregate new State Revolving Fund loans for the Biosolids Digester, OSP Digester Gas Utilization Upgrade, and Headworks Replacement projects, and $80,639 issuance of commercial paper, offset by $340,000 retirement of commercial paper, $26,148 repayment of outstanding debt, $9,970 of premium amortizations, and $4,119 SRF OSP debt reduction for the $4,000 loan principal forgiveness component and $119 unreimbursed loan claim.

Credit Ratings and Bond Insurance – As of June 30, 2022 and 2021, the Enterprise carried underlying ratings of "Aa2" and "AA" from Moody's and Standard & Poor's (S&P), respectively.

Debt Service Coverage – Pursuant to the Indenture for the Wastewater bonds, the Enterprise covenants to collect sufficient net revenues each fiscal year, together with any Enterprise funds (except Bond Reserve Funds) that are available for payment of debt service and are not budgeted to be expended, at least equal to 1.25 times annual debt service for said fiscal year. During fiscal years 2022 and 2021, 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 Indenture (see Note 8).

Debt Authorization – Pursuant to the Charter Section 8B.124, the Enterprise can incur indebtedness upon two-thirds vote of the Board of Supervisors. As of June 30, 2022, the Enterprise had $4,005,292 in combined debt issuance authorization from the Board of Supervisors under Proposition E, with $3,145,625 issued against this authorization. The Enterprise has a $750,000 authorized commercial paper program, with $379,157 in tax-exempt commercial paper outstanding as of June 30, 2022 and $638,518 in tax-exempt commercial paper outstanding as of June 30, 2021.

Cost of Debt Capital – The coupon interest rates on the Enterprise's outstanding revenue bonds ranged from 1.0% to 5.8%, with a blended true interest cost of 2.9%, after factoring in federal interest subsidy receipts on Build America Bonds at June 30, 2022. The 2009 Series C certificates of participation carried coupon interest rates from 2.0% to 5.0% and 2009 Series D certificates of participation carried coupon interest rates from 6.4% to 6.5% in fiscal years 2022 and 2021, respectively. The interest rates on short-term debt ranged from 0.1% to 1.4% during fiscal year 2022 and from 0.1% to 0.2% during fiscal year 2021. The State revolving fund loans (CWSRF loans) carried original interest rates ranging from 0.8% to 1.8% for a weighted average of 1.3% during fiscal year 2022. The State has elected to apply administrative service and grant charges to certain agreement repayment schedules in lieu of receiving interest payments; these charges will not affect the installment payments or increase the repayment amounts.

(Dollars in thousands, unless otherwise stated)

Rates and Charges

Rate Setting Process

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

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

Pursuant to the City and County of San Francisco Charter section 8B.125, an independent rate study is performed at least once every five years. In compliance with City Charter section 8B.125, a water and wastewater rate study was completed in April 2018 and resulted in four-year wastewater rate increases from July 1, 2018 through June 30, 2022. The rates effective July 1, 2021 for fiscal year 2022 will remain unchanged for fiscal year 2023, which are effective July 1, 2022. These rates exclude those changed by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, as well as rates adjusted by the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine. The SFPUC Rates Schedules and Fees is available at https://sfpuc.org/accounts-services/water-power-and-sewer-rates.

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

Ten-year Average Rate Adjustments

Effective Date	Adjustment
July 1, 2013	5.0 [1]
July 1, 2014	5.0 [2]
July 1, 2015	5.0 [2]
July 1, 2016	7.0 [2]
July 1, 2017	11.0 [2]
July 1, 2018	7.0 [3]
July 1, 2019	7.0 [3]
July 1, 2020	8.0 [3]
July 1, 2021	8.0 [3]
July 1, 2022	– [4]

[1] Four-year rate increases adopted and effective July 1, 2009.
[2] Four-year rate increases adopted and effective July 1, 2014.
[3] Four-year rate increases adopted and effective July 1, 2018.
[4] No retail rate adjustment.

Request for Information

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

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

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Net Position
June 30, 2022 and 2021
(In thousands)

		2022	Restated 2021*
Assets			
Current assets:			
Cash and investments with City Treasury	$	285,029	281,572
Cash and investments outside City Treasury		397	366
Receivables:			
Charges for services (net of allowance for doubtful accounts of $4,273 as of June 30, 2022 and $5,369 as of June 30, 2021)		40,321	33,081
Due from other City departments		225	281
Due from other governments		25	—
Interest		314	189
Restricted due from other governments		202,795	20,755
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $385 as of June 30, 2022 and $68 as of June 30, 2021)		2,301	2,841
Total current receivables		245,981	57,147
Prepaid charges, advances, and other receivables, current portion		346	877
Inventory		2,958	2,657
Restricted cash and investments outside City Treasury		15,587	298
Total current assets		550,298	342,917
Non-current assets:			
Net pension asset		48,770	—
Restricted cash and investments outside City Treasury		23,771	9,898
Restricted interest, other receivable, and prepaid (net of allowance for doubtful accounts of $29 as of June 30, 2022 and $29 as of June 30, 2021)		434	450
Lease right of use assets, net of accumulated amortization		3,597	5,922
Charges for services, less current portion (net of allowance for doubtful accounts of $567 as of June 30, 2022 and $569 as of June 30, 2021)		342	341
Prepaid charges, advances, and other receivables, less current portion		1,156	1,183
Capital assets, not being depreciated and amortized		1,772,035	1,388,262
Capital assets, net of accumulated depreciation and amortization		2,274,416	2,218,588
Total non-current assets		4,124,521	3,624,644
Total assets		4,674,819	3,967,561
Deferred outflows of resources			
Unamortized loss on refunding of debt		33	91
Pensions		25,369	30,219
Other post-employment benefits		12,898	15,109
Total deferred outflows of resources		38,300	45,419
Liabilities			
Current liabilities:			
Accounts payable		22,588	15,282
Accrued payroll		6,402	6,147
Accrued vacation and sick leave, current portion		5,479	5,811
Accrued workers' compensation, current portion		1,393	1,198
Due to other City departments, current portion		111	110
Damage claims liability, current portion		9,323	5,892
Unearned revenues, refunds, and other		6,137	5,345
Bond, loan, and lease interest payable		21,460	17,276
Revenue bonds, current portion		34,345	22,880
Certificates of participation, current portion		830	785
Commercial paper		379,157	638,518
State revolving fund loans payable, current portion		2,481	2,483
Lease liability, current portion		2,341	2,314
Current liabilities payable from restricted assets		89,905	89,982
Total current liabilities		581,952	814,023
Long-term liabilities:			
Other post-employment benefits obligations		49,123	50,711
Net pension liability		—	103,746
Accrued vacation and sick leave, less current portion		5,422	5,847
Accrued workers' compensation, less current portion		6,153	5,384
Due to other City departments, less current portion		518	629
Damage claims liability, less current portion		2,722	10,821
Revenue bonds, less current portion		1,896,908	1,567,042
Revenue notes		350,356	—
Certificates of participation, less current portion		24,458	25,302
State revolving fund loans payable, less current portion		300,178	106,076
Lease liability, less current portion		1,297	3,638
Pollution remediation obligation		8,060	7,800
Total long-term liabilities		2,645,195	1,886,996
Total liabilities		3,227,147	2,701,019
Deferred inflows of resources			
Related to pensions		114,670	2,148
Other post-employment benefits		8,640	7,265
Total deferred inflows of resources		123,310	9,413
Net position			
Net investment in capital assets		1,092,705	1,253,789
Restricted for debt service		5,391	2,992
Restricted for capital projects		114,657	—
Unrestricted		149,909	45,767
Total net position	$	1,362,662	1,302,548

* Restatement due to implementation of GASB 87 - *Leases*

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2022 and 2021
(In thousands)

		2022	Restated 2021*
Operating revenues:			
Charges for services	$	356,041	318,236
Rents and concessions		705	642
Capacity fees		6,280	3,710
Other revenues		5,856	5,077
Total operating revenues		368,882	327,665
Operating expenses:			
Personnel services		63,456	90,449
Contractual services		19,115	16,489
Materials and supplies		11,844	9,091
Depreciation and amortization		77,575	74,343
Services provided by other departments		39,645	38,313
General and administrative and other		45,536	63,488
Total operating expenses		257,171	292,173
Operating income		111,711	35,492
Non-operating revenues (expenses):			
Federal and state grants		20,711	—
Interest and investment (loss) income		(7,087)	(1,187)
Interest expenses		(77,743)	(34,944)
Amortization of premium, refunding loss, and issuance costs		8,422	8,497
Net gain from sale of assets		22	18
Other non-operating revenues		4,721	4,893
Other non-operating expenses		(482)	(409)
Net non-operating expenses		(51,436)	(23,132)
Change in net position before transfers		60,275	12,360
Transfers from the City and County of San Francisco		—	1,440
Transfers to the City and County of San Francisco		(161)	(4,188)
Net transfers		(161)	(2,748)
Change in net position		60,114	9,612
Net position at beginning of year		1,302,548	1,292,936
Net position at end of year	$	1,362,662	1,302,548

* Restatement due to implementation of GASB 87 - *Leases*

See accompanying notes to financial statements.

SAN FRANCISCO WASTEWATER ENTERPRISE

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	Restated 2021*
Cash flows from operating activities:			
Cash received from customers, including cash deposits	$	360,654	327,879
Cash received from tenants for rent		1,035	362
Cash received from miscellaneous revenues		667	831
Cash paid to employees for services		(93,897)	(90,918)
Cash paid to suppliers for goods and services		(103,998)	(126,436)
Cash paid for judgments and claims		(10,795)	(3,295)
Net cash provided by operating activities		153,666	108,423
Cash flows from non-capital financing activities:			
Cash received from grants		12,686	—
Cash paid for rebates and program incentives		(482)	(409)
Transfers from the City and County of San Francisco		—	1,440
Transfers to the City and County of San Francisco		(161)	(4,188)
Net cash provided by (used in) non-capital financing activities		12,043	(3,157)
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		22	12
Proceeds from bond issuance, net of premium		373,700	—
Proceeds from revenue notes, net of premium		350,823	—
Proceeds from commercial paper borrowings		80,639	435,450
Proceeds from State revolving fund loans		22,544	4,811
Principal paid on long-term debt		(23,665)	(23,987)
Principal paid on commercial paper		(340,000)	(4,871)
Principal paid on State revolving fund loans		(2,483)	(2,458)
Lease payment		(2,371)	(2,371)
Interest paid on long-term debt		(69,988)	(66,654)
Interest paid on commercial paper		(614)	(484)
Interest paid on State revolving fund loans		(1,522)	(1,123)
Interest paid on revenue notes		(1,168)	—
Issuance cost paid on long-term debt		(1,490)	—
Acquisition and construction of capital assets		(516,032)	(582,841)
Federal interest income subsidy for Build America Bonds		5,818	2,297
Net cash (used in) capital and related financing activities		(125,787)	(242,219)
Cash flows from investing activities:			
Interest income received		1,335	3,169
Proceeds from sale of investments outside City Treasury		101,115	134,955
Purchase of investments outside City Treasury		(101,115)	(134,955)
Net cash provided by investing activities		1,335	3,169
Increase (decrease) in cash and cash equivalents		41,257	(133,784)
Cash and cash equivalents:			
Beginning of year		291,906	425,690
End of year	$	333,163	291,906
Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and investments with City Treasury:			
Unrestricted	$	285,029	281,572
Add: Unrealized (gain) loss on investments with City Treasury		8,379	(228)
Cash and investments outside City Treasury:			
Unrestricted		397	366
Restricted		39,358	10,196
Cash and cash equivalents at the end of year on statements of cash flows	$	333,163	291,906

* Restatement due to implementation of GASB 87 - *Leases*

(Continued)

SAN FRANCISCO WASTEWATER ENTERPRISE
Statements of Cash Flows
Years ended June 30, 2022 and 2021
(In thousands)

	2022	Restated 2021*
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 111,711	35,492
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	77,575	74,343
Miscellaneous revenues	667	831
Provision for uncollectible accounts	(781)	2,201
Write-off of capital assets	993	4,203
Receivables:		
Charges for services	(6,143)	(1,506)
Prepaid charges, advances, and other	51	(716)
Due from other City departments	(901)	148
Inventory	(301)	(181)
Accounts payable	7,095	(4,762)
Accrued payroll	255	637
Other post-employment benefits obligations	1,998	(9,436)
Pension obligations	(35,144)	2,970
Accrued vacation and sick leave	(757)	2,744
Accrued workers' compensation	964	531
Pollution remediation obligation	260	—
Damage claims liability	(4,668)	822
Unearned revenues, refunds, and other liabilities	792	102
Total adjustments	41,955	72,931
Net cash provided by operating activities	$ 153,666	108,423
Noncash transactions:		
Accrued capital asset costs	$ 89,905	89,982
Interfund payable	629	739
Unrealized loss (gain) on investments	8,379	(228)

* Restatement due to implementation of GASB 87 - *Leases*

See accompanying notes to financial statements.

(1) Description of Reporting Entity

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

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

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

Until August 1, 2008, the Commission consisted of five members, all appointed by the Mayor. Proposition E, a City Charter SEC. 4.112 amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the Commission, 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 Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for the Commission 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 the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprises are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

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

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

(d) Inventory

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

(e) Capital Assets

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

(f) Intangible Assets

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, the Enterprise is required to capitalize intangible assets with a useful life extending beyond one reporting period. The Enterprise 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 an 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 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). Per the implementation of GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, no interest was capitalized to capital assets in fiscal year 2022.

(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.

(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(b)).

(l) General Liability

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. 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 generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. No arbitrage liability is due as of June 30, 2022 or 2021.

(n) Refunding of Debt

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

(o) Income Taxes

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

(p) Revenue Recognition

Sewer service charges are based on water usage as determined by the San Francisco Water Enterprise. Effective July 1, 2013, the majority of residential and non-residential customers are billed on a monthly basis except for building and contractor customers which are billed on a bi-monthly basis. Revenues earned but unbilled are accrued as charges for services and reflected as a receivable on the statements of net position. The unbilled amount for the fiscal years ending June 30, 2022 and 2021 were $15,704 and $14,175, respectively.

(q) Use of Estimates

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

(r) Accounting and Financial Reporting for Pollution Remediation Obligations

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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) Leases

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

Short-term Leases

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

Leases Other Than Short-term

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

Measurement of Lease Amounts (Lessee)

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

Measurement of Lease Amounts (Lessor)

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

Key Estimates and Judgements

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

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

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

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

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

Remeasurement of Lease

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

(Dollars in thousands, unless otherwise stated)

Presentation in Statement of Net Position

Lease assets are reported with non-current assets, lease liabilities are reported with current and long-term liabilities in the statement of net position.

(t) 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 (see Note 10(b)).

(u) New Accounting Standard Adopted in Fiscal Year 2022

1) 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 June 15, 2021. The Enterprise adopted the provisions of Statement No. 87 in fiscal year 2022 (see Note 9 for more details). As a result of adoption, the cumulative effect of applying this Statement is recorded as beginning balances for the following accounts as of July 1, 2020:

	FY 2021 Beginning Balance	FY 2021 Activities	FY 2021 Ending Balance
Right-to-use Assets	$ 8,247	$ –	$ 8,247
Accumulated Amortization	–	(2,325)	(2,325)
Accrued Interest Payable-Current	–	(5)	(5)
Lease Liability - Current	(2,487)	173	(2,314)
Lease Liability - Long-Term	(5,760)	2,122	(3,638)
Expenses	–	35	35
Change to Net Position	$ –	$ 35	$ 35

2) 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 construction period. The new standard is effective for periods beginning after December 15, 2020. The Enterprise adopted the provisions of Statement No. 89 in fiscal year 2022.

3) In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 92 in fiscal year 2022, which did not have significant effect on its financial statements.

4) In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 93 in fiscal year 2022, which did not have a significant effect on its financial statements.

(v) GASB Statement Implemented in Fiscal Year 2021

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, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

2) 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, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

3) In June 2020, The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. GASB Statement No. 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted early the provisions of Statement No. 97 in fiscal year 2021, which did not have a significant effect on its financial statements.

4) In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. GASB Statement No. 98 updates existing accounting standards by changing the name of the Comprehensive Annual Financial Report to the Annual Comprehensive Financial Report. The new standard is effective for periods ending after December 15, 2021. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

(w) Future Implementation of New Accounting Standards

1) 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, 2021. The Enterprise will implement the provisions of Statement No. 91 in fiscal year 2023.

2) In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public

partnership arrangements (PPPs). The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 94 in fiscal year 2023.

3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 96 in fiscal year 2023.

4) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 99 in fiscal year 2024.

5) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 100 in fiscal year 2024.

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

(x) Reclassifications

The Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. These reclassifications had no effect on previously reported changes in net position.

(3) Cash, Cash Equivalents, and Investments

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

The restricted cash for bond reserves is held by an independent trustee outside the City investment pool. The balances as of June 30, 2022 and 2021 were $39,358 and $10,196, respectively. Funds held by the trustee established under the 2003 Indenture are invested in "Permitted Investments" as defined in the Indenture. "Permitted Investments" include money market funds registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by S&P of "AAAm-G," "AAAm," or "AAm" and a rating by Moody's of "Aaa," "Aa1," or "Aa2."

(Dollars in thousands, unless otherwise stated)

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

The following is a summary of the restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2022 and 2021.

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2022 Maturities	June 30, 2022 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 39,296	39,296	—	—	—
Money Market Funds	A-1+/P-1	< 90 days	44	44	—	—	—
Cash and Cash Equivalents	N/A		18	18	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 39,358	39,358	—	—	—
Cash and Cash Equivalents	N/A		397	397	—	—	—
Total Cash and Investments outside City Treasury			$ 397	397	—	—	—

Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2021 Maturities	June 30, 2021 Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	$ 10,159	10,159	—	—	—
Money Market Funds	A-1+/P-1	< 90 days	26	26	—	—	—
Cash and Cash Equivalents	N/A		11	11	—	—	—
Total Restricted Cash and Investments outside City Treasury			$ 10,196	10,196	—	—	—
Cash and Cash Equivalents	N/A		366	366	—	—	—
Total Cash and Investments outside City Treasury			$ 366	366	—	—	—

(Dollars in thousands, unless otherwise stated)

Commercial paper is valued using a variety of techniques such as matrix pricing; market corroborated pricing inputs such as yield curve, indices, and other market related data. Commercial paper, money market investments, and cash and cash equivalents are exempt from fair value treatment under GASB Statement No. 72.

The restricted cash and investments outside City Treasury as of June 30, 2022 and 2021 included a $0 unrealized gain due to changes in fair values on Commercial Paper.

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

	2022	2021
Current assets:		
Cash and investments with City Treasury	$ 285,029	281,572
Cash and investments outside City Treasury	397	366
Restricted cash and investments outside City Treasury	15,587	298
Non-current assets:		
Restricted cash and investments outside City Treasury	23,771	9,898
Total cash, cash equivalents, and investments	$ 324,784	292,134

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

	Investment maturities (in months)			
Fiscal years ended June 30	Under 1	1 to less than 6	6 to less than 12	12 to 60
2022	20.2%	14.0%	14.9%	50.9%
2021	14.5%	27.6%	29.7%	28.2%

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, sewers, wastewater treatment plants, pump stations, and other pipelines.

Capital assets as of June 30, 2022 and 2021 consisted of the following:

	2021	Increases	Decreases	2022
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 44,572	—	—	44,572
Intangible assets	3,046	—	—	3,046
Construction work in progress	1,340,644	514,679	(130,906) *	1,724,417
Total capital assets not being depreciated and amortized	1,388,262	514,679	(130,906)	1,772,035
Capital assets being depreciated and amortized:				
Facilities and improvements	3,599,978	129,342	—	3,729,320
Intangible assets	8,976	572	—	9,548
Machinery and equipment	102,397	1,165	(288)	103,274
Total capital assets being depreciated and amortized	3,711,351	131,079 *	(288)	3,842,142
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,412,109)	(69,879)	—	(1,481,988)
Intangible assets	(4,615)	(872)	—	(5,487)
Machinery and equipment	(76,039)	(4,500)	288	(80,251)
Total accumulated depreciation and amortization	(1,492,763)	(75,251)	288	(1,567,726)
Total capital assets being depreciated and amortized, net	2,218,588	55,828	—	2,274,416
Total capital assets, net	$ 3,606,850	570,507	(130,906)	4,046,451

* Decrease in construction work in progress is less than increase in capital assets being depreciated is explained by $1,165 direct additions to machinery and equipment offset by $992 in capital project write-offs, mainly related to the Public Works various locations infrastructure improvement projects.

	2020	Increases	Decreases	2021
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 44,572	—	—	44,572
Intangible assets	3,046	—	—	3,046
Construction work in progress	910,338	619,819	(189,513) *	1,340,644
Total capital assets not being depreciated and amortized	957,956	619,819	(189,513)	1,388,262
Capital assets being depreciated and amortized:				
Facilities and improvements	3,419,029	180,949	—	3,599,978
Intangible assets	4,615	4,361	—	8,976
Machinery and equipment	101,595	964	(162)	102,397
Total capital assets being depreciated and amortized:	3,525,239	186,274 *	(162)	3,711,351
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,344,830)	(67,279)	—	(1,412,109)
Intangible assets	(4,615)	—	—	(4,615)
Machinery and equipment	(71,462)	(4,739)	162	(76,039)
Total accumulated depreciation and amortization	(1,420,907)	(72,018)	162	(1,492,763)
Total capital assets being depreciated and amortized, net	2,104,332	114,256	—	2,218,588
Total capital assets, net	$ 3,062,288	734,075	(189,513)	3,606,850

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $4,203 in capital project write-offs, mainly related to the Watershed Storm Management Project, Operational Decision System Ph2 Project, and the Seacliff Ave Sewer Replacement-627 Project offset by $964 direct additions to machinery and equipment.

(Dollars in thousands, unless otherwise stated)

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. Per the implementation of GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, no interest was capitalized to construction in progress beginning in fiscal year 2022. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2022 and 2021 are as follows:

		2022	Restated 2021	
Interest expensed	$	77,743	34,944	*
Interest included in construction work in progress		—	33,420	
Total interest incurred	$	77,743	68,364	

*Restated per implementation of GASB 87 – *Leases*

(5) Restricted Assets

The Master Bond Resolution was discharged upon the issuance of the 2003 Series A Refunding Bonds. Pursuant to the Indenture, which became effective with the issuance of the 2003 Series A Refunding Bonds, all net revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Wastewater revenue bonds. Accordingly, the net revenues of the Enterprise shall not be used for any other purpose while any of its revenue bonds are outstanding except as expressly permitted by the Indenture. Further, all net revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Revenue Fund, which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statements of net position of the Enterprise as cash and investments. Deposits in the Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes and only in accordance with the following priority:

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

(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the Enterprise maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Cash and investments outside City Treasury:		
2009 Series C Certificates of Participation - 525 Golden Gate	$ 433	433
2009 Series D Certificates of Participation - 525 Golden Gate	1,472	1,732
2010 Series A Wastewater revenue bond fund	—	3,592
2010 Series B Wastewater revenue bond fund	8,826	4,401
2021 Series A Wastewater revenue bond fund	24,396	—
2021 Series B Wastewater revenue bond fund	3,937	—
2021 Series A Wastewater revenue note fund	145	—
2021 Series B Wastewater revenue note fund	86	—
Commercial Paper - Tax Exempt	63	38
Total cash and investments outside City Treasury	39,358	10,196
Interest and other receivables:		
Wastewater revenue bond construction fund including capacity fee receivables	2,735	3,291
Due from other government for State Revolving Fund	202,795	20,755
	205,530	24,046
Total restricted assets	$ 244,888	34,242

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

(Dollars in thousands, unless otherwise stated)

(6) Short-Term Debt

Under the voter approved 2002 Proposition E, the Commission and Board of Supervisors authorized the issuance of up to $750,000 in commercial paper for the purpose of reconstructing, expanding, repairing, or improving the Enterprise's facilities. The Enterprise had $379,157 and $638,518 in commercial paper outstanding as of June 30, 2022 and 2021, respectively.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, the Enterprise had $370,843 and $111,482 in unused authorization as of June 30, 2022 and 2021, respectively. Significant Events of default as specified in the Reimbursement Agreements, Revolving Credit and Term Loan Agreements, or Revolving Credit Agreements include 1) payment defaults 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2022, there were no such events described herein.

(7) Changes in Long-Term Liabilities

Long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2021*	Additions	Reductions	2022	Due within one year
Revenue Bonds:							
2010 Series A	4.00% - 5.00%	2021	$ 8,820	—	(8,820)	—	—
2010 Series B (Build America)	4.65 - 5.82	2040	192,515	—	—	192,515	7,280
2013 Series A	1.00 - 5.00	2025	29,595	—	(14,060)	15,535	13,090
2013 Series B	4.00 - 5.00	2042	331,585	—	—	331,585	—
2016 Series A	4.00 - 5.00	2046	240,580	—	—	240,580	—
2016 Series B	4.00 - 5.00	2046	67,820	—	—	67,820	—
2018 Series A	4.00 - 5.00	2043	229,050	—	—	229,050	7,715
2018 Series B	5.00	2043	185,950	—	—	185,950	6,260
2018 Series C	2.13	2048	179,145	—	—	179,145	—
2021 Series A	4.00 - 5.00	2051	—	260,835	—	260,835	—
2021 Series B	5.00	2051	—	37,045	—	37,045	—
For issuance premiums			124,862	75,820	(9,489)	191,193	—
Revenue Notes:							
2021 Series A - Biosolids	1.00	2025	—	218,355	—	218,355	—
2021 Series B - SEP Headworks	1.00	2026	—	129,110	—	129,110	—
For issuance premiums			—	3,358	(467)	2,891	—
Total revenue bonds & notes payable			1,589,922	724,523	(32,836)	2,281,609	34,345
2009 Series C Certificates of Participation (COPs)	2.00 - 5.00	2022	1,611	—	(785)	826	826
2009 Series C COPs issuance premiums			18	—	(14)	4	4
2009 Series D COPs (Build America)	6.36 - 6.49	2041	24,458	—	—	24,458	—
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2056	108,559	196,583	(2,483)	302,659	2,481
Other post-employment benefits obligations			50,711	5,466	(7,054)	49,123	—
Net pension liability			103,746	—	(103,746)	—	—
Accrued vacation and sick leave			11,658	2,895	(3,652)	10,901	5,479
Accrued workers' compensation			6,582	3,207	(2,243)	7,546	1,393
Due to other City departments			739	—	(110)	629	111
Lease liability			5,952	27	(2,341)	3,638	2,341
Damage claims liability			16,713	8,812	(13,480)	12,045	9,323
Pollution remediation obligation			7,800	260	—	8,060	—
Total			$ 1,928,469	941,773	(168,744)	2,701,498	56,303

*Restated due to implementation of GASB 87 - *Leases*

(Continued)

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)		2020	Additions	Reductions	Restated 2021*	Due within one year
Revenue Bonds:								
2010 Series A	4.00% - 5.00%	2021	$	17,210	—	(8,390)	8,820	8,820
2010 Series B (Build America)	4.65 - 5.82	2040		192,515	—	—	192,515	—
2013 Series A	1.00 - 5.00	2025		44,445	—	(14,850)	29,595	14,060
2013 Series B	4.00 - 5.00	2042		331,585	—	—	331,585	—
2016 Series A	4.00 - 5.00	2046		240,580	—	—	240,580	—
2016 Series B	4.00 - 5.00	2046		67,820	—	—	67,820	—
2018 Series A	4.00 - 5.00	2043		229,050	—	—	229,050	—
2018 Series B	5.00	2043		185,950	—	—	185,950	—
2018 Series C	2.13	2048		179,145	—	—	179,145	—
For issuance premiums				133,433	—	(8,571)	124,862	—
Total revenue bonds payable				1,621,733	—	(31,811)	1,589,922	22,880
2009 Series C Certificates of Participation (COPs)	2.00 - 5.00	2022		2,358	—	(747)	1,611	785
2009 Series C COPs issuance premiums				43	—	(25)	18	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041		24,458	—	—	24,458	—
State Revolving Fund Loans (CWSRF loans)	0.80 - 1.80	2051		88,549	22,468	(2,458)	108,559	2,483
Other post-employment benefits obligations				58,183	6,609	(14,081)	50,711	—
Net pension liability				86,235	42,533	(25,022)	103,746	—
Accrued vacation and sick leave				8,914	5,406	(2,662)	11,658	5,811
Accrued workers' compensation				6,051	2,616	(2,085)	6,582	1,198
Due to other City departments				849	—	(110)	739	110
Lease liability				8,247		(2,295)	5,952	2,314
Damage claims liability				15,891	6,428	(5,606)	16,713	5,892
Pollution remediation obligation				7,800	—	—	7,800	—
Total			$	1,929,311	86,060	(86,902)	1,928,469	41,473

*Restated due to implementation of GASB 87 - *Leases*

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

(a) *Wastewater Revenue Bonds 2010 Series A*

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series A in the amount of $47,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used to redeem $50,000 in outstanding commercial paper notes, fund a cash debt service reserve fund, and pay the costs of issuing the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2021. The true interest cost is 2.9%. As of June 30, 2022 and 2021, the 2010 Series A bonds’ principal amount outstanding was $0 and $8,820, respectively.

(b) *Wastewater Revenue Bonds 2010 Series B*

During fiscal year 2010, the Enterprise issued revenue bonds 2010 Series B (Federally Taxable – Build America Bonds – Direct Payment) in the amount of $192,515 with interest rates ranging from 4.7% to 5.8%. Proceeds from the bonds were used to redeem $53,500 in outstanding commercial paper notes, provide funding for capital projects in the amount of $112,429, fund a cash debt service reserve fund, and pay financing costs for the bonds. The bonds were rated “Aa3” and “AA-” by Moody’s and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2040. The true interest cost is 3.7%. As of June 30, 2022 and 2021, the 2010 Series B bonds’ principal amount outstanding was $192,515.

(c) Wastewater Revenue Bonds 2013 Series A

In January 2013, the Enterprise issued tax-exempt revenue bonds 2013 Series A in the amount of $193,400 for the purpose of refunding the remaining portion of the outstanding 2003 Series A bonds maturing on and after October 1, 2013. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively, at the time of issuance. The 2013 Series A refunding bonds include serial bonds with interest rates varying from 1.0% to 5.0% and have a final maturity in October 2025. The Series A bonds have a true interest cost of 1.2%. The 2013 Series A bonds also refunded the remaining portion of the outstanding state revolving fund loans. The refunding resulted in the recognition of a deferred accounting loss of $2,986, gross debt service savings of $35,107 over the next 13 years, and an economic gain of $32,783 or 15.4% of the refunded principal. As of June 30, 2022 and 2021, the principal amount outstanding of the 2013 Series A bonds was $15,535 and $29,595, respectively.

(d) Wastewater Revenue Bonds 2013 Series B

In February 2013, the Enterprise issued revenue bonds 2013 Series B in the amount of $331,585 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, pay off all outstanding Wastewater commercial paper notes, and pay the costs of issuing the bonds. The bonds were rated "Aa3" and "AA-" by Moody's and S&P, respectively, at the time of issuance. Bonds mature through October 1, 2042. The true interest cost is 3.6%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2013 Series B bonds was $331,585.

(e) Wastewater Revenue Bonds 2016 Series A

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of $240,580 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $53,439 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2016 Series A bonds was $240,580.

(f) Wastewater Revenue Bonds 2016 Series B

In May 2016, the Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of $67,820 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $20,560 of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2016 Series B bonds was $67,820.

(g) Wastewater Revenue Bonds 2018 Series A

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series A (SSIP) (Green Bonds) in the amount of $229,050 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects in furtherance of the SFPUC's Sewer System Improvement Program ("SSIP"), to pay off $25,000 of outstanding commercial paper notes, to fund capitalized interest, and to pay the costs of issuing the bonds. The bonds carried ratings of "AA" and

"Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.4%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2018 Series A bonds was $229,050.

(h) Wastewater Revenue Bonds 2018 Series B

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series B (Non-SSIP) in the amount of $185,950 with 5.0% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2043. The bonds have a true interest cost of 3.5%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2018 Series B bonds was $185,950.

(i) Wastewater Revenue Bonds 2018 Series C

In August 2018, the Enterprise issued tax-exempt revenue bonds 2018 Series C (SSIP) (Green Bonds) in the amount of $179,145 with 2.1% interest rate. Proceeds from the bonds were used for Wastewater capital projects, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively, at the time of issuance. Bonds mature through October 1, 2048. The Initial Mandatory Tender date of the 2018 Series C bonds is October 1, 2023. The bonds have a true interest cost of 3.5%. As of June 30, 2022 and 2021, the principal amount outstanding of the 2018 Series C bonds was $179,145.

(j) Wastewater Revenue Bonds 2021 Series AB

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

The $260,835 2021 Series A Bonds were issued as tax-exempt Green Bonds to refund approximately $296,000 of commercial paper notes for SSIP capital projects. The Series A bonds were issued as serial bonds with coupons of 4.0% and 5.0% and a final maturity of 2051. The 2021 Series A bonds have a true interest cost of 3.0%. As of June 30, 2022, the principal amount of the 2021 Series A bonds outstanding was $260,835.

The $37,045 2021 Series B bonds were issued as tax-exempt bonds to refund approximately $44,000 of commercial paper notes for Wastewater capital projects. The Series B bonds were issued as serial bonds with coupons of 5.0% and have a final maturity of 2051. The Series B bonds have a true interest cost of 3.2%. As of June 30, 2022, the principal amount of the 2021 Series B bonds outstanding was $37,045.

(k) Wastewater Revenue Notes 2021 Series AB

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

(Dollars in thousands, unless otherwise stated)

Digester Facility Project and Southeast Treatment Plant Improvements, respectively, or from the proceeds of future obligations.

The $218,355 2021 Series A Notes were issued as tax-exempt Green Notes to fund a portion of the Biosolids Digester Facilities Project. The Series A Notes were issued with 1.0% coupons and a final maturity of 2025. The 2021 Series A Notes have a true interest cost of 0.75%. As of June 30, 2022, the principal amount of 2021 Series A Notes outstanding was $218,355.

The $129,110 2021 Series B Notes were issued as tax-exempt Green Notes to fund a portion of Southeast Water Pollution Control Plant improvements. The Series B Notes were issued with 1.0% coupons and a final maturity of 2026. The 2021 Series B Notes have a true interest cost of 0.81%. As of June 30, 2022, the principal amount of 2021 Series B Notes outstanding was $129,110.

(l) Future Annual Debt Services of Revenue Bonds and Notes and Refunding Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds and revenue notes outstanding as of June 30, 2022. The interest before subsidy amounts includes the interest for 2010 Series A and B, 2013 Series A and B, 2016 Series A and B, 2018 Series A, B, and C, 2021 Series A and B bonds, and 2021 Series A and B notes. The federal interest subsidy amounts represent 35% of the interest, excluding sequestration, for the 2010 Series B revenue bonds.

	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:				
2023	$ 34,345	79,288	(3,471)	75,817
2024	36,905	79,234	(3,356)	75,878
2025	36,935	79,083	(3,235)	75,848
2026	257,030	76,151	(3,105)	73,046
2027	169,625	72,469	(2,968)	69,501
2028-2032	233,765	325,416	(12,483)	312,933
2033-2037	295,065	259,098	(7,749)	251,349
2038-2042	367,020	181,095	(2,061)	179,034
2043-2047	404,575	96,342	—	96,342
2048-2052	252,260	22,115	—	22,115
	2,087,525	1,270,291	(38,428)	1,231,863
Less: Current portion	(34,345)			
Add: Unamortized bond premiums	194,084			
Long-term portion as of June 30, 2022	$ 2,247,264			

*The SFPUC received an IRS notice, dated June 2, 2022, that the federal interest subsidy on the 2010 Series B bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of $2,323, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

The future annual debt services relating to the certificates of participation 2009 Series C outstanding as of June 30, 2022 are as follows:

Certificates of Participation 2009 Series C (Tax Exempt)		Principal	Interest	Total
Fiscal years ending June 30:				
2023	$	826	21	847
		826	21	847
Less: Current portion		(826)		
Add: Unamortized bond premiums		4		
Less: Current portion		(4)		
Long-term portion as of June 30, 2022	$	—		

(Dollars in thousands, unless otherwise stated)

The future annual debt services relating to the certificates of participation 2009 Series D outstanding as of June 30, 2022 are as follows:

Certificates of Participation 2009 Series D (Taxable)		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:					
2023	$	—	1,578	(521)	1,057
2024		864	1,551	(512)	1,039
2025		900	1,494	(493)	1,001
2026		937	1,436	(474)	962
2027		977	1,375	(454)	921
2028-2032		5,539	5,865	(1,936)	3,929
2033-2037		6,825	3,874	(1,279)	2,595
2038-2042		8,416	1,411	(466)	945
Total			18,584	(6,135)	12,449
Long-term portion as of June 30, 2022	$	24,458			

*The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7% through fiscal year 2030, or a total reduction of $371, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(n) *Lake Merced Green Infrastructure Project CWSRF Loan*

In January 2016, then amended in May 2016, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (“CWSRF”) Loan to fund the Lake Merced Green Infrastructure Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $7,435. The loan bears an interest rate of 1.6% which was equal to one-half of the State of California’s most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project’s construction; completion was in October 2020. The CWSRF loan is secured on a parity lien basis with the Enterprise’s outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling $6,116 and a construction period interest of $166 transferred to principal. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $6,112 and $6,282, respectively.

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

In September 2017, then amended in December 2017 and May 2018, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP 521/522 and Disinfection Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $40,007. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California’s most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project’s construction; substantial completion occurred in July 2019. The CWSRF loan is secured on a parity lien basis with the Enterprise’s outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $39,741. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $37,450 and $38,512, respectively.

(p) North Point Facility Outfall Rehabilitation Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the North Point Facility Outfall Rehabilitation Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $20,199. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in February 2018. The CWSRF loans is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $17,706. As of June 30, 2022 and 2021 the principal amount outstanding of the loan was $15,710 and $16,181, respectively.

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

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Primary/Secondary Clarifier Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $34,446. The loan bears an interest rate of 0.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in June 2018. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $29,197. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $26,048 and $26,829, respectively.

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

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the OSP Digester Gas Utilization Upgrade Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $54,388, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $22,544 and a receivable for reimbursement of $6,117, which included a loan forgiveness grant of $4,000. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $24,661 and $20,755, respectively.

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

In May 2020, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP Biosolids Digester Facilities Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $132,000, which includes $4,000 of principal forgiveness, or a grant. The loan bears an interest rate of 1.4% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in May 2026. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $0 and a receivable for reimbursement of $132,000, which includes a $4,000 loan forgiveness grant. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $128,000 and $0, respectively.

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

In May 2021, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP New Headworks (Grit) Replacement Project of the Sewer System Improvement Program. The CWSRF loan is in the amount of $112,036. The loan bears an interest rate of 1.1% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected in March 2024. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received proceeds from loan disbursements to date totaling $0 and a receivable for reimbursement of $64,678. As of June 30, 2022 and 2021, the principal amount outstanding of the loan was $64,678 and $0, respectively.

(Dollars in thousands, unless otherwise stated)

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

The future annual debt services relating to the State Revolving Fund Loan to fund the Lake Merced Green Infrastructure Project, the North Point Facility Outfall Rehabilitation Project, the SEP Primary/Secondary Clarifier Upgrade Project, the SEP 521/522 and Disinfection Upgrade Project, the OSP Digester Gas Utilization Upgrade Project, the SEP Biosolids Digester Facilities Project, and the SEP New Headworks (Grit) Replacement Project outstanding as of June 30, 2022 are as follows:

California Clean Water State Revolving Fund Loan		Principal	Interest and Fees*	Total
Fiscal years ending June 30:				
2023	$	2,481	1,524	4,005
2024		3,192	1,824	5,016
2025		5,079	2,481	7,560
2026		5,154	2,406	7,560
2027		8,693	4,121	12,814
2028-2032		45,402	18,672	64,074
2033-2037		48,807	15,267	64,074
2038-2042		52,476	11,598	64,074
2043-2047		56,429	7,645	64,074
2048-2052		48,642	3,637	52,279
2053-2056		26,304	812	27,116
		302,659	69,987	372,646
Less: Current portion		(2,481)		
Long-term portion as of June 30, 2022	$	300,178		

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

(v) WIFIA Loan Agreement-Biosolids Digester Facility Project

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

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

The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2022.

(Dollars in thousands, unless otherwise stated)

(w) WIFIA Loan Agreement-Southeast Treatment Plant Improvements

In June 2020, the San Francisco Public Utilities Commission ("SFPUC") entered into a "Water Infrastructure Finance and Innovation Act (WIFIA)" Loan Agreement ("WIFIA Loan") with the United States Environmental Protection Agency in the amount of $513,862. The WIFIA Loan was entered into pursuant to the WIFIA statute authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's SEP New Headworks Replacement Project and additional costs of the revised Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water State Revolving Fund ("SRF") Loans entered into with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 1.45% for a 35-year term, with loan repayment expected to begin in fiscal year 2025, after substantial completion of project construction. The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2022.

(x) Events of Default and Remedies

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default as specified in the Wastewater Enterprise Indenture (applicable to Wastewater Revenue Bonds, SRF Loans, and WIFIA Loan include 1) Non-payment 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations or of a credit provider), declaring the principal and the interest accrued thereon, to be due and payable immediately. As of June 30, 2022, there were no such events described herein.

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds, notes, and State Revolving Fund loans. Proceeds from the revenue bonds, revenue notes, and State Revolving Fund provided financing for various capital construction projects, and to refund previously issued bonds. The bonds, notes, and State Revolving Fund loans are payable through fiscal years 2052, 2027, and 2056, respectively, and are solely from revenues of the Enterprise.

The original amount of revenue bonds issued, revenue notes issued, and State Revolving Fund loans, total principal and interest remaining, principal and interest paid during fiscal years 2022 and 2021, applicable net revenues, and funds available for debt service are as follows:

	2022	2021
Bonds issued with revenue pledge	$ 1,964,975	1,667,095
Notes issued with revenue pledge	347,465	—
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	310,265	113,681
Principal and interest remaining due at the end of the year	3,730,462	2,578,879
Principal and interest paid during the year	86,619	82,066
Net revenues for the year ended June 30	155,504	108,399
Funds available for debt service	310,835	306,177

(Dollars in thousands, unless otherwise stated)

(9) Leases

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

A summary of intangible right-to-use leases during the year ended June 30, 2022 and 2021 is as follows:

	Balance July 1, 2021	Increases	Decreases	Remeasurements	Balance June 30, 2022
Right-to-use assets:					
Land	$ –	–	–	–	–
Building/Facility	8,247	–	–	–	8,247
Equipment	–	–	–	–	–
Total lease assets	8,247	–	–	–	8,247
Less accumulated amortization:					
Right-to-use assets:					
Land	–	–	–	–	–
Building/Facility	2,325	2,325	–	–	4,650
Equipment	–	–	–	–	–
Total accumulated amortization	2,325	2,325	–	–	4,650
Total lease assets, net	$ 5,922	(2,325)	–	–	3,597

	Balance July 1, 2020	Increases	Decreases	Remeasurements	Balance July 1, 2021
Right-to-use assets:					
Land	$ –	–	–	–	–
Building/Facility	8,247	–	–	–	8,247
Equipment	–	–	–	–	–
Total lease assets	8,247	–	–	–	8,247
Less accumulated amortization:					
Right-to-use assets:					
Land	–	–	–	–	–
Building/Facility		2,325	–	–	2,325
Equipment	–	–	–	–	–
Total accumulated amortization	–	2,325	–	–	2,325
Total lease assets, net	$ 8,247	(2,325)	–	–	5,922

(Dollars in thousands, unless otherwise stated)

A summary of changes in the related lease liabilities during the year ended June 30, 2022 and 2021 is as follows:

	Balance July 1, 2021	Additions	Remeasurements	Deductions	Balance June 30, 2022	Amounts Due Within One Year
Lease liabilities	$ 5,952	–	–	2,314	3,638	2,341
Total	$ 5,952	–	–	2,314	3,638	2,341

	Balance July 1, 2020	Additions	Remeasurements	Deductions	Balance June 30, 2021	Amounts Due Within One Year
Lease liabilities	$ 8,247	–	–	2,295	5,952	2,314
Total	$ 8,247	–	–	2,295	5,952	2,314

Future annual lease payments as of June 30, 2022 and 2021 are as follows:

Year ending June 30:	Principal amount	Interest amount	Total
2023	$ 2,341	30	2,371
2024	1,297	6	1,303
2025	–	–	–
2026	–	–	–
2027	–	–	–
2028-2032	–	–	–
2033-2037	–	–	–
2038-2042	–	–	–
	3,638	36	3,674
Less: Current portion	(2,341)		
Long-term portion as of June 30, 2022	$ 1,297		

Year ending June 30:	Principal amount	Interest amount	Total
2022	$ 2,314	57	2,371
2023	2,341	30	2,371
2024	1,297	6	1,303
2025	–	–	–
2026	–	–	–
2027-2031	–	–	–
2032-2036	–	–	–
2037-2041	–	–	–
	5,952	93	6,045
Less: Current portion	(2,314)		
Long-term portion as of June 30, 2021	$ 3,638		

(Dollars in thousands, unless otherwise stated)

Variable lease payments

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

Certain equipment or facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor, these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $207 and $130 during the year ended June 30, 2022 and 2021, respectively.

(10) Employee Benefits

(a) Pension Plan

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

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

Fiscal year 2022	
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

Fiscal year 2021	
Valuation Date (VD)	June 30, 2019 updated to June 30, 2020
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

SFERS Plan – The City is an employer of the SFERS Plan with a proportionate share of 94.64% as of June 30, 2021 (measurement date), and 94.39% as of June 30, 2020 (measurement date). The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2021 and 2020. The Enterprise's net pension liability/(asset), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. The Enterprise's allocation of the City's proportionate share was 1.99% as of June 30, 2021 and 2.03% as of June 30, 2020 (measurement dates).

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

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

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

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

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

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the SFERS Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. 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 SFERS 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 SFERS 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 SFERS Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding & Contribution Policy

SFERS Plans – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2022 and 2021. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The Enterprise is required to contribute at an actuarially determined rate. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 was 19.91% to 24.41%. Based on the July 1, 2019 actuarial report, the required employer contribution rate for fiscal year 2021 was 22.40% to 26.90%.

Employer contributions and employee contributions made by the employer to the SFERS Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2021 and 2020 (measurement periods) were $791,736 and $701,307, respectively. The Enterprise's allocation of employer contributions for fiscal year 2021 and 2020 were $16,083 and $14,352, respectively.

For the year ended June 30, 2022, the City's actuarial determined contribution was $729,578. Wastewater's share was $14,543 for fiscal year 2022 and will be recognized as a reduction of the net pension liability in the subsequent fiscal period.

Pension Liabilities/(Assets), Pension Expenses, Deferred Outflows, and Inflows of Resources Related to Pensions

Fiscal Year 2022

As of June 30, 2022, the City reported net pension assets (NPA) for its proportionate share of the net pension (asset) of the SFERS Plan of $2,446,564. The City's net pension asset for the SFERS Plan is measured as the proportionate share of the net pension asset. The net pension asset of the SFERS Plan is measured as of June 30, 2021 (measurement date), and the total pension (asset) for the SFERS Plan used to calculate the net pension (asset) was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension (asset) for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension (asset) for the SFERS Plan as of June 30, 2022 was ($48,770).

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2022, the City's recognized pension (benefit) was ($922,979), which includes Retirement Benefit Plan pension expense of $28,735. The Enterprise's allocation of pension (benefit) including amortization of deferred outflows/inflows related pension items was ($20,601).

As of June 30, 2022, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2022 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	14,543	—
Differences between expected and actual experience		4,479	160
Changes in assumptions		3,300	8,562
Net difference between projected and actual earnings on pension plan investments		—	105,948
Change in employer's proportion		3,047	—
Total	$	25,369	114,670

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

Fiscal years		Deferred Outflows/(Inflows) of Resources
2023		(26,134)
2024		(23,662)
2025		(24,937)
2026		(29,111)
Total	$	(103,844)

Fiscal Year 2021

The City reported net pension liabilities for its proportionate share of the pension liability of the SFERS Plan of $5,107,270 as of June 30, 2021. The City's net pension liability for the SFERS Plan is measured as the proportionate share of the net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2020 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2021 was $103,746.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2021, the City's recognized pension expense was $962,576 including amortization of deferred outflow/inflow related pension items. The Enterprise's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $19,053. Pension expense increased from the prior year, largely due to the amortization of deferrals.

As of June 30, 2021, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2021 Schedule of Deferred Outflows and Inflows of Resources

		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	16,083	—
Differences between expected and actual experience		3,524	325
Changes in assumptions		5,696	1,797
Net difference between projected and actual earnings on pension plan investments		2,172	—
Change in employer's proportion		2,744	26
Total	$	30,219	2,148

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

Fiscal years		Deferred Outflows/(Inflows) of Resources
2022	$	(787)
2023		3,009
2024		5,528
2025		4,238
Total	$	11,988

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability/(Asset) as of June 30, 2021 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 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	SFERS Plan
Valuation Date	June 30, 2020 updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.40% net of investment expenses
Municipal Bond Yield	2.21% as of June 30, 2020
	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50%
Projected Salary Increases	3.25% plus merit component based on employee classification and years of service
Discount Rate	7.40% as of June 30, 2020
	7.40% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2020
	0.60% of payroll as of June 30, 2021

Basic COLA		Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
	June 30, 2020	2.00%	2.50%	3.10%	4.20%
	June 30, 2021	2.00%	1.90%	2.50%	3.60%

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

The actuarial assumptions used at the June 30, 2021 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience as of July 1, 2020.

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2020 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2019 actuarial valuation. Refer to the July 1, 2019 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	SFERS Plan
Valuation Date	June 30, 2019 updated to June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.40% net of pension plan investment, including inflation
Municipal Bond Yield	3.50% as of June 30, 2019
	2.21% as of June 30, 2020
	Bond Buyer 20-Bond GO Index, June 27, 2019 and June 25, 2020
Inflation	2.75%
Projected Salary Increases	3.50% plus merit component based on employee classification and years of service
Discount Rate	7.40% as of June 30, 2019
	7.40% as of June 30, 2020
Administrative Expenses	0.60% of payroll as of June 30, 2019
	0.60% of payroll as of June 30, 2020

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, 2019	2.00%	2.50%	3.10%	4.20%
June 30, 2020	2.00%	2.50%	3.10%	4.20%

For healthy annuitants, the sex distinct 2009 CalPERS healthy annuitant mortality table, adjusted 1.014 for females and 0.909 for males. For active members, the sex distinct 2009 CalPERS employee mortality tables, adjusted 0.918 for females and 0.948 for males. Rates are projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

The actuarial assumptions used at the June 30, 2020 measurement date was based upon the result of a demographic experience study for the period July 1, 2009 through June 30, 2014 and an economic experience as of July 1, 2019.

Discount Rate

Fiscal Year 2022

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of the June 30, 2021 (measurement date) and June 30, 2020 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2021 was 7.40%. The projection of cash flows used to determine the discount rate assumed that SFERS plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2020 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.

(Dollars in thousands, unless otherwise stated)

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

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

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021. 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
2023	0.75 %	0.70 %
2025	0.75	0.70
2027	0.75	0.60
2029	0.75	0.60
2031	0.75	0.60
2033+	0.75	0.50

(Dollars in thousands, unless otherwise stated)

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2021 was 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. 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.

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.2 %
Private Equity	23.0	7.9
Private Credit	10.0	5.1
Real Assets	10.0	5.1
Hedge Funds/Absolute Returns	10.0	2.9
Treasuries	8.0	0.0
Liquid Credit	5.0	2.3
Leverage	-3.0	0.1
Total	100.0	

Fiscal Year 2021

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of the June 30, 2020 (measurement date) and June 30, 2019 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2020 was 7.40%. The projection of cash flows used to determine the discount rate assumed that SFERS plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2019 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.

(Dollars in thousands, unless otherwise stated)

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.50% 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.

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

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2020 for the probability and amount of Supplemental COLA for each future year. There were no excess earnings during the fiscal year ending June 30, 2020; consequently, no Supplemental COLA will be paid effective July 1, 2020. 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
2022	0.75 %	0.19 %
2024	0.75	0.27
2026	0.75	0.30
2028	0.75	0.33
2030	0.75	0.35
2032	0.75	0.37
2034+	0.75	0.38

(Dollars in thousands, unless otherwise stated)

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.21% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2020 was 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. 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.

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	4.9 %
Private Equity	18.0	7.9
Real Assets	17.0	5.7
Hedge Funds/Absolute Returns	15.0	3.0
Private Credit	10.0	4.8
Treasuries	6.0	-0.5
Liquid Credit	3.0	2.7
Total	100.0	

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

Fiscal Year 2022

	June 30, 2021 (measurement period)		
Employer	1% Decrease Share of NPL @ 6.40%	Share of NPA @ 7.40%	1% Increase Share of NPA @ 8.40%
Wastewater	$ 32,504	(48,770)	(115,868)

Fiscal Year 2021

Employer	1% Decrease Share of NPL @ 6.40%	Share of NPL @ 7.40%	1% Increase Share of NPL @ 8.40%
Wastewater	$ 183,436	103,746	37,907

(Dollars in thousands, unless otherwise stated)

(b) Other Post-Employment Benefits

The Enterprise participates in the City's single employer defined benefit other postemployment benefits plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. The plan provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other 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 2022	
Valuation Date (VD)	June 30, 2020, updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

Fiscal year 2021	
Valuation Date (VD)	June 30, 2020
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

The Enterprise'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, 2021. The Enterprise's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Enterprise's allocated percentage. The Enterprise's proportionate share of the City's OPEB elements as of June 30, 2021 and 2020 measurement dates was 1.33%.

Benefits

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

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

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

(Dollars in thousands, unless otherwise stated)

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

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

Medical:	PPO – 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 UnitedHealthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

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

Contributions

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

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

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

For the fiscal years ending June 30, 2022 and 2021, the City's funding was based on "pay-as-you-go" plus a contribution of $41,841 and $39,555 to the Retiree Healthcare Trust Fund, respectively. The "pay-as-you-go" portion paid by the City was $211,025 for a total contribution of $252,866 for the fiscal year ending June 30, 2022, and $206,439 for a total contribution of $245,994 for the fiscal year ending June 30, 2021. The Enterprise's proportionate share of the City's contributions for fiscal year 2022 was $3,365, and for fiscal year 2021 was $3,263 and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2022

As of June 30, 2022, the City reported net OPEB liabilities related to the Plan of $3,691,122. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2022 was $49,123.

For the year ended June 30, 2022, the City's recognized OPEB expense was $272,001. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was $5,364.

As of June 30, 2022, the Enterprise reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,365	$ -
Differences between expected and actual experience	1,476	7,564
Changes in assumptions	2,076	-
Net difference between projected and actual earnings on plan investments	-	930
Change in proportion	5,981	146
Total	$ 12,898	$ 8,640

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

Year ended June 30:	
2023	$ 291
2024	288
2025	301
2026	231
2027	95
Thereafter	(313)
Total	$ 893

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021

As of June 30, 2021, the City reported net OPEB liabilities related to the Plan of $3,823,334. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2021 was $50,711.

For the year ended June 30, 2021, the City's recognized OPEB expense was $320,684. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was a credit of $6,174 to expense.

As of June 30, 2021, the Enterprise reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

Wastewater	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,263	$ -
Differences between expected and actual experience	1,839	7,265
Changes in assumptions	2,567	-
Net difference between projected and actual earnings on plan investments	33	-
Change in proportion	7,407	-
Total	$ 15,109	$ 7,265

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

Year ended June 30:	
2022	$ 829
2023	849
2024	846
2025	859
2026	788
Thereafter	410
Total	$ 4,581

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2021 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020, updated to June 30, 2021
Measurement Date	June 30, 2021
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 6.74% trending down to ultimate rate of 4.04% in 2075
	Medicare trend starts at 7.24% trending down to ultimate rate of 4.04% in 2075
	10-County average trend starts at 5.50% trending down to ultimate rate of 4.04% in 2075
	Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25%
	Additional Merit Component (dependent on years of service):
	Police: 0.50% - 7.50%
	Fire: 0.50% - 14.00%
	Muni Drivers: 0.00% - 16.00%
	Craft: 0.50% - 3.75%
	Misc.: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually
	Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2020 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020
Measurement Date	June 30, 2020
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 4.00% in 2022, 7.00% in 2023, trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 1.00% in 2022, 7.50% in 2023, trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 4.5% in 2022, 5.50% in 2023, trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc.: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

(Dollars in thousands, unless otherwise stated)

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

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

Fiscal Year 2022 Employer	-1.00%	Healthcare Trend	1.00%
Wastewater	$ 41,812	$ 49,123	$ 58,236

Fiscal Year 2021 Employer	-1.00%	Healthcare Trend	1.00%
Wastewater	$ 43,846	$ 50,711	$ 59,657

Discount Rate

Fiscal Year 2022

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(Dollars in thousands, unless otherwise stated)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	8.2%
U.S. Small Cap	3.0%	9.5%
Developed Market Equity (non-U.S.)	15.0%	8.9%
Emerging Market Equity	13.0%	11.0%
Credit		
Bank Loans	3.0%	4.4%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.3%
Rate Securities		
Investment Grade Bonds	9.0%	1.9%
Long-term Government Bonds	4.0%	3.2%
Short-term Treasury Inflation Protected Securities	4.0%	1.5%
Private Markets		
Private Equity	5.0%	13.0%
Core Private Real Estate	5.0%	6.2%
Risk Mitigating Strategies		
Global Macro	5.0%	4.4%
Total	100.0%	

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

	June 30, 2021 (measurement period)		
Employer	1% Decrease Share of NOL @ 6.00%	Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	$ 57,442	$ 49,123	$ 42,328

Fiscal Year 2021

The discount rate used to measure the Total OPEB Liability as of June 30, 2020 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(Dollars in thousands, unless otherwise stated)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	8.4%
U.S. Small Cap	3.0%	9.8%
Developed Market Equity (non-U.S.)	15.0%	9.6%
Emerging Market Equity	13.0%	11.7%
Credit		
Bank Loans	3.0%	4.9%
High Yield Bonds	3.0%	4.9%
Emerging Market Bonds	3.0%	4.8%
Rate Securities		
Investment Grade Bonds	9.0%	2.2%
Long-term Government Bonds	4.0%	3.1%
Short-term Treasury Inflation Protected Securities	4.0%	1.9%
Private Markets		
Private Equity	5.0%	12.5%
Core Private Real Estate	5.0%	6.4%
Risk Mitigating Strategies		
Global Macro	5.0%	4.1%
Total	100.0%	

The asset allocation targets summarized above have a 20-year return estimate of 6.90%, which was weighted against a 10-year model estimating a 6.93% return, resulting in the ultimate long-term expected rate of return of 7.00%.

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

Employer	1% Decrease Share of NOL @ 6.00%	Discount Rate @ 7.00%	1% Increase Share of NOL @ 8.00%
Wastewater	$ 58,848	$ 50,711	$ 44,067

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

(11) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Water Enterprise. The allocations are based on the Commission management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. The administrative costs of $32,212 or 30.0%, which included COVID-19 Project expenses, and $29,457 or 30.0% were allocated to the Enterprise for the years ended June 30, 2022 and 2021, respectively.

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

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. This amount, totaling $11,887 and $10,122 for the years ended June 30, 2022 and 2021, respectively, has been included in services provided by other departments in the accompanying financial statements.

The Enterprise purchases water from Water Enterprise at retail rates. This amount, totaling $1,819 and $1,308 for the years ended June 30, 2022 and 2021, respectively, has been included in services provided by other departments in the accompanying financial statements.

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

The City's Department of Public Works provides certain engineering and other services to the Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. These amounts totaling approximately $13,099 and $15,088 for the years ended June 30, 2022 and 2021, respectively, have been included in services provided by other departments in the accompanying financial statements.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges totaling approximately $12,840 and $11,795 for the years ended June 30, 2022 and 2021, respectively, have been included in services provided by other departments in the accompanying financial statements.

As of June 30, 2022 and 2021, the Enterprise has payables in the amount of $629 and $739, respectively, which is associated with the SFPUC Headquarters Living Machine system. As of June 30, 2022 and 2021, the Enterprise has payable of $0 to the City Attorney's Office for legal services provided.

As of June 30, 2022, the Enterprise has interfund receivable of $224, of which $118 from DPW for custom work projects and $106 from the Academy of Sciences for sewer charges. In fiscal year 2021, the Enterprise has interfund receivable of $261, of which $237 from the DPW and $24 from the San Francisco Port for the Islais Creek Project.

As of June 30, 2022, the Enterprise has receivables due of $1,015, consisting of $1,014 from the Treasure Island Development Authority for capacity charges and $1 from the Office of Community

(Dollars in thousands, unless otherwise stated)

Investment and Infrastructure (OCII) for the Candlestick Point Project. In fiscal year 2021, the Enterprise has receivable of $20 due from OCII.

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, 2022, the Enterprise's allocable shares of expenses and prepayment were $22 and $1,145, respectively, and as of June 30, 2021 were $21 and $1,167, respectively.

SFPUC's 30-year lease agreement with the San Francisco Port Commission, for the use of approximately 4,833 square feet of land located within Seawall Lot 345 and within the public right-of-way on Terry A. Francois Boulevard and on Illinois Street, commenced on September 1, 2018. SFPUC intends to use the premises for the reconstruction of the Mariposa Pump Station and Force Main Improvements. Total payment under this agreement is $502, which was fully made as of fiscal year 2019. As of June 30, 2022, the Enterprise's expenses and prepayment were $17 and $438, respectively, and as of June 30, 2021 were $17 and $455, respectively.

(12) Risk Management

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

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

(Dollars in thousands, unless otherwise stated)

(a) *General Liability*

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

The changes for the general liability (damage claims) for the years ended June 30, 2022 and 2021 were as follows:

Fiscal years	Beginning of year	Claims	Claims paid and changes in estimates	End of year
2022	$ 16,713	8,812	(13,480)	12,045
2021	15,891	6,428	(5,606)	16,713

(b) *Workers' Compensation*

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

The changes in the liabilities for workers' compensation for the years ended June 30, 2022 and 2021 were as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
2022	$ 6,582	3,207	(2,243)	7,546
2021	6,051	2,616	(2,085)	6,582

(c) *Property*

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

(d) *Public Officials Liability*

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

(e) *Employment Practices Liability*

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

(f) *Cyber Liability*

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

(g) *Crime*

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

(h) *Electronic Data Processing*

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

(i) *Surety Bonds*

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

(j) *Errors and Omissions*

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

(k) *Builders' Risk*

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

(13) Commitments and Litigation

(a) *Commitments*

As of June 30, 2022 and 2021, the Enterprise has outstanding commitments with third parties of $1,037,607 and $633,255, respectively, for various capital projects and other purchase agreements for materials and services.

(Continued)

(b) Grants

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

(c) Litigation

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

(d) Environmental Issue

As of June 30, 2022, and 2021, the Enterprise recorded $8,060 and $7,800 in pollution remediation liability, respectively. The increase of $260 in pollution remediation liability in fiscal year 2022 is due to violation penalties of $240 at the Southeast Plant for the discharge of secondary treated and disinfected wastewater and $20 at the Oceanside Plant for failure to meet the District permit condition-imposed standards relating to gas released into the atmosphere from digesters. As of June 30, 2022, the pollution remediation liability of $8,060 consisted of $7,800 for the Yosemite Creek toxic sediments and $260 aggregate violation fines at the Southeast Plant and Oceanside Plant. In fiscal year 2021, the pollution liability of $7,800 was based on cleanup cost estimates for the toxic sediments at Yosemite Creek.

(14) Subsequent Events

(a) Wastewater Revenue Bonds, Series 2022B Issuance

On July 6, 2022, the SFPUC issued its San Francisco Wastewater Revenue Bonds, 2022 Sub-Series B (Refunding) with an aggregate principal of $137,080 to refund a portion of the SFPUC's outstanding 2013 Series A and 2013 Series B Wastewater Revenue Bonds.

(b) Wastewater Interim Funding Program – Credit Providers

On July 7, 2022, the SFPUC entered into a $75 million Revolving Credit and Term Loan Agreement with TD Bank N.A. (TD Bank) (Series A-4) which expires July 6, 2027. The Series A-4 Revolving Credit and Term Loan Agreement replaced the $75 million Revolving Credit and Term Loan Agreement from the Toronto Dominion Bank which expired July 8, 2022.

(c) Fourth Extension of Shutoff, Liens, and Fines Moratorium for COVID-19 Relief

On September 13, 2022, the Commission approved to extend moratorium on shutoff of sewer service for residents in the City through June 30, 2023 and granted the General Manager discretion to restart severance and liens processes to multifamily residential accounts carrying balances greater than $25 which are 90 days or more past due.

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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 San Francisco Wastewater Enterprise (the Enterprise), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements, and have issued our report thereon dated January 27, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

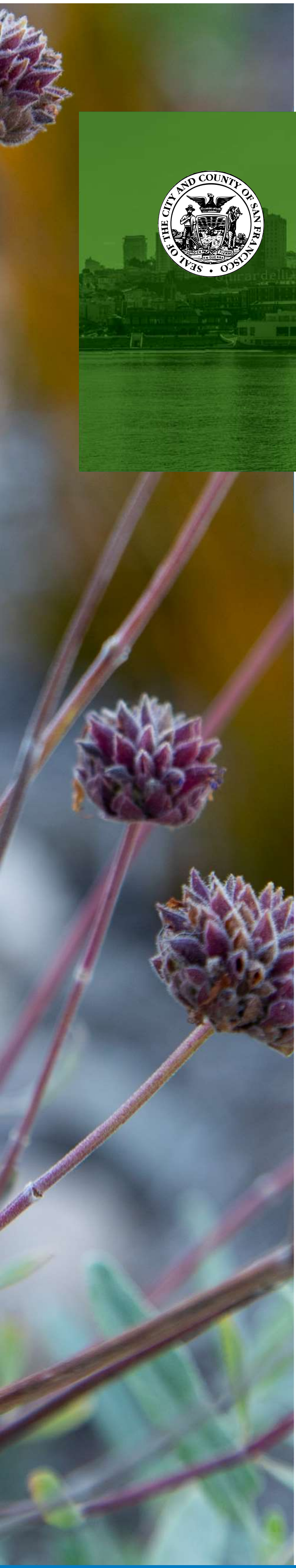
As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

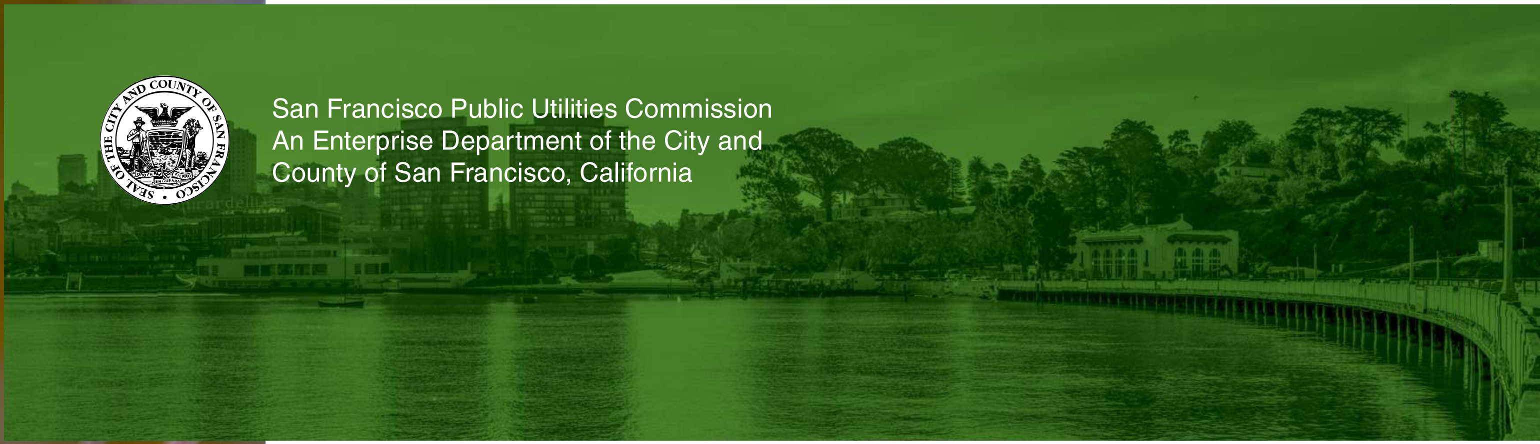
Purpose of This Report

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

KPMG LLP

San Francisco, California
January 27, 2023





San Francisco Public Utilities Commission
An Enterprise 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.

Cover photo: Sewer Microtunneling on Vicente Street
Back photos: San Francisco Aquatic Park, Flowers in Sunset Boulevard Greenway
Photos by: Robin Scheswohl and Sabrina Wong

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