

INVITATION TO TENDER BONDS FOR PURCHASE

made by

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

to the Bondholders described herein of all or any portion of the maturities listed on pages (i) through (iii) herein of its

TAXABLE TARGET BONDS

SAN FRANCISCO WATER REVENUE BONDS,

2019 Series ABC, 2019 Sub-Series A
(Refunding – Federally Taxable) (WSIP)
(Green Bonds)

2019 Series ABC, 2019 Sub-Series B
(Refunding – Federally Taxable) (Hetch Hetchy)

2019 Series ABC, 2019 Sub-Series C
(Refunding – Federally Taxable) (Local Water Main)

2020 Series EFGH, 2020 Sub-Series E
(Refunding – Federally Taxable) (WSIP)
(Green Bonds)

2020 Series EFGH, 2020 Sub-Series F
(Refunding – Federally Taxable) (Non-WSIP)

2020 Series EFGH, 2020 Sub-Series G
(Refunding – Federally Taxable) (Local Water)

2020 Series EFGH, 2020 Sub-Series H
(Refunding – Federally Taxable) (Hetch Hetchy Water)

TAX-EXEMPT TARGET BONDS

SAN FRANCISCO WATER REVENUE BONDS,

2016 Series AB, 2016 Sub-Series A
(Refunding)

2017 Series DEFG, 2017 Sub-Series D
(Refunding) (Green Bonds)

**THIS INVITATION WILL EXPIRE AT 5:00 P.M. NEW YORK CITY TIME, ON MARCH 31, 2025
UNLESS EARLIER CANCELED OR EXTENDED AS DESCRIBED HEREIN**

All terms used below with initial capitalization where not required by the rules of grammar and not otherwise defined herein have the meanings given to them in this Invitation.

To make an informed decision as to whether, and how, to tender Target Bonds for purchase pursuant to this Invitation, Bondholders must read this Invitation, including the 2025 Refunding POS (as defined herein) included herein as Appendix A, carefully, and consult with their financial advisor, accounting professional, tax professional, attorney, Financial Representative (as defined herein) or other appropriate professional. For more information about risks concerning this Invitation, please see “ADDITIONAL CONSIDERATIONS” herein.

Any Bondholder wishing to tender Target Bonds for purchase in response to this Invitation must follow the procedures for tenders more specifically described herein. Bondholders and their Financial Representatives with questions about this Invitation should contact the Dealer Manager or the Information Agent and Tender Agent.

Key Dates and Times

*All of these dates and times are subject to change. All times are New York City time.
Notices of changes will be sent in the manner provided for in this Invitation.*

Launch Date.....	March 17, 2025
Pricing Notice.....	March 24, 2025
Expiration Date.....	5:00 p.m., March 31, 2025
Preliminary Acceptance Date and Preliminary Acceptance Notice	April 1, 2025
Determination of Taxable Target Bonds Offer Purchase Prices	Approximately 10:00 a.m., April 2, 2025
Notice of Taxable Target Bonds Offer Purchase Prices.....	April 2, 2025
Final Acceptance Date and Final Acceptance Notice	April 2, 2025
Settlement Date (unless earlier terminated or extended).....	April 17, 2025

The Dealer Manager
for this Invitation is
Jefferies LLC

The Information Agent and Tender Agent
for this Invitation is
Globic Advisors

TAXABLE TARGET BONDS SUBJECT TO THIS INVITATION*

SAN FRANCISCO WATER REVENUE BONDS:

Series and Subseries	CUSIP No. ¹	Maturity Date (November 1)	Average Life Date ²	Outstanding Principal Amount	Interest Rate	Par Call Date	Benchmark U.S. Treasury Security ³	Indicative Fixed Spread ⁴
2019 Series ABC, 2019 Sub-Series A	79765R4T3	2028	n/a	\$1,310,000	2.533%	n/a	3-Year	- 15.0 bps
	79771FFG7	2029	n/a	2,980,000	2.593	n/a	5-Year	- 15.0 bps
	79771FFH5	2030	n/a	3,060,000	2.703	11/1/2029	5-Year	- 10.0 bps
	79771FFJ1	2031	n/a	29,910,000	2.803	11/1/2029	7-Year	- 10.0 bps
	79771FFK8	2032	n/a	2,835,000	2.953	11/1/2029	7-Year	- 5.0 bps
	79771FFL6	2033	n/a	2,925,000	3.053	11/1/2029	10-Year	+ 0.0 bps
	79765R4Z9	2034	n/a	2,885,000	3.153	11/1/2029	10-Year	+ 7.0 bps
	79765R5A3	2039	7/16/2037	153,555,000	3.303	11/1/2029	10-Year	+ 29.0 bps
	79765R5B1	2043	7/11/2042	183,475,000	3.473	11/1/2029	30-Year	+ 31.0 bps
2019 Series ABC, 2019 Sub-Series B	79765R5C9	2034	4/1/2033	4,735,000	3.153	11/1/2029	10-Year	+ 0.0 bps
	79765R5D7	2041	12/20/2038	11,435,000	3.523	11/1/2029	10-Year	+ 32.0 bps
2019 Series ABC, 2019 Sub-Series C	79765R5E5	2034	4/2/2033	5,160,000	3.153	11/1/2029	10-Year	+ 0.0 bps
	79765R5F2	2041	12/20/2038	12,455,000	3.523	11/1/2029	10-Year	+ 32.0 bps
2020 Series EFGH, 2020 Sub-Series E	79771FAA5	2041	5/18/2038	141,290,000	2.825	11/1/2030	10-Year	+ 34.0 bps
	79771FAB3	2047	6/2/2045	41,430,000	2.945	n/a	30-Year	+ 36.0 bps
2020 Series EFGH, 2020 Sub-Series F	79771FAJ6	2028	n/a	1,505,000	1.618	n/a	3-Year	- 15.0 bps
	79771FAK3	2029	n/a	1,530,000	1.718	n/a	5-Year	- 15.0 bps
	79771FAL1	2030	n/a	5,720,000	1.788	n/a	5-Year	- 10.0 bps
	79771FAM9	2031	n/a	5,830,000	1.988	11/1/2030	7-Year	- 10.0 bps
	79771FAN7	2032	n/a	5,955,000	2.188	11/1/2030	7-Year	- 5.0 bps
	79771FAP2	2033	n/a	6,090,000	2.288	11/1/2030	10-Year	+ 0.0 bps
	79771FAQ0	2034	n/a	6,235,000	2.388	11/1/2030	10-Year	+ 5.0 bps
	79771FAR8	2035	n/a	6,385,000	2.488	11/1/2030	10-Year	+ 13.0 bps
	79771FAS6	2041	10/25/2039	37,330,000	2.845	n/a	10-Year	+ 37.0 bps
	79771FAT4	2047	6/4/2045	51,605,000	3.145	11/1/2030	30-Year	+ 37.0 bps

* The Commission may, but is not obligated to, defease certain of the Taxable Target Bonds or portions thereof to their maturity dates or call dates (where applicable), that it does not purchase pursuant to this Invitation, if deemed necessary by the Commission to comply with applicable tax law. See "ADDITIONAL CONSIDERATIONS" herein.

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP information herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the Commission, the Dealer Manager, the Information Agent and Tender Agent nor their respective agents or counsel assumes responsibility for the accuracy of such numbers.

² Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life date.

³ Except for the 30-Year Benchmark U.S. Treasury Security which will be the "old long bond" (maturity date November 15, 2054, 4.500% CUSIP 912810UE6) each Benchmark U.S. Treasury Security will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date that the Offer Purchase Prices for the Taxable Target Bonds is set. The yield on each Benchmark U.S. Treasury Security to be used in establishing the Offer Purchase Prices for the Taxable Target Bonds will be the bid-side yield of the applicable Benchmark U.S. Treasury Security as quoted on the Bloomberg Bond Trader FIT1 series of pages at approximately 10:00 a.m., New York City time, on April 2, 2025. See "TERMS OF THIS INVITATION – Determination of Bonds Purchase Spread and Offer Purchase Price" herein.

⁴ Indicative Fixed Spreads are preliminary and subject to change. Actual Fixed Spreads will appear in the Pricing Notice. The Purchase Price to be paid on the Settlement Date excludes Accrued Interest on the Taxable Target Bonds purchased, which interest will be paid up to but not including the Settlement Date in addition to the Purchase Price.

TAXABLE TARGET BONDS SUBJECT TO THIS INVITATION*

SAN FRANCISCO WATER REVENUE BONDS:

Series and Subseries	CUSIP No. ¹	Maturity Date (November 1)	Average Life Date ²	Outstanding Principal Amount	Interest Rate	Par Call Date	Benchmark U.S. Treasury Security ³	Indicative Fixed Spread ⁴
2020 Series EFGH, 2020 Sub-Series G	79771FBB2	2028	n/a	\$1,815,000	1.618%	n/a	3-Year	- 15.0 bps
	79771FBC0	2029	n/a	4,610,000	1.718	n/a	5-Year	- 15.0 bps
	79771FBD8	2030	n/a	5,485,000	1.788	n/a	5-Year	- 10.0 bps
	79771FBE6	2031	n/a	12,170,000	1.988	11/1/2030	7-Year	- 10.0 bps
	79771FBF3	2032	n/a	2,380,000	2.188	11/1/2030	7-Year	- 5.0 bps
	79771FBH9	2034	n/a	1,140,000	2.388	11/1/2030	10-Year	+ 5.0 bps
	79771FBJ5	2035	n/a	325,000	2.488	11/1/2030	10-Year	+ 13.0 bps
	79771FBK2	2043	6/29/2040	10,705,000	3.095	11/1/2030	30-Year	+ 22.0 bps
2020 Series EFGH, 2020 Sub-Series H	79771FBS5	2028	n/a	720,000	1.618	n/a	3-Year	- 15.0 bps
	79771FBT3	2029	n/a	735,000	1.718	n/a	5-Year	- 15.0 bps
	79771FBU0	2030	n/a	2,740,000	1.788	n/a	5-Year	- 10.0 bps
	79771FBV8	2031	n/a	2,790,000	1.988	11/1/2030	7-Year	- 10.0 bps
	79771FBW6	2032	n/a	2,850,000	2.188	11/1/2030	7-Year	- 5.0 bps
	79771FBX4	2033	n/a	2,915,000	2.288	11/1/2030	10-Year	+ 0.0 bps
	79771FBY2	2034	n/a	2,985,000	2.388	11/1/2030	10-Year	+ 5.0 bps
	79771FBZ9	2035	n/a	3,055,000	2.488	11/1/2030	10-Year	+ 13.0 bps
	79771FCA3	2041	10/25/2039	17,860,000	2.845	n/a	10-Year	+ 37.0 bps
	79771FCB1	2047	6/4/2045	24,685,000	3.145	11/1/2030	30-Year	+ 37.0 bps

* The Commission may, but is not obligated to, defease certain of the Taxable Target Bonds or portions thereof to their maturity dates or call dates (where applicable), that it does not purchase pursuant to this Invitation, if deemed necessary by the Commission to comply with applicable tax law. See “ADDITIONAL CONSIDERATIONS” herein.

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² Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life date.

³ Except for the 30-Year Benchmark U.S. Treasury Security which will be the “old long bond” (maturity date November 15, 2054, 4.500% CUSIP 912810UE6) each Benchmark U.S. Treasury Security will be the most recently auctioned “on-the-run” United States Treasury Security for the maturity indicated as of the date that the Offer Purchase Prices for the Taxable Target Bonds is set. The yield on each Benchmark U.S. Treasury Security to be used in establishing the Offer Purchase Prices for the Taxable Target Bonds will be the bid-side yield of the applicable Benchmark U.S. Treasury Security as quoted on the Bloomberg Bond Trader FIT1 series of pages at approximately 10:00 a.m., New York City time, on April 2, 2025. See “TERMS OF THIS INVITATION – Determination of Bonds Purchase Spread and Offer Purchase Price” herein.

⁴ Indicative Fixed Spreads are preliminary and subject to change. Actual Fixed Spreads will appear in the Pricing Notice. The Purchase Price to be paid on the Settlement Date excludes Accrued Interest on the Taxable Target Bonds purchased, which interest will be paid up to but not including the Settlement Date in addition to the Purchase Price.

TAX-EXEMPT TARGET BONDS SUBJECT TO THIS INVITATION
SAN FRANCISCO WATER REVENUE BONDS

Series and Subseries	CUSIP No. ¹	Maturity Date (November 1)	Par Call Date	Outstanding Principal Amount	Interest Rate	Indicative Offer Purchase Price ²
2016 Series AB, 2016 Sub-Series A	79765RH69	2029	11/1/2026	\$51,135,000	5.000%	104.223
	79765RH77	2030	11/1/2026	53,460,000	4.000	102.453
	79765RH85	2031	11/1/2026	15,945,000	5.000	103.978
	79765RH93	2032	11/1/2026	26,770,000	5.000	103.856
	79765RJ26	2033	11/1/2026	23,830,000	5.000	103.780
	79765RJ34	2034	11/1/2026	19,905,000	5.000	103.597
	79765RJ42	2035	11/1/2026	12,830,000	5.000	103.521
	79765RJ59	2036	11/1/2026	43,670,000	4.000	101.626
	79765RJ67	2039 ³	11/1/2026	141,995,000	4.000	101.000
2017 Series DEFG, 2017 Sub-Series D	79765R2K4	2030	11/1/2027	18,100,000	5.000	105.954
	79765R2N8	2031	11/1/2027	2,430,000	4.000	103.571
	79765R2M0	2031	11/1/2027	7,465,000	5.000	106.629
	79765R2P3	2032	11/1/2027	31,835,000	5.000	106.428
	79765R2Q1	2033	11/1/2027	18,250,000	5.000	106.303
	79765R2R9	2034	11/1/2027	39,510,000	5.000	106.003
	79765R2S7	2035	11/1/2027	8,090,000	5.000	105.878

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² Indicative Offer Purchase Prices are expressed as a dollar amount per \$100 principal amount of the Tax-Exempt Target Bonds, exclude Accrued Interest, and are preliminary and subject to change. Actual Offer Purchase Prices for each maturity and corresponding CUSIP will appear in the Pricing Notice. Accrued Interest on the Tax-Exempt Target Bonds purchased will be paid by the Commission to but not including the Settlement Date in addition to the applicable Purchase Price. All capitalized terms used as defined herein.

³ Term Bond.

PROVISIONS APPLICABLE TO THE INVITATION

On March 24, 2025, the Pricing Notice will be made available: (i) at the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at <http://emma.msrb.org>, using the CUSIP numbers for the Target Bonds listed in the tables above; (ii) to The Depository Trust Company (“**DTC**”) and through DTC to the DTC participants holding the Target Bonds (as shown in a securities position report obtained by the Information Agent and Tender Agent); and (iii) by posting electronically on the website of the Information Agent and Tender Agent at <https://www.globic.com/sfpuc> (collectively, the “**Information Services**”).

On April 2, 2025, the Notice of Taxable Target Bonds Offer Purchase Prices will be made available through the Information Services. The Notice of Taxable Target Bonds Offer Purchase Prices will set forth the applicable Treasury Security Yields and the Fixed Spreads as determined in the Pricing Notice, which, together, will determine the Offer Purchase Prices for the Taxable Target Bonds. The 2025 Refunding POS (attached hereto as Appendix A) is or will be made available, as an attachment to this Invitation and made available through the Information Services.

The consummation of this Invitation is also subject to certain conditions. See Section 1(a) “INTRODUCTION – General” and Section 2(o) “TERMS OF THIS INVITATION – Conditions to Purchase” herein.

IMPORTANT INFORMATION

*This Invitation and the other information with respect to this Invitation are and will be available from Jefferies LLC (the “**Dealer Manager**”) and Globic Advisors (the “**Information Agent and Tender Agent**”) through the Information Services. Bondholders wishing to tender their Target Bonds for purchase pursuant to this Invitation must follow the procedures described in this Invitation. The Commission reserves the right to cancel, amend or otherwise modify or waive any terms or conditions of this Invitation as described herein. The Commission will have no obligation to purchase Target Bonds if this Invitation is cancelled or if the Commission fails to accept tenders. The Commission further reserves the right to accept nonconforming tenders of Target Bonds or waive irregularities in any tender of Target Bonds. **TARGET BONDS TENDERED TO THE COMMISSION IN RESPONSE TO THIS INVITATION BUT WHICH ARE NOT PURCHASED (SUCH TARGET BONDS, THE “UNPURCHASED BONDS”) WILL REMAIN OUTSTANDING AND WILL BE RETURNED TO THE RESPECTIVE BONDHOLDERS. THE COMMISSION RESERVES THE RIGHT TO, AND MAY DECIDE TO, DEFEASE OR REFUND NOW OR IN THE FUTURE (ON AN ADVANCE OR CURRENT BASIS) SOME OR ALL OF THE UNPURCHASED BONDS THROUGH THE ISSUANCE OF OTHER TAXABLE OR TAX-EXEMPT OBLIGATIONS OF THE COMMISSION OR OTHERWISE, OR, IN THE FUTURE, TO OFFER TO PURCHASE OR EXCHANGE, SOME OR ALL OF THE UNPURCHASED BONDS. THE PURCHASE BY THE COMMISSION OF ANY TARGET BONDS PURSUANT TO THIS INVITATION IS CONTINGENT UPON THE ISSUANCE AND SALE OF THE 2025 REFUNDING BONDS. THE ISSUANCE OF THE 2025 REFUNDING BONDS IS SUBJECT TO MARKET CONDITIONS AND CONDITIONS TO BE SATISFIED ON OR PRIOR TO THE SETTLEMENT DATE. THE CONSUMMATION OF THIS INVITATION IS ALSO SUBJECT TO CERTAIN OTHER CONDITIONS AS DESCRIBED HEREIN.***

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS INVITATION OR PASSED UPON THE FAIRNESS OR MERITS OF THIS INVITATION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS INVITATION. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Invitation is not being extended to, and Target Bonds tendered in response to this Invitation will not be accepted from or on behalf of, Bondholders in any jurisdiction in which this Invitation or such acceptance thereof would not be in compliance with the laws of such jurisdiction. In any jurisdictions where the securities, “blue sky” or other laws require this Invitation to be made through a licensed or registered broker or dealer, this Invitation shall be deemed to be made on behalf of the Commission through the Dealer Manager.

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this Invitation.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Invitation, and, if given or made, such information or representation may not be relied upon as having been authorized by the Commission or any of its affiliates.

The delivery of this Invitation shall not under any circumstances create any implication that any information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in any attachments hereto or materials delivered herewith or in the affairs of the Commission, or its affiliates, since the date hereof. The information contained in this Invitation is as of the date of this Invitation only and is subject to change, completion, or amendment without notice.

Certain statements included or incorporated by reference into this Invitation constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “forecast,” “plan,” “expect,” “estimate,” “budget” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Commission does not plan to issue any updates or revisions to those forward-looking statements if or when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur.

This Invitation contains important information which should be read in its entirety before any decision is made with respect to this Invitation.

TABLE OF CONTENTS

Page

1.	INTRODUCTION.....	1
a.	General.....	1
b.	Binding Contract to Sell	3
c.	Sources of Funds to Purchase Target Bonds.....	3
d.	Brokerage Commissions and Solicitation Fees.....	4
e.	Unpurchased Bonds	4
2.	TERMS OF THIS INVITATION	4
a.	Expiration Date	4
b.	Tenders Only Through the Commission’s DTC ATOP Account	4
c.	Information to Bondholders	5
d.	Authorized Denominations	5
e.	Provisions Applicable to All Tenders	5
f.	Representations by Tendering Bondholders to the Commission.....	6
g.	Tender of Target Bonds by Financial Institutions; DTC ATOP Account.....	6
h.	Determinations as to Form and Validity of Tender Offer; Right of Waiver	7
i.	Amendments and Withdrawals of Tenders Prior to Expiration Date	8
j.	Determination of Offer Purchase Prices	8
k.	Adjustment of Sinking Fund Provisions	9
l.	Determination of Amounts to be Purchased	10
m.	Settlement Date; Purchase of Target Bonds	11
n.	Extension, Cancellation and Amendment; Changes to Terms.....	11
o.	Conditions to Purchase	12
3.	ADDITIONAL CONSIDERATIONS.....	13
4.	SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES	13
5.	DEALER MANAGER	15
6.	INFORMATION AGENT AND TENDER AGENT	15
7.	MISCELLANEOUS.....	16

APPENDIX A: 2025 Refunding POS

APPENDIX B: Form of Pricing Notice

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INVITATION TO TENDER BONDS FOR PURCHASE

made by

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

1. INTRODUCTION

a. General

This Invitation to Tender Bonds for Purchase, dated March 17, 2025 (as it may be amended or supplemented, including the cover page, inside cover pages and Appendix A, this “**Invitation**”), is made by the Public Utilities Commission of the City and County of San Francisco (the “**Commission**”), with the assistance of Jefferies LLC, as Dealer Manager (the “**Dealer Manager**”), to the beneficial owners (the “**Bondholders**”) of certain maturities of the Commission’s San Francisco Water Revenue Bonds with the following designations (collectively the “**Target Bonds**”):

- 2019 Series ABC, 2019 Sub-Series A (Refunding – Federally Taxable) (WSIP) (Green Bonds) (the “**2019A Bonds**”);
- 2019 Series ABC, 2019 Sub-Series B (Refunding – Federally Taxable) (Hetch Hetchy) (the “**2019B Bonds**”);
- 2019 Series ABC, 2019 Sub-Series C (Refunding – Federally Taxable) (Local Water Main) (the “**2019C Bonds**”);
- 2020 Series EFGH, 2020 Sub-Series E (Refunding – Federally Taxable) (WSIP) (Green Bonds) (the “**2020E Bonds**”);
- 2020 Series EFGH, 2020 Sub-Series F (Refunding – Federally Taxable) (Non-WSIP) (the “**2020F Bonds**”);
- 2020 Series EFGH, 2020 Sub-Series G (Refunding – Federally Taxable) (Local Water) (the “**2020G Bonds**”);
- 2020 Series EFGH, 2020 Sub-Series H (Refunding – Federally Taxable) (Hetch Hetchy Water) (the “**2020H Bonds**” and, together with the 2019A Bonds, the 2019B Bonds, the 2019C Bonds, the 2020E Bonds, the 2020F Bonds and the 2020G Bonds, the “**Taxable Target Bonds**”);
- 2016 Series AB, 2016 Sub-Series A (Refunding) (the “**2016A Bonds**”); and
- 2017 Series DEFG, 2017 Sub-Series D (Refunding) (Green Bonds) (the “**2017D Bonds**” and, together with the 2016A Bonds, the “**Tax-Exempt Target Bonds**”),

maturing on the dates set forth in the tables on pages (i) through (iii) of this Invitation. The Commission is inviting the Bondholders of the Target Bonds of each CUSIP noted on the inside cover pages hereof to tender all or a portion of their Target Bonds for cash purchase on the Settlement Date (as defined herein) by the Commission at the applicable price (each an “**Offer Purchase Price**” and, collectively, the “**Offer Purchase Prices**”) to be determined as follows:

- With respect to each CUSIP of the Taxable Target Bonds, each Offer Purchase Price will be based on a yield (each a “**Purchase Yield**”) equal to the applicable fixed spread (each, a “**Fixed Spread**”) to be set forth in the Pricing Notice, which is expected to be dated on or about March 24, 2025 (as may be amended and supplemented, the “**Pricing Notice**,” a form of which is attached hereto as Appendix B) to be added to the yield on the relevant benchmark United States Treasury Security (the “**Benchmark U.S. Treasury Security**”). See Section 2(j), “TERMS OF

THIS INVITATION – Determination of Offer Purchase Prices – *Taxable Target Bonds*” herein; and

- With respect to each CUSIP of the Tax-Exempt Target Bonds, each Offer Purchase Price will be set forth in the Pricing Notice. See Section 2(j), “TERMS OF THIS INVITATION – Determination of Offer Purchase Prices – *Tax-Exempt Target Bonds*” herein.

In addition, accrued interest on such purchased Target Bonds will be paid up to but not including the Settlement Date (as defined herein) (“**Accrued Interest**”), all on the terms and conditions as set forth in this Invitation.

The purchase of any Target Bonds pursuant to this Invitation is contingent on the Commission receiving sufficient net proceeds from the issuance of its San Francisco Water Revenue Bonds, 2025 Series ABC, 2025 Sub-Series A (Refunding) (WSIP) (Green Bonds), 2025 Sub-Series B (Refunding) (Regional Water and Local Water) and 2025 Sub-Series C (Refunding) (Hetch Hetchy Water) (collectively, the “**2025 Refunding Bonds**”) (see “– Sources of Funds to Purchase Target Bonds” herein) and is also subject to the terms of this Invitation and certain other conditions as described herein, including satisfaction of the Financing Conditions (as defined herein). The Commission’s obligation to accept for purchase and to pay for Target Bonds validly tendered (and not withdrawn) pursuant to this Invitation is also subject to the satisfaction or waiver of certain conditions. See Section 2(q), “TERMS OF THIS INVITATION – Conditions to Purchase,” for additional information regarding certain of such conditions.

The Target Bonds, if any, that the Commission decides to purchase will be purchased on April 17, 2025, unless such date is extended by the Commission, assuming all conditions to the Invitation have then been satisfied or waived by the Commission (such date being the “**Settlement Date**”). The purchase price paid for each offer of Target Bonds validly tendered and accepted for purchase (each a “**Purchase Price**”) and the total of the Purchase Price of the Target Bonds of each CUSIP validly tendered and accepted for purchase pursuant to this Invitation (the “**Aggregate Purchase Price**”), as well as Accrued Interest, will be funded from net proceeds of the 2025 Refunding Bonds, intended to be issued on the Settlement Date and other available moneys of the Commission, if any.

The outstanding bonds of the Commission of any series that are not identified in the tables above on pages (i) through (iii) are not subject to this Invitation. For certain information concerning the Commission and its plan of refunding and its outstanding indebtedness see the Preliminary Official Statement for the 2025 Refunding Bonds attached hereto as Appendix A (the “**2025 Refunding POS**”). Bondholders must read the entirety of this Invitation, including Appendix A, in order to make an informed decision.

The Commission may decide to purchase less than all (or none) of the Target Bonds tendered to the Commission (see Section 2(l) “TERMS OF THIS INVITATION – Determination of Amounts to be Purchased” herein). Target Bonds must be validly tendered for purchase by 5:00 p.m., New York City time, on March 31, 2025 (or such later date as the Commission may determine, the “**Expiration Date**”). The Commission reserves the right to extend, amend, waive the terms of or otherwise modify this Invitation at any time on or prior to the Expiration Date and at any time prior to the Settlement Date, to cancel this Invitation, as described in Section 2(p) “TERMS OF THIS INVITATION – Extension, Cancellation and Amendment; Changes to Terms.”

Subject to the terms of this Invitation and the satisfaction of all conditions to the Commission’s obligation to purchase tendered Target Bonds as described herein, and provided that (i) a Bondholder’s Target Bonds tendered for purchase have been validly tendered and not validly withdrawn by the Expiration Date, and (ii) accepted by the Commission on or before the Final Acceptance Date, the Commission will purchase such Target Bonds tendered and accepted for purchase on the Settlement Date. Accrued Interest on the Target Bonds purchased will also be paid on the Settlement Date.

The Commission's obligation to accept for purchase any tendered Target Bonds and the Commission's obligation to pay for Target Bonds validly tendered (and not validly withdrawn) and accepted pursuant to this Invitation is subject to the satisfaction of or waiver of the following conditions on or prior to the Settlement Date: (A) the successful completion by the Commission of the issuance of the 2025 Refunding Bonds, the proceeds of which will be sufficient, together with other available moneys of the Commission, to (x) fund the Aggregate Purchase Price of all Target Bonds validly tendered and accepted for purchase pursuant to this Invitation, plus Accrued Interest, and (y) pay all fees and expenses associated with the issuance of the 2025 Refunding Bonds and this Invitation; (B) receipt of all certifications and opinions required by the "Dealer Manager Agreement" executed between the Commission and the Dealer Manager in connection with this Invitation; (C) when taken together with the issuance of the 2025 Refunding Bonds, the Commission, determining in its reasonable discretion that it will obtain a satisfactory and sufficient economic benefit as a result of market conditions, including (x) all or any portion of the maturities listed on pages (i) through (iii) will produce sufficient debt service savings for the Commission, (y) the expected or actual level of participation by Bondholders, or (z) any other factors not within the sole control of the Commission, all on terms and conditions that are in the Commission's best interest (collectively, the "**Financing Conditions**"); and (D) the conditions to purchase in Section 2(o), "TERMS OF THIS INVITATION – Conditions to Purchase."

TO MAKE AN INFORMED DECISION AS TO WHETHER, AND HOW, TO TENDER TARGET BONDS FOR PURCHASE, BONDHOLDERS MUST READ THIS INVITATION, INCLUDING THE 2025 REFUNDING POS IN APPENDIX A HERETO.

None of the Commission, the Dealer Manager nor the Information Agent and Tender Agent (as defined herein) makes any recommendation that any Bondholder tender or refrain from tendering all or any portion of such Bondholder's Target Bonds for purchase. Bondholders must make their own decisions and should read this Invitation carefully and consult with their financial advisor, accounting professional, tax professional, attorney, Financial Representative (as defined herein) or other appropriate professional in making these decisions.

Target Bonds tendered to the Commission in response to this Invitation but which are not purchased (such Target Bonds, the "**Unpurchased Bonds**") will continue to be outstanding, and payable and secured, pursuant to the terms of the Amended and Restated Indenture, dated as of August 1, 2002 (as supplemented and amended, the "**Indenture**"), by and between the Commission and the U.S. Bank Trust Company, National Association, as successor trustee (the "**Trustee**"). Bondholders of Unpurchased Bonds will continue to bear the risk of ownership of such Unpurchased Bonds, including the risk of redemption pursuant to the terms of such bonds. See "– Unpurchased Bonds" herein. Target Bonds that are tendered to the Commission but which the Commission does not purchase in response to this Invitation will be returned to the respective Bondholders.

b. Binding Contract to Sell

If a Bondholder's tender of a Target Bond is accepted by the Commission by the time specified herein, the Bondholder will be obligated to sell, and the Commission will be obligated to purchase, such Target Bonds on the Settlement Date at the Offer Purchase Price for such Target Bond, plus Accrued Interest, subject to the conditions described herein.

c. Sources of Funds to Purchase Target Bonds

The Aggregate Purchase Price of the Target Bonds validly tendered for purchase pursuant to this Invitation will be funded from net proceeds of the 2025 Refunding Bonds, intended to be issued on the Settlement Date, and other available moneys of the Commission, if any. **The purchase by the Commission of any Target Bonds is contingent upon the satisfaction of the Financing Conditions, including the**

issuance and sale of the 2025 Refunding Bonds, and the conditions to purchase in Section 2(o), “TERMS OF THIS INVITATION – Conditions to Purchase.”

The issuance of the 2025 Refunding Bonds is subject to market conditions and conditions to be satisfied on or prior to the Settlement Date. The 2025 Refunding Bonds are not being offered pursuant to this Invitation.

d. Brokerage Commissions and Solicitation Fees

Bondholders will not be obligated to pay any brokerage commissions or solicitation fees to the Commission, the Dealer Manager, or the Information Agent and Tender Agent in connection with this Invitation. However, each Bondholder should check with its broker, bank, account executive or other financial institution that maintains the account in which their Target Bonds are held (their “**Financial Representative**”) to determine whether it will charge any commissions or fees.

e. Unpurchased Bonds

The Commission reserves the right to, and may decide to, defease or refund now or in the future (on an advance or current basis) some or all of the Unpurchased Bonds through the issuance of other taxable or tax-exempt obligations of the Commission or otherwise, or, in the future, to offer to purchase or exchange, some or all of the Unpurchased Bonds. See “ADDITIONAL CONSIDERATIONS” herein.

The purchase by the Commission of Target Bonds may have certain potential adverse effects on Bondholders of Unpurchased Bonds, including the following:

- the principal amount of the Unpurchased Bonds available to trade publicly will be reduced, which could adversely affect the liquidity and market value of any Unpurchased Bonds; and
- the average life of the remaining Unpurchased Bonds may be affected, for Target Term Bonds (as defined herein).

2. TERMS OF THIS INVITATION

a. Expiration Date

The Commission’s invitation to tender hereunder will expire at 5:00 p.m., New York City time, on the Expiration Date. Bondholders who are interested in selling their Target Bonds on the Settlement Date must follow the procedures more specifically described herein. Bondholders and their Financial Representatives with questions about this Invitation should contact the Dealer Manager or the Information Agent and Tender Agent.

In the sole discretion of the Commission, the Commission may extend the Expiration Date, the Preliminary Acceptance Date, the Final Acceptance Date (each as defined herein) or the Settlement Date, or cancel, amend or otherwise modify or waive any conditions of this Invitation. See “– Extension, Cancellation and Amendment; Changes to Terms” herein.

b. Tenders Only Through the Commission’s DTC ATOP Account

The Target Bonds are all held in book-entry-only form through the facilities of The Depository Trust Company (“**DTC**”) through banks, brokers and other institutions that are participants in DTC. ***All tenders of Target Bonds must be made through the Commission’s Automated Tender Offer Program account at DTC described herein (the “DTC ATOP account”). The Commission will not accept any tenders that are not made through the DTC ATOP account.*** As a result, Bondholders who are not DTC

participants can only tender Target Bonds through the financial institution that maintains the DTC account in which their Target Bonds are held.

In order to ensure that each Bondholder receives proper consideration of the Purchase Price paid in connection with the purchase of such Bondholder's Target Bonds, a Bondholder's DTC participant should input such Bondholder's tender instructions separately into the DTC ATOP account.

c. Information to Bondholders

The Commission may give information about this Invitation to the market and Bondholders, including, without limitation, any supplement to the 2025 Refunding Bonds POS, the Pricing Notice and all other notices, supplements and amendments hereto, by delivery of the information in the following ways: (a) to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at <http://emma.msrb.org> ("**EMMA Website**"), using the CUSIP numbers for the Target Bonds; (b) DTC and through DTC to the DTC participants holding the Target Bonds; and (c) by posting electronically on the website of the Information Agent and Tender Agent at <https://www.globic.com/sfpuc> (such website, together with EMMA Website and DTC being collectively referred to herein as the "**Information Services**"). Delivery by the Commission of information through the Information Services will be deemed to constitute delivery of such information to each Bondholder.

The Commission, the Dealer Manager, and the Information Agent and Tender Agent have no obligation to ensure that a Bondholder actually receives any information provided by the Commission in this manner. Bondholders who would like to receive information furnished by the Commission through the Information Services must make appropriate arrangements with their Financial Representatives, or the Information Agent and Tender Agent.

d. Authorized Denominations

A Bondholder may tender Target Bonds for purchase of a particular CUSIP number that it owns in an amount of its choosing, but only in a principal amount equal to the minimum denomination of \$5,000 (the "**Authorized Denomination**") or any multiple of \$5,000 in excess thereof.

e. Provisions Applicable to All Tenders

Need for Advice. A Bondholder should ask its Financial Representative or financial advisor for help in determining: (a) whether to tender Target Bonds of a particular CUSIP number for purchase, and (b) the principal amount of Target Bonds of such CUSIP number to be tendered, in each case in response to this Invitation. A Bondholder also should inquire as to whether its Financial Representative or financial advisor will charge a fee for submitting tenders if the Commission purchases the Bondholder's tendered Target Bonds. The Commission, the Dealer Manager, and the Information Agent and Tender Agent will not charge any Bondholder for tendering Target Bonds.

Need for Specificity of Tender. A tender cannot exceed the par amount of Target Bonds owned by the Bondholder and must include the following information: (1) the CUSIP number(s) of the Target Bond(s) being tendered, and (2) the principal amount of each CUSIP number being tendered (such principal amount must be stated in Authorized Denominations and if not so stated, for tenders of less than all of the holder's position in the Target Bonds, such principal amount will be reduced to the greatest integral multiple of \$5,000 equal to at least the applicable minimum Authorized Denomination). Any Bondholder located outside of the United States should check with its broker to determine if there any additional minimal increments, alternative settlement timing or other limitations.

"All or none" offers are not permitted.

No alternative, conditional or contingent tenders will be accepted. Bondholders who tender less than all of the Target Bonds that they hold must continue to hold their remaining Target Bonds in Authorized Denominations.

ALL TENDERS MUST BE MADE THROUGH THE DTC ATOP ACCOUNT. THE COMMISSION WILL NOT ACCEPT ANY TENDERS THAT ARE NOT MADE THROUGH THE DTC ATOP ACCOUNT. LETTERS OF TRANSMITTAL ARE NOT BEING USED IN CONNECTION WITH THIS INVITATION. See “– Tender of Target Bonds by Financial Institutions; DTC ATOP Account” herein.

General. A Bondholder may only tender Target Bonds it owns. By tendering Target Bonds pursuant to this Invitation, a Bondholder will be deemed to have represented to, and agreed with, the Commission as set forth under “– Representations by Tendering Bondholders to the Commission” herein. All tenders shall survive the death or incapacity of the tendering Bondholder.

f. Representations by Tendering Bondholders to the Commission

By tendering Target Bonds for purchase pursuant to this Invitation, each tendering Bondholder will be deemed to have represented to and agreed with the Commission that:

(a) the Bondholder has received this Invitation and has had the opportunity to review this Invitation prior to making its decision to tender Target Bonds, and agrees if the purchase of any tendered Target Bonds is consummated, the purchase of such Target Bonds shall be on the terms and conditions set forth in this Invitation;

(b) the Bondholder has full power and authority to tender, sell, assign and transfer the tendered Target Bonds; and on the Settlement Date, the Commission will acquire good, marketable and unencumbered title thereto, free and clear of all liens, charges, encumbrances, conditional sales agreements or other obligations and not subject to any adverse claims, subject to payment to the Bondholder of the Purchase Price for such Target Bonds plus, with respect to the purchased Target Bonds, Accrued Interest;

(c) the Bondholder has made an independent decision to tender its Target Bonds for purchase pursuant to this Invitation, and as to the terms thereof, and such decision is based upon the Bondholder’s judgment and upon advice from such advisors with whom the Bondholder has determined to consult;

(d) the Bondholder is not relying on any communication from the Commission, the Dealer Manager or the Information Agent and Tender Agent as investment advice or as a recommendation to tender the Bondholder’s Target Bonds, it being understood that the information from the Commission, the Dealer Manager and the Information Agent and Tender Agent related to the terms and conditions of this Invitation made pursuant to this Invitation shall not be considered investment advice or a recommendation to tender Target Bonds; and

(e) the Bondholder is capable of assessing the merits of and understanding (on its own and/or through independent professional advice), and does understand, agree and accept, the terms and conditions of this Invitation.

g. Tender of Target Bonds by Financial Institutions; DTC ATOP Account

The Commission, through the Information Agent and Tender Agent, will establish the DTC ATOP account for purposes of this Invitation within three Business Days (as defined below) after the date of this Invitation. Tender of Target Bonds in accordance with this Invitation may be made to the Commission through the DTC ATOP account. Any financial institution that is a participant in DTC may make a book-

entry tender of the Target Bonds by causing DTC to transfer the applicable Target Bonds into the DTC ATOP account in accordance with DTC's procedures.

Concurrently with the delivery of Target Bonds through book-entry transfer into the DTC ATOP account, an Agent's Message (defined below) in connection with such book-entry transfer must be transmitted to and received at the DTC ATOP account by not later than 5:00 p.m., New York City time, on the Expiration Date (as this date may have been changed pursuant to this Invitation).

The confirmation of a book-entry transfer into the DTC ATOP account as described above is referred to herein as a **"Book-Entry Confirmation."** The term **"Agent's Message"** means a message transmitted by DTC to, and received by, the DTC participant and forming a part of the Book-Entry Confirmation which states that DTC has received an express acknowledgment from the DTC participant tendering the Target Bonds that are the subject of such Book-Entry Confirmation, stating (1) the CUSIP number, series, and principal amount of the Target Bonds that have been tendered by such participant pursuant to this Invitation, and (2) that such participant on behalf of the related Bondholder agrees to be bound by the terms of this Invitation. By causing DTC to transfer Target Bonds into the applicable Commission ATOP account, a financial institution warrants to the Commission that it has full authority, and has received from the Bondholder(s) of such Target Bonds all direction necessary, to tender and sell such Target Bonds as set forth in this Invitation.

Bondholders who are not DTC participants can only tender Bonds pursuant to this Invitation by making arrangements with and instructing their Financial Representative to tender the Bondholder's Target Bonds through the applicable Commission ATOP account. To ensure a Bondholder's Target Bonds are tendered to the applicable Commission ATOP account by 5:00 p.m., New York City time, on the Expiration Date, a Bondholder must provide instructions to its Financial Representative in sufficient time for the Financial Representative to tender the Bondholder's Target Bonds to the applicable Commission ATOP account by this deadline. A Bondholder should contact its Financial Representative for information as to when the Financial Representative needs the Bondholder's instructions in order to tender the Bondholder's Target Bonds to the applicable Commission ATOP account by 5:00 p.m., New York City time, on the Expiration Date.

THE COMMISSION, THE DEALER MANAGER, AND THE INFORMATION AGENT AND TENDER AGENT ARE NOT RESPONSIBLE FOR THE TRANSFER OF ANY TENDERED BONDS TO THE APPLICABLE COMMISSION ATOP ACCOUNT OR FOR ANY MISTAKES, ERRORS OR OMISSIONS IN THE TRANSFER OF ANY TENDERED TARGET BONDS.

"Business Day" means any day other than (i) a Saturday or a Sunday, or (ii) a day on which the offices of the Commission or banking institutions in California or New York are required or authorized by law to be closed.

h. Determinations as to Form and Validity of Tender Offer; Right of Waiver

All questions as to the validity (including the time of receipt at the DTC ATOP account), form, eligibility, and acceptance of any Target Bonds tendered for purchase pursuant to this Invitation will be determined by the Commission in its sole discretion and will be final, conclusive, and binding on the Bondholders.

The Commission reserves the right to waive any irregularities or defects in any tender in response to this Invitation. The Commission, the Dealer Manager and the Information Agent and Tender Agent are not obligated to give notice to the Bondholders of any defects or irregularities in tenders of Target Bonds, and they will have no liability for failing to give such notice.

i. Amendments and Withdrawals of Tenders Prior to Expiration Date

A Bondholder may amend its offer to tender for purchase in respect of the amount being tendered by causing an amended offer to be received at the DTC ATOP account by not later than 5:00 p.m., New York City time, on the Expiration Date.

An offer to tender for purchase may be withdrawn by a Bondholder in response to this Invitation by causing a withdrawal notice to be received at the DTC ATOP account by not later than 5:00 p.m., New York City time, on the Expiration Date.

Any amendment or withdrawal must be submitted in substantially the same manner as an offer in response to this Invitation. ***All amendments or withdrawal notices must be made through the DTC ATOP account. The Commission will not accept any amendments or withdrawals that are not made through the DTC ATOP account.*** Bondholders who are not DTC participants can only amend or withdraw their offer to tender in response to this Invitation by making arrangements with and instructing their Financial Representative to submit the Bondholder's amended offer or the Bondholder's notice of withdrawal through the DTC ATOP account.

Bondholders who have tendered for purchase their Target Bonds will not receive any information from the Commission, the Dealer Managers or the Information Agent and Tender Agent concerning offers by other Bondholders. Offering Bondholders will not be afforded an opportunity to amend their offers after 5:00 p.m. on the Expiration Date. An amended or withdrawn offer must specify the applicable CUSIP number, and with respect to amended offers, the principal amount previously offered and the new amount being offered. All questions as to the validity (including the time of receipt) of an amendment or withdrawal will be determined by the Commission in its sole discretion and will be final, conclusive and binding.

ALL TENDERS OF TARGET BONDS SHALL BE IRREVOCABLE AT 5:00 P.M. ON THE EXPIRATION DATE.

j. Determination of Offer Purchase Prices

On or about March 24, 2025, the Commission will publish the Pricing Notice in the form attached hereto as Appendix B, which will set forth (a) the Offer Purchase Price for each respective CUSIP of the Tax-Exempt Target Bonds (which may differ from the "Indicative Offer Purchase Prices" listed on page (iii) herein) and (b) the Fixed Spread for each respective CUSIP of the Taxable Target Bonds (which may differ from the "Indicative Fixed Spreads" listed on pages (i) and (ii) herein) as well as an illustration of the resulting Offer Purchase Prices for the Taxable Target Bonds based on market conditions as described therein. The illustrative Offer Purchase Prices shown in the Pricing Notice with respect to the Taxable Target Bonds will be subject to change and the actual Offer Purchase Prices for the Taxable Target Bonds will be determined on or about 10:00 AM New York City time on April 2, 2025.

The Pricing Notice will be made available through the Information Services.

Tax-Exempt Target Bonds. The Offer Purchase Prices will be set forth in the Pricing Notice for each respective maturity and corresponding CUSIP of Tax-Exempt Target Bonds tendered pursuant to this Invitation.

The Purchase Price to be received on the Settlement Date by a Bondholder whose Tax-Exempt Target Bonds were validly tendered and accepted for purchase, in whole or in part, by the Commission will equal the par amount of such Bondholders' purchased Tax-Exempt Target Bonds multiplied by the Offer Purchase Price of such Tax-Exempt Target Bonds divided by 100. In addition to the Purchase Price of the

Tax-Exempt Target Bonds accepted for purchase by the Commission, Accrued Interest on such Tax-Exempt Target Bonds will be paid by the Commission on the Settlement Date.

Taxable Target Bonds. The applicable Fixed Spread, expressed as an interest rate percentage, will be added to the yield on the relevant Benchmark U.S. Treasury Security (the “**Treasury Security Yield**”) corresponding thereto to arrive at the Purchase Yield used to calculate the Offer Purchase Price for each maturity and corresponding CUSIP of the Taxable Target Bonds. The Treasury Security Yield will be based the bid-side yield of such Benchmark U.S. Treasury Security, as quoted on the Bloomberg Bond Trader FIT1 series of pages at approximately 10:00 a.m., New York City time, on April 2, 2025.

On April 2, 2025, the Notice of Taxable Target Bonds Offer Purchase Prices will be made available through the Information Services. See “PROVISIONS APPLICABLE TO THE INVITATION” above.

The Purchase Yields will be used to calculate the Offer Purchase Prices expressed as a dollar amount per \$100 principal amount of the Taxable Target Bonds. The Offer Purchase Prices will be calculated using the market standard bond pricing formula as of the Settlement Date using the relevant Purchase Yield, the coupon of the relevant Taxable Target Bond and the maturity date for each Taxable Target Bond, except for the Taxable Target Bonds that are term bonds (the “**Taxable Target Term Bonds**”), which will be priced to their respective average life date as described below.

Summary of the Taxable Target Term Bond					
Series and Sub-Series	CUSIP ¹	Maturity	Average Life	Outstanding	
		Date (November 1)			
2019 Series ABC, 2019 Sub-Series A	79765R5A3	2039	7/16/2037	\$153,555,000	
2019 Series ABC, 2019 Sub-Series A	79765R5B1	2043	7/11/2042	183,475,000	
2019 Series ABC, 2019 Sub-Series B	79765R5C9	2034	4/1/2033	4,735,000	
2019 Series ABC, 2019 Sub-Series B	79765R5D7	2041	12/20/2038	11,435,000	
2019 Series ABC, 2019 Sub-Series C	79765R5E5	2034	4/2/2033	5,160,000	
2019 Series ABC, 2019 Sub-Series C	79765R5F2	2041	12/20/2038	12,455,000	
2020 Series EFGH, 2020 Sub-Series E	79771FAA5	2041	5/18/2038	141,290,000	
2020 Series EFGH, 2020 Sub-Series E	79771FAB3	2047	6/2/2045	41,430,000	
2020 Series EFGH, 2020 Sub-Series F	79771FAS6	2041	10/25/2039	37,330,000	
2020 Series EFGH, 2020 Sub-Series F	79771FAT4	2047	6/4/2045	51,605,000	
2020 Series EFGH, 2020 Sub-Series G	79771FBK2	2043	6/29/2040	10,705,000	
2020 Series EFGH, 2020 Sub-Series H	79771FCA3	2041	10/25/2039	17,860,000	
2020 Series EFGH, 2020 Sub-Series H	79771FCB1	2047	6/4/2045	24,685,000	

k. Adjustment of Sinking Fund Provisions

The Taxable Target Term Bonds and the Tax-Exempt Target Bonds that are term bonds (collectively, the “**Target Term Bonds**”) are subject to mandatory sinking fund redemptions in specified principal amounts prior to their maturity dates. If less than all of any Target Term Bond is purchased by the Commission pursuant to the Invitation, under the Indenture, the specified principal amounts of the Target Term Bonds of such CUSIP that remain outstanding to be redeemed on each mandatory sinking fund redemption date and paid upon their maturity date will be adjusted, with the remaining mandatory sinking fund redemption payment amounts to be reduced proportionally by the highest possible integral multiple

¹ CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP number are being provided solely for the convenience of the owners of the Target Bonds and the Commission is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

(if any) of \$5,000 principal amount, as adjusted if deemed necessary by the Commission to comply with applicable tax law. Such adjustment will be made in the sole determination of the Commission.

I. Determination of Amounts to be Purchased

The Commission is not required to accept for purchase any Target Bond tendered for purchase. Depending on the results of this Invitation and the satisfaction or waiver by the Commission of the Financing Conditions and other conditions described in this Invitation, the Commission, in its sole discretion, will determine which Target Bonds of a CUSIP, if any, it will purchase. The Commission therefore has the right, but is not obligated, to accept for purchase none, some, or all of the tendered Target Bonds.

On April 1, 2025, unless such time or date is extended by the Commission (the “**Preliminary Acceptance Date**”), the Commission will determine the preliminary principal amount (if any) of the Target Bonds of a CUSIP that it intends to purchase pursuant to this Invitation, which may be zero. Notice of the preliminary principal amount of the Target Bonds (if any) for each CUSIP that the Commission initially intends to purchase (the “**Preliminary Acceptance Notice**”) will be provided through the Information Services on the Preliminary Acceptance Date.

On April 2, 2025, unless such date is extended by the Commission (the “**Final Acceptance Date**”), the Commission will make a final determination of the principal amount (if any) of Target Bonds of each CUSIP that it intends to purchase pursuant to this Invitation, which may be zero, from among those Target Bonds of such CUSIP that were initially accepted for purchase pursuant to the Preliminary Acceptance Notice. The Commission shall be under no obligation to accept for purchase all or any portion of any Target Bond initially accepted. Notice of the principal amount of the Target Bonds (if any) for each CUSIP that the Commission intends to purchase (the “**Final Acceptance Notice**”) will be provided through the Information Services on the Final Acceptance Date.

If the Commission accepts for purchase less than all of the tendered Target Bonds for a CUSIP, the Commission will accept those tendered Target Bonds on a pro rata basis. The principal amount of each individual offer will be adjusted, pro rata, based upon a proration factor for each such CUSIP (each a “**Proration Factor**”). In such event, should the principal amount of any individual offer, when adjusted by the Proration Factor, result in an amount that is not a multiple of \$5,000, the principal amount of such offer will be rounded down to the nearest multiple of \$5,000. If as a result of such adjustment, the principal amount of a Bondholder’s unaccepted Target Bonds is less than the Minimum Authorized Denomination of \$5,000, the Commission will reject such Bondholder’s offer in whole. The Commission will determine the Proration Factor that permits it to accept the amount of Target Bonds it has determined to purchase.

The purchase by the Commission of any Target Bonds is contingent, among other conditions set forth hereunder, upon the issuance and sale of the 2025 Refunding Bonds. The issuance of the 2025 Refunding Bonds is subject to market conditions and conditions to be satisfied on or prior to the Settlement Date.

Notwithstanding any other provision of this Invitation, the obligation of the Commission to accept for purchase and to pay for Target Bonds validly tendered (and not validly withdrawn) by Bondholders pursuant to this Invitation is subject to the satisfaction or waiver of the conditions set forth under Section 2(o), “Conditions to Purchase” below. The Commission reserves the right, subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, any time prior to the Expiration Date or from time to time subject to the Financing Conditions and other conditions described in this Invitation. This Invitation may be withdrawn by the Commission at any time prior to the Expiration Date. See “– Extension, Cancellation and Amendment; Changes to Terms” and “– Conditions to Purchase” herein.

m. Settlement Date; Purchase of Target Bonds

On the Settlement Date, the Commission will purchase and pay for all Target Bonds tendered and accepted for purchase, at the applicable Offer Purchase Prices, and will pay Accrued Interest, subject to satisfaction or waiver by the Commission of all conditions to the Commission's obligation to purchase, and the tendering Bondholders will sell such Target Bonds to the Commission for such consideration.

The Commission may, in its sole discretion, change the Settlement Date by giving notice through the Information Services prior to the change.

If the conditions to the Commission's obligation to purchase the Target Bonds tendered and accepted for purchase pursuant to this Invitation, as described herein, are satisfied the Commission will pay the Aggregate Purchase Price and Accrued Interest in immediately available funds on the Settlement Date by deposit of such amount with DTC. The Commission expects that, in accordance with DTC's standard procedures, DTC will transmit amounts sufficient to purchase the tendered and accepted Target Bonds at their Offer Purchase Prices and pay Accrued Interest in immediately available funds to its participant financial institutions that hold such tendered Target Bonds for delivery to the Bondholders. None of the Commission, the Dealer Manager or the Information Agent and Tender Agent has any responsibility or liability for the distribution of such amounts by DTC or its participant financial institutions to Bondholders.

n. Extension, Cancellation and Amendment; Changes to Terms

The Commission has the right to extend this Invitation by notice given through the Information Services at any time but no later than the first Business Day following the previously scheduled Expiration Date, or any prior extension thereof. Notice of an extension of the Expiration Date will be effective when such notice is given.

The Commission also has the right to extend the Preliminary Acceptance Date, the Final Acceptance Date or Settlement Date by notice given through the Information Services at any time but no later than the first Business Day following the previously scheduled Preliminary Acceptance Date, Final Acceptance Date or Settlement Date, as applicable, or any prior extension thereof. Notice of an extension of the Preliminary Acceptance Date, Final Acceptance Date or Settlement Date will be effective when such notice is given.

The Commission also reserves the right to amend, waive the terms of or otherwise modify this Invitation at any time on or prior to the Expiration Date, by giving notice through the Information Services of such amendment, waiver or other modification. The amendment, waiver or modification will be effective at the time specified in such notice.

The Commission also has the right, at any time prior to the Final Acceptance Date, to cancel this Invitation by giving notice through the Information Services of such cancellation. The Commission also has the right, prior to the Settlement Date, to cancel this Invitation pursuant to the conditions set forth in Section 2(o), "Conditions to Purchase," below by giving notice through the Information Services of such cancellation. The cancellation will be effective at the time specified in such notice. The Commission will have no obligation to purchase Target Bonds if cancellation of this Invitation occurs.

Notwithstanding any other provision of this Invitation, the Commission will also have no obligation to accept for purchase Target Bonds offered for tender.

If the Commission extends the Expiration Date, or amends, otherwise modifies or waives any of the terms or conditions of this Invitation in any respect, the Commission may (but is not required to)

disseminate additional Invitation materials and extend this Invitation to the extent required to allow, in the Commission's judgment, reasonable time for dissemination to Bondholders and for Bondholders to respond.

No extension or amendment or other modification or waiver of the terms or conditions of this Invitation will change the Commission's right to decline to purchase Target Bonds without liability on the conditions stated herein or give rise to any liability of the Commission or the Information Agent and Tender Agent to any Bondholder or nominee.

o. Conditions to Purchase

The consummation of the purchase of the Target Bonds pursuant to this Invitation is conditioned upon the satisfaction of the Financing Conditions and other conditions described in this Invitation. Furthermore, the Commission will not be required to purchase any Target Bonds, and will incur no liability as a result, if, before payment for Target Bonds on the Settlement Date:

- a. The Commission does not, for any reason, have sufficient funds on the Settlement Date from the proceeds of the 2025 Refunding Bonds to pay the Aggregate Purchase Price plus Accrued Interest of tendered Target Bonds accepted for purchase pursuant to this Invitation and pay all fees and expenses associated with the 2025 Refunding Bonds and this Invitation;
- b. Litigation or another proceeding is pending or threatened which the Commission believes may, directly or indirectly, have an adverse impact on this Invitation or the expected benefits of this Invitation to the Commission or the Bondholders;
- c. A war, other hostilities, or the escalation thereof, public health or other national emergency, banking moratorium, suspension of payments by banks, a general suspension of trading by the New York Stock Exchange or a limitation of prices on the New York Stock Exchange exists and the Commission believes this fact makes it inadvisable to proceed with the purchase of Target Bonds;
- d. A material change in the business or affairs of the Commission has occurred which the Commission believes makes it inadvisable to proceed with the purchase of Target Bonds;
- e. A material change in the net benefits of the transaction contemplated by this Invitation and the Refunding Bond POS has occurred due to a material change in market conditions that the Commission reasonably believes makes it inadvisable to proceed with the purchase of Target Bonds;
- f. There shall have occurred a material disruption in securities settlement, payment or clearance services.

These conditions are for the sole benefit of the Commission. They may be asserted by the Commission prior to the time of payment for the Target Bonds on the Settlement Date. The conditions may be waived by the Commission in whole or in part at any time and from time to time in its sole discretion and may be exercised independently for each maturity date and CUSIP number of the Target Bonds. The failure by the Commission at any time to exercise any of these rights will not be deemed a waiver of any of these rights, and the waiver of these rights with respect to particular facts and other circumstances will not be deemed a waiver of these rights with respect to any other facts and circumstances. Each of these rights will be deemed an ongoing right of the Commission that may be asserted at any time and from time to time.

Any determination by the Commission concerning the events described in this Section 2(q) will be final and binding upon all parties. If, prior to the time of payment of any Target Bonds any of the events described happens, the Commission will have the absolute right to cancel its obligations to purchase Target Bonds without any liability to any Bondholders or any other person.

3. ADDITIONAL CONSIDERATIONS

None of the Commission, the Dealer Manager or the Information Agent and Tender Agent makes any recommendation that any Bondholder tender or refrain from tendering for purchase all or any portion of the Target Bonds. Each Bondholder must make its decision and should read this Invitation and consult with its financial advisor, accounting professional, tax professional, attorney, Financial Representative or other appropriate professional in making such decision.

In deciding whether to participate in this Invitation, each Bondholder should consider carefully, in addition to the other information contained in this Invitation, the following:

- Bondholders of Unpurchased Bonds will continue to hold such Unpurchased Bonds and such Unpurchased Bonds will remain outstanding. See “INTRODUCTION – Unpurchased Bonds” herein.
- The Commission intends, but is not obligated, to defease certain of the Unpurchased Bonds or portions thereof, which are identified in the tables on the inside cover pages, to their maturity dates or call dates (where applicable), that it does not purchase pursuant to this Invitation. There can be no assurance as to whether a particular Bondholder’s Target Bonds will be among the Unpurchased Bonds defeased.
- Even if the Commission does not purchase any Target Bonds, the Commission shall have the right to defease or refund now or in the future (on an advance or current basis) some or all of the Target Bonds through the issuance of other taxable or tax-exempt obligations of the Commission or otherwise, or, in the future, to offer to purchase or exchange, some or all of the Target Bonds, upon such terms and at such prices as it may determine. Any future acquisition of Target Bonds may be on the same terms or on terms that are more or less favorable to Bondholders than the terms described in this Invitation and the Pricing Notice. The decision to make future purchases or exchanges by the Commission and the terms of such future transactions will depend on various factors existing at that time. There can be no assurance as to which of these alternatives, if any, the Commission will ultimately choose to pursue in the future.
- The purchase or redemption by the Commission of Target Bonds of any CUSIP number may have certain potential adverse effects on Bondholders of Target Bonds with such CUSIP not purchased pursuant to this Invitation, including, but not limited to, the principal amount of the Target Bonds of such CUSIP number available to trade publicly may be reduced, which could adversely affect the liquidity and market value of any Unpurchased Bonds of that CUSIP number that remain outstanding.

4. SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a general summary of the U.S. federal income tax consequences for Bondholders that respond to this Invitation and have their tender(s) accepted by the Commission. The discussion is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), the Treasury Regulations promulgated thereunder, and relevant rulings and decisions now in effect, all of which are subject to change or differing interpretations. No assurances can be given that future changes in U.S. federal income tax laws

will not alter the conclusions reached herein. The discussion below does not purport to deal with U.S. federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in the Target Bonds in light of the investor's particular circumstances or to certain types of investors subject to special treatment under U.S. federal income tax laws (including individuals who are neither citizens nor residents of the United States; foreign corporations, trusts and estates, in each case, as defined for U.S. federal income tax purposes; insurance companies; tax-exempt organizations; financial institutions; brokers-dealers; partnerships and other entities classified as partnerships for U.S. federal income tax purposes; and persons who have hedged the risk of owning the Target Bonds). Bondholders should note that no rulings have been or will be sought from the Internal Revenue Service (the "**IRS**"), and no assurance can be given that the IRS will not take contrary positions with respect to any of the U.S. federal income tax consequences discussed below. This U.S. federal income tax discussion is included for general information only and should not be construed as a tax opinion nor tax advice by the Commission or any of its advisors or agents to the Bondholders, and Bondholders, therefore, should not rely upon such discussion.

The discussion does not deal with special classes of beneficial owners of the Target Bonds, including but not limited to dealers or traders in securities, investors that elect mark-to-market accounting, banks, financial institutions, insurance companies, retirement plans or other tax-deferred or tax-advantaged accounts, tax-exempt organizations, partnerships or other pass-through entities (or entities treated as such for U.S. federal income tax purposes), U.S. expatriates, persons holding their Target Bonds as a part of a hedging, integration, conversion or constructive sale transaction or a straddle, Bondholders that are "United States persons," as defined in section 7701(a)(30) of the Code ("**U.S. Holders**") and are subject to the alternative minimum tax, U.S. Holders that have a functional currency other than the U.S. Dollar, and persons who are not U.S. Holders (all of such Holders should consult their tax advisors).

If a partnership or other flow-through entity holds the Target Bonds, the tax treatment of a partner in the partnership or beneficial owner of the flow-through entity generally will depend upon the status of the partner or beneficial owner and the activities of the partnership or flow-through entity. A partner of a partnership or a beneficial owner of a flow-through entity holding Target Bonds should consult its tax advisor regarding the U.S. federal income tax consequences of this Invitation.

Non-tendering Bondholders will not be subject to any U.S. federal income tax consequences in connection with this Invitation.

BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS IN DETERMINING THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE DISPOSITION OF THEIR TARGET BONDS PURSUANT TO THIS INVITATION.

The Commission's purchase of a Target Bond for cash in accordance with this Invitation will be a taxable event for U.S. federal income tax purposes. A Bondholder who sells Target Bonds pursuant to this Invitation generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the (i) the amount of money received by the Bondholder, exclusive of any amount paid for accrued interest, and (ii) the Bondholder's adjusted U.S. federal income tax basis in the Target Bonds.

Any gain or loss arising in connection with a taxable sale or exchange pursuant to this Invitation may be capital gain or loss (either long-term or short-term, depending on the Bondholder's holding period for the Target Bonds) or may be ordinary income or loss, depending on the particular circumstances of the Bondholder. Non-corporate holders may be eligible for reduced rates of U.S. federal income tax on long-term capital gains. The deductibility of capital losses is subject to various limitations.

Under section 3406 of the Code, a tendering Bondholder who is a “United States person,” as defined in section 7701(a)(30) of Code, may, under certain circumstances, be subject to U.S. federal backup withholding. Backup withholding applies if such tendering Bondholder: (i) fails to furnish such Bondholder’s Social Security number or other taxpayer identification number (“TIN”); (ii) furnishes an incorrect TIN; (iii) fails to report property interest, dividends or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such Bondholder is not subject to backup withholding. Bondholders should consult their tax advisors regarding whether backup withholding applies to them and, if backup withholding applies, regarding qualification for an exemption from backup withholding and the procedures for obtaining such exemption. Backup withholding is not an additional tax. Any amounts deducted and withheld should generally be allowed as a credit against the Bondholder’s U.S. federal income tax liability.

5. DEALER MANAGER

The Commission has retained Jefferies LLC (“**Jefferies LLC**”) to act on its behalf as Dealer Manager for this Invitation. The Commission has agreed to pay to the Dealer Manager a customary fee for its services and to reimburse the Dealer Manager for its reasonable expenses relating to this Invitation. References in this Invitation to the Dealer Manager are to Jefferies LLC only in its capacity as the Dealer Manager. The compensation of the Dealer Manager is based upon the amount of Target Bonds accepted for purchase by the Commission.

The Dealer Manager may contact Bondholders regarding this Invitation and may request brokers, dealers, custodian banks, depositories, trust companies and other nominees to forward this Invitation to beneficial owners of the Target Bonds.

The Dealer Manager and its affiliates together comprise a full-service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealer Manager and its affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Commission for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Dealer Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities and financial instruments which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment securities activities may involve securities and instruments of the Commission, including the Target Bonds. Affiliates of the Dealer Manager may have holdings of Target Bonds that they are unable to disclose for legal or regulatory reasons.

In addition to its role as Dealer Manager for the Target Bonds, Jefferies LLC is also serving as book-running lead Underwriter for the 2025 Refunding Bonds.

The Dealer Manager is not acting as a financial or municipal advisor to the Commission in connection with this Invitation.

6. INFORMATION AGENT AND TENDER AGENT

The Commission has retained Globic Advisors to serve as Information Agent and Tender Agent for this Invitation. The Commission has agreed to pay the Information Agent and Tender Agent customary fees for its services and to reimburse the Information Agent and Tender Agent for its reasonable expenses relating to this Invitation.

7. MISCELLANEOUS

THIS INVITATION IS NOT BEING EXTENDED TO, AND TARGET BONDS TENDERED IN RESPONSE TO THIS INVITATION WILL NOT BE ACCEPTED FROM OR ON BEHALF OF, BONDHOLDERS IN ANY JURISDICTION IN WHICH THIS INVITATION OR SUCH OFFER OR ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION.

No one has been authorized by the Commission, the Dealer Manager or the Information Agent and Tender Agent to recommend to any Bondholders whether to tender Target Bonds in response to this Invitation or the amount of Target Bonds to tender, and none of the Commission, the Dealer Manager or the Information Agent and Tender Agent makes any recommendation that any Bondholder tender (or refrain from tendering) all or any portion of such Holder's Target Bonds. No one has been authorized by the Commission, the Dealer Manager or the Information Agent and Tender Agent to give any information or to make any representation in connection with this Invitation other than those contained in this Invitation. Any recommendation, information, and representations given or made cannot be relied upon as having been authorized by the Commission, the Dealer Manager or the Information Agent and Tender Agent. Bondholders must make these decisions and should read this Invitation and consult with their financial advisor, accounting professional, tax professional, attorney, Financial Representative or other appropriate professional in so doing.

The Information Agent and Tender Agent for this Invitation is:

**Globic Advisors
Attn: Robert Stevens
485 Madison Ave, 7th Floor
New York, New York 10022
Phone: (212) 227-9622
Email: rstevens@globic.com**

The Dealer Manager for this Invitation is:

**Jefferies LLC
Attn: Municipal Syndicate Desk
520 Madison Avenue
New York, New York 10022
Tel: (800) 567-8567
Email: muni_underwriting@jefferies.com**

Dated: March 17, 2025

APPENDIX A

2025 REFUNDING POS

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PRELIMINARY OFFICIAL STATEMENT DATED MARCH 17, 2025

NEW ISSUE – Book-Entry Only

Ratings:
Moody's: "Aa2"
S&P: "AA-"
(See "RATINGS.")

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the 2025ABC Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the 2025ABC Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2025ABC Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. Bond Counsel is also of the opinion that, under existing law, interest on the 2025ABC Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.



\$500,000,000* PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO San Francisco Water Revenue Bonds, 2025 Series ABC

\$390,000,000*
2025 Sub-Series A
(Refunding)
(WSIP) (Green Bonds)

\$80,000,000*
2025 Sub-Series B
(Refunding)
(Regional Water and Local Water)

\$30,000,000*
2025 Sub-Series C
(Refunding)
(Hetch Hetchy Water)



Dated: Date of Delivery

Due: November 1, as shown on inside cover pages

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the water revenue bonds captioned above. Potential investors are instructed to read the entire Official Statement, including the appendices hereto, to obtain information essential to making an informed investment decision.

General. This Official Statement provides information regarding the above-captioned bonds (collectively, the "2025ABC Bonds") of the Public Utilities Commission of the City and County of San Francisco (the "SFPUC"). Capitalized terms not otherwise defined on this cover shall have the meanings ascribed to such terms herein.

Authority for Issuance. The SFPUC is issuing the 2025ABC Bonds pursuant to authority granted by the Charter of the City and County of San Francisco (the "City"). The 2025ABC Bonds will be issued under supplemental indentures that supplement the Amended and Restated Indenture, dated as of August 1, 2002 (as amended and supplemented, the "Indenture"), by and between the SFPUC and U.S. Bank Trust Company, National Association, as successor to U.S. Bank National Association, as trustee (the "Trustee"). See "SECURITY FOR THE BONDS."

Plan of Finance. The 2025ABC Bonds are being issued to (i) pay the purchase price of certain outstanding water revenue bonds of the SFPUC tendered for cash pursuant to the Invitation, (ii) current refund certain outstanding water revenue bonds of the SFPUC, (iii) advance refund certain outstanding water revenue bonds of the SFPUC and (iv) pay the costs of issuance of the 2025ABC Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

Denominations and Interest. The 2025ABC Bonds will be available in denominations of \$5,000 or any integral multiple thereof and will mature in the years and amounts and accrue interest from their date of delivery at the rates set forth on the inside cover pages of this Official Statement. Interest on the 2025ABC Bonds is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2025. See "THE 2025ABC BONDS."

Book-Entry Only. The 2025ABC Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, and will be available to ultimate purchasers (the "Beneficial Owners") under the book-entry only system maintained by DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2025ABC Bonds. The principal of, premium, if any, and interest on the 2025ABC Bonds are payable to DTC by the Trustee, and, so long as DTC is acting as securities depository for the 2025ABC Bonds, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants. See "THE 2025ABC BONDS."

Redemption. The 2025ABC Bonds are subject to redemption prior to their stated maturities as described herein. See "THE 2025ABC BONDS – Redemption."

Security. Under the Indenture, the SFPUC has irrevocably pledged the Revenues of its Water Enterprise and all Refundable Credits (in the case of Bonds issued as Build America Bonds) received by the SFPUC to the punctual payment of principal of, premium, if any, and interest on the 2025ABC Bonds and all outstanding parity revenue bonds, notes or other evidences of indebtedness authorized under the Indenture, subject to the allocation of funds provided in the Indenture. The 2025ABC Bonds are payable on parity with certain Outstanding Bonds previously issued by the SFPUC under the Indenture and all outstanding parity revenue bonds, notes or other evidences of indebtedness authorized under the Indenture. See "SECURITY FOR THE BONDS."

Limited Obligation. The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2025ABC Bonds except from Revenues of the Water Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2025ABC Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2025ABC Bonds. The 2025ABC Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Revenues of the Water Enterprise. The 2025ABC Bonds are not secured by the revenues of the SFPUC's Wastewater Enterprise or Power Enterprise or the revenues of CleanPowerSF. See "SECURITY FOR THE BONDS."

MATURITY SCHEDULES (See inside cover pages)

The 2025ABC Bonds are offered when, as and if issued by the SFPUC and received by the Underwriters, subject to the approval of validity by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the SFPUC, and to certain other conditions. Certain matters will be passed upon for the SFPUC and the City by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure Counsel, and by the City Attorney of the City and County of San Francisco. Montague DeRose and Associates, LLC, Walnut Creek, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California, Co-Municipal Advisors to the SFPUC, assisted in the structuring of this financing. Certain matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, San Francisco, California. It is expected that the 2025ABC Bonds in fully registered form will be available for delivery in book-entry form through the facilities of DTC on or about April 17, 2025*.

Jefferies

Wells Fargo Securities

Barclays

RBC Capital Markets

Siebert Williams Shank & Co., LLC

TD Securities

The date of this Official Statement is _____, 2025.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in my jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULES*

2025 Sub-Series A (Refunding) (WSIP) (Green Bonds)

\$390,000,000 Serial Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Yield†	Price†	CUSIP‡ Base Number 79771F
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					

* Preliminary, subject to change.

† Reoffering yields and prices have been provided by the Underwriters. See “UNDERWRITING.”

‡ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services data base. Neither the SFPUC nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

MATURITY SCHEDULES (CONTINUED)*

**2025 Sub-Series B
(Refunding) (Regional Water and Local Water)**

\$80,000,000 Serial Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Yield†	Price†	CUSIP‡ Base Number 79771F
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					

* Preliminary, subject to change.

† Reoffering yields and prices have been provided by the Underwriters. See “UNDERWRITING.”

‡ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services data base. Neither the SFPUC nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

MATURITY SCHEDULES (CONTINUED)***2025 Sub-Series C
(Refunding) (Hetch Hetchy Water)**

\$30,000,000 Serial Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Yield†	Price†	CUSIP‡ Base Number 79771F
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					

* Preliminary, subject to change.

† Reoffering yields and prices have been provided by the Underwriters. See “UNDERWRITING.”

‡ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services data base. Neither the SFPUC nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

Map of Hetch Hetchy Regional Water System

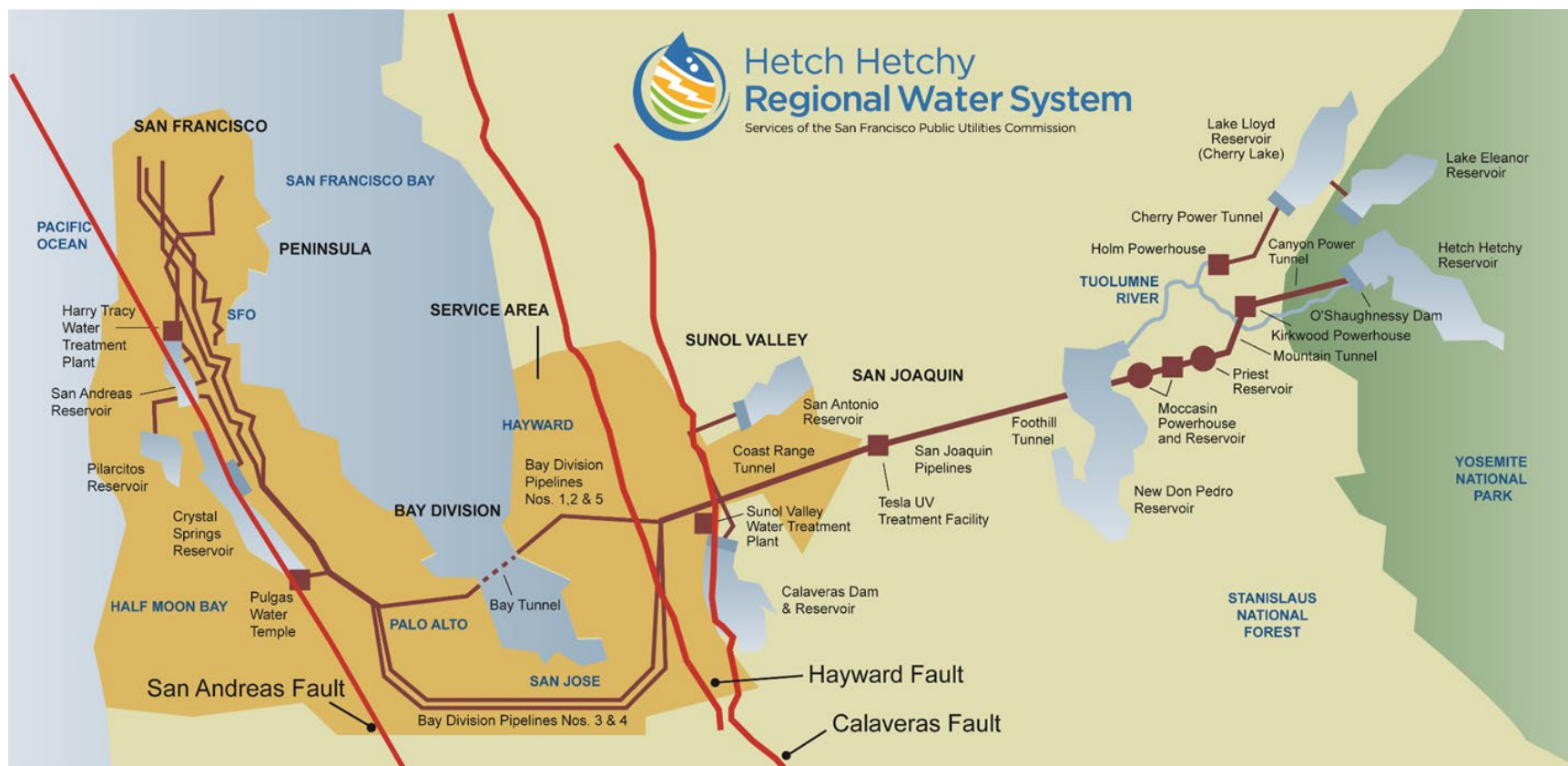
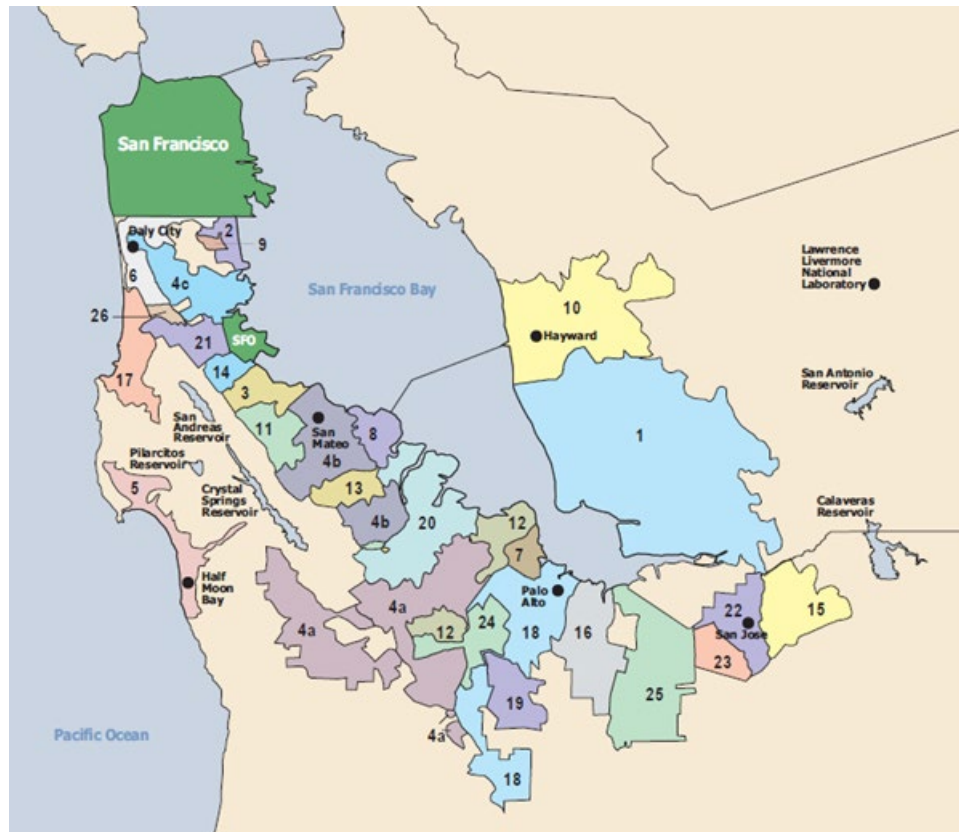


Figure 1-1 (Not to Scale) – The above map depicts the Hetch Hetchy Regional Water System, which delivers water approximately 160 miles from the Hetch Hetchy Reservoir to San Francisco. The Water Enterprise consists of over 1,235 miles of pipeline, 11 reservoirs, six groundwater wells, 11 storage tanks, 25 pump stations, eight hydropneumatic stations and 18 chlorination stations located within the San Francisco city limits and further comprises over 389 miles of pipeline, over 74 miles of tunnels, 11 reservoirs, 13 groundwater wells, five pump stations, and three water treatment plants located outside of San Francisco. For further description of the SFPUC’s Water System, see “THE WATER ENTERPRISE.”

The 2025ABC Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the SFPUC or any of its income or receipts, except Revenues. See “SECURITY FOR THE BONDS.”

Map of Service Area and Locations of Wholesale Customers



1. Alameda County Water District	13. Mid-Peninsula Water District
2. City of Brisbane	14. City of Millbrae
3. City of Burlingame	15. City of Milpitas
4a. California Water Service – Bear Gulch	16. City of Mountain View
4b. California Water Service – Mid-Peninsula	17. North Coast County Water District
4c. California Water Service – South San Francisco	18. City of Palo Alto
5. Coastside County Water District	19. Purissima Hills Water District
6. City of Daly City	20. City of Redwood City
7. City of East Palo Alto	21. City of San Bruno
8. Estero Municipal Improvement District	22. City of San José
9. Guadalupe Valley Municipal Improvement District	23. City of Santa Clara
10. City of Hayward	24. Stanford University
11. Town of Hillsborough	25. City of Sunnyvale
12. City of Menlo Park	26. Westborough Water District

Figure 1-2 (Not to Scale) – The above map depicts the Water Enterprise service area (not including the Groveland Community Service District) and the locations of the Wholesale Customers (as defined herein). The Water Enterprise serves water to approximately 2.7 million people in the San Francisco Bay Area region, delivering approximately 185 million gallons per day of water. For further description of the Wholesale Customers, see “THE WATER ENTERPRISE – Wholesale Deliveries.”

The 2025ABC Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of any of the Wholesale Customers or any of their respective revenue, income or receipts. The 2025ABC Bonds are secured solely by the Revenues of the Water Enterprise as described herein. See “SECURITY FOR THE BONDS.”

GENERAL INFORMATION

No dealer, broker, salesperson or other person has been authorized by the SFPUC to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the SFPUC.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2025ABC Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2025ABC Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact.

The information set forth herein other than that provided by the SFPUC, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the SFPUC or the City since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The City maintains a website at <https://www.sf.gov/> and the SFPUC maintains a website at <https://www.sfpuc.gov/>. The City and the SFPUC also maintain social media accounts. In addition, certain information and reports found on other websites and other information and reports are referred to in this Official Statement. *The websites are provided for convenience only and information and reports available on such websites, social media accounts and the other referenced information and reports, are not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2025ABC Bonds.*

The issuance and sale of the 2025ABC Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)(2) for the issuance and sale of municipal securities.

IN CONNECTION WITH THE OFFERING OF THE 2025ABC BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2025ABC BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. CONSEQUENTLY, THE MARKET PRICE PAID BY AN INVESTOR DURING THE STABILIZATION PERIOD MAY BE HIGHER THAN THE PREVAILING MARKET PRICE.

This Official Statement is delivered for use in connection with the issuance, sale and delivery of the 2025ABC Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

TABLE OF CONTENTS

INTRODUCTION	1	Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues	29
General	1	Outstanding Parity Revenue Bonds	31
Authority for Issuance	1	Parity State Loans	32
Plan of Refunding	2	Corps Water Infrastructure Financing Program	33
The SFPUC and the Water Enterprise	2	Contingent Payment Obligations	33
SFPUC Water Supply	2	Subordinate Debt and Interim Funding Program	33
Security for the Bonds	3	Other Subordinate Obligations Payable from Revenues	34
Outstanding and Future Parity Bonds and Other Indebtedness	3	Revenue Bond Oversight Committee; Audit of Bond Expenditures	34
Amendments Effected by Forty-Third Supplemental Indenture	3	Debt Service Requirements	35
Risk Factors	4	THE CITY AND COUNTY OF SAN FRANCISCO	36
Continuing Disclosure	4	THE PUBLIC UTILITIES COMMISSION	38
Other Matters	4	General	38
THE 2025ABC BONDS	4	Organization, Purposes and Powers	38
General	4	Commission Members	39
Securities Depository and Book-Entry Only System	5	Management	40
Redemption	5	Employee Relations	41
Defeasance	9	Employee Benefit Plans	43
PLAN OF REFUNDING	9	THE WATER ENTERPRISE	47
General	9	General	47
Refunded Bonds	10	Water Rights and Related Proceedings	47
Escrow Fund	17	Current Water Supply Sources	48
ESTIMATED SOURCES AND USES OF FUNDS	17	Water Supply Storage	49
GREEN BONDS DESIGNATION AND CLIMATE CERTIFICATION	18	Water Supply Reliability and Drought Planning	49
Designation as Green Bonds	18	Wholesale Deliveries	50
Certification by the Climate Bonds Initiative ...	18	Retail Deliveries	58
United Nations Sustainable Development Goals	19	Historical Water Sales and Top Customers	59
Use of Proceeds	20	Recent Factors Impacting Retail Water Sales ...	60
Process for Project Evaluation and Selection ...	20	Current Water Conditions	61
Management of Proceeds	21	Curtailment Actions by the State Water Resources Control Board	62
Green Bond Reporting	21	Projected Demand	63
SECURITY FOR THE BONDS	21	Cybersecurity	66
Pledge of Revenues	21	Climate Change	67
Flow of Funds	23	Climate Action Plan	71
Rate Covenants	24	WATER FACILITIES	72
No Bond Reserve Account for the 2025ABC Bonds	26	General	72
Additional Series of Bonds	26	Water Conveyance and Distribution	73
Refunding Bonds	28	Water Treatment	74
Other Parity Obligations; Subordinate Obligations; Obligations Not Payable from Revenues	28	Water Storage	75
Investments	28	Physical Condition of Certain Facilities	77
PROPOSED AMENDMENTS TO THE INDENTURE	28	Prior Heavy Storms	78
OBLIGATIONS PAYABLE FROM REVENUES	29	Seismic Hazards	78
		Wildfire Considerations	80
		Emergency Firefighting Water System	80
		Safety and Security	81

CAPITAL IMPROVEMENT PROGRAM		Bankruptcy Risk	114
AND OTHER WATER SUPPLY		Other Risks	115
INITIATIVES	82	REGULATORY MATTERS	118
Capital and Financial Planning Process	82	General	118
Regional Water Program	82	Drinking Water Requirements	118
Local Water Program	83	Public Water System Discharges	123
Hetch Hetchy Water	83	Bay Delta Water Quality Standards	123
Water System Improvement Program	84	FERC Proceeding to Increase Flows in the	
Water Supply Initiatives	85	Lower Tuolumne River	124
Environmental Planning Considerations	88	Dam Licensing and Safety Issues	126
FINANCING OF CAPITAL		Hazardous Material Management	130
IMPROVEMENTS	89	Endangered Species	130
Long Term Financing of Capital Program	89	Required Instream Flow Schedules from	
Interim Funding Program Facilities	89	Regional Water System Dams	130
Sources of Funding the Capital		CONSTITUTIONAL, STATUTORY AND	
Improvement Program	90	CHARTER LIMITATIONS	131
FINANCIAL OPERATIONS	90	State Law Limitations	131
General	90	Initiative and Referendum	133
Wholesale Water Sales Revenue	91	Charter Limitations	133
Retail Water Sales Revenue	93	Future Charter Amendments	134
Capacity Charges	99	LITIGATION	134
Operating and Maintenance Expenses	99	TAX MATTERS	134
Financial Management Policies	100	CERTAIN LEGAL MATTERS	136
Investment of SFPUC Funds	101	RATINGS	137
Risk Management and Insurance	102	UNDERWRITING	137
HISTORICAL OPERATING RESULTS	104	FINANCIAL STATEMENTS	138
PROJECTED OPERATING RESULTS	106	CONTINUING DISCLOSURE	139
RISK FACTORS	109	CO-MUNICIPAL ADVISORS	139
General	109	VERIFICATION OF MATHEMATICAL	
Bond Payment Risks	109	ACCURACY	139
Risks Related to Water Enterprise Facilities		INDEPENDENT PRICING CONSULTANT	140
and Operations	110	MISCELLANEOUS	140
Risks Relating to Financial Operations	113	APPROVAL AND DELIVERY	141
APPENDIX A	SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE		
APPENDIX B	SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT		
APPENDIX C	SFPUC WATER ENTERPRISE FINANCIAL STATEMENTS		
APPENDIX D	PROPOSED FORM OF OPINION OF BOND COUNSEL		
APPENDIX E	FORM OF CONTINUING DISCLOSURE CERTIFICATE		
APPENDIX F	SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM		

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Kate H. Stacy, President
Joshua Arce, Vice President
Avni Jamdar, Commissioner
Stephen E. Leveroni, Commissioner

PUBLIC UTILITIES COMMISSION OFFICIALS

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Ronald P. Flynn, Deputy General Manager and Chief Operating Officer
Nancy L. Hom, Assistant General Manager, Business Services and Chief Financial Officer
Steven R. Ritchie, Assistant General Manager, Water Enterprise
Masood Ordikhani, Assistant General Manager, External Affairs
Barbara Hale, Assistant General Manager, Power Enterprise
Stephen Robinson, Assistant General Manager, Infrastructure Division
Joel Prather, Assistant General Manager, Wastewater Enterprise

CITY AND COUNTY OF SAN FRANCISCO

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Daniel Lurie

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Joel Engardio, District 4
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Bilal Mahmood, District 5
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Shamann Walton, District 10
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<i>Trustee</i> U.S. Bank Trust Company, National Association San Francisco, California	<i>Verification Agent</i> AW Smith LLC Rockford, Minnesota

OFFICIAL STATEMENT

\$500,000,000*

PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO San Francisco Water Revenue Bonds, 2025 Series ABC

\$390,000,000*
2025 Sub-Series A
(Refunding)
(WSIP) (Green Bonds)

\$80,000,000*
2025 Sub-Series B
(Refunding)
(Regional Water and Local Water)

\$30,000,000*
2025 Sub-Series C
(Refunding)
(Hetch Hetchy Water)

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the hereinafter defined 2025ABC Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined have the respective meanings assigned to them elsewhere in this Official Statement, including “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

General

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering by the Public Utilities Commission of the City and County of San Francisco (the “**SFPUC**”) of its San Francisco Water Revenue Bonds, 2025 Series ABC, 2025 Sub-Series A (Refunding) (WSIP) (Green Bonds) (the “**2025A Bonds**”), San Francisco Water Revenue Bonds, 2025 Series ABC, 2025 Sub-Series B (Refunding) (Regional Water and Local Water) (the “**2025B Bonds**”), and San Francisco Water Revenue Bonds, 2025 Series ABC, 2025 Sub-Series C (Refunding) (Hetch Hetchy Water) (the “**2025C Bonds**” and, together with the 2025A Bonds and the 2025B Bonds, the “**2025ABC Bonds**”).

The SFPUC anticipates that it will also issue in May 2025* its San Francisco Water Revenue Bonds (collectively, the “**2025DEF Bonds**”) to finance and refinance a portion of the design, acquisition and construction of various capital projects of benefit to the Water Enterprise. The anticipated transaction may also include a component to refund all or a portion of the SFPUC’s outstanding San Francisco Water Revenue Bonds issued as Build America Bonds. The anticipated transaction is subject to approval by the SFPUC’s governing body (the “**Commission**”) in April 2025*. If approved by the Commission, the size, timing and structure of the anticipated transaction remain subject to market conditions and the SFPUC reserves the right to modify or cancel its plans as it deems appropriate. The 2025DEF Bonds are not being offered pursuant to this Official Statement.

Authority for Issuance

The 2025ABC Bonds will be issued by the SFPUC pursuant to authority granted by Section 9.109 of the Charter (the “**Charter**”) of the City and County of San Francisco (the “**City**”) and an ordinance that was finally passed by the Board of Supervisors of the City (the “**Board of Supervisors**”) on June 18, 2024 (the “**Refunding Ordinance**”). In addition, the 2025ABC Bonds will be issued under a resolution adopted by the SFPUC governing body (the “**Commission**”) on March 11, 2025.

The 2025A Bonds will be issued under a Forty-Seventh Supplemental Indenture (the “**Forty-Seventh Supplemental Indenture**”), dated as of April 1, 2025, by and between the SFPUC and U.S. Bank Trust Company, National Association, as successor to U.S. Bank National Association, as trustee (the “**Trustee**”). The 2025B Bonds will be issued under a Forty-Eighth Supplemental Indenture (the “**Forty-Eighth Supplemental Indenture**”), dated as of April 1, 2025, by and between the SFPUC and the Trustee. The 2025C Bonds will be issued under a Forty-Ninth First Supplemental Indenture (the “**Forty-Ninth Supplemental Indenture**”), dated as of April 1, 2025, by and between the SFPUC and the Trustee. The Forty-Seventh Supplemental Indenture, the Forty-Eighth Supplemental

* Preliminary, subject to change.

Indenture and the Forty-Ninth Supplemental Indenture each supplement the Amended and Restated Indenture, dated as of August 1, 2002 (as amended and supplemented, the “**Indenture**”), by and between the SFPUC and the Trustee.

See also “OBLIGATIONS PAYABLE FROM REVENUES – Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues.”

Plan of Refunding

The 2025ABC Bonds are being issued to (i) pay the purchase price of certain outstanding water revenue bonds of the SFPUC tendered for cash pursuant to the Invitation (as defined herein), (ii) current refund certain outstanding water revenue bonds of the SFPUC, (iii) advance refund certain outstanding water revenue bonds of the SFPUC and (iv) pay the costs of issuance of the 2025ABC Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The SFPUC and the Water Enterprise

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises. See “THE PUBLIC UTILITIES COMMISSION.”

The SFPUC owns and operates a municipal water supply, storage and distribution system (the “**Water Enterprise**”) that provides drinking water to (i) retail customers in San Francisco and certain retail customers outside of San Francisco (collectively, the “**Retail Customers**”), (ii) 26 wholesale customer entities in San Mateo, Alameda and Santa Clara counties that are members of the Bay Area Water Supply and Conservation Agency (“**BAWSCA**”) pursuant to the hereinafter defined Water Supply Agreement and individual contractual agreements (collectively, the “**Wholesale Customers**”), and (iii) one additional wholesale customer, Cordilleras Mutual Water Company in San Mateo County (which is not a BAWSCA member or a party to the Water Supply Agreement), pursuant to an individual contractual agreement. The Water Enterprise consists of water treatment, storage and transmission facilities located outside of San Francisco (the “**Regional Water System**”) and water treatment, storage and distribution facilities located inside San Francisco (the “**In-City Distribution System**”). See “WATER FACILITIES.”

Water rates for Retail Customers are set by the SFPUC, subject to rejection by resolution of the Board of Supervisors. Retail water sales typically account for approximately 30% of total water sales, and revenues from such retail water sales generally account for approximately 50% of total water sales revenues. Water rates for Wholesale Customers are set pursuant to the Water Supply Agreement between the City and the Wholesale Customers, which became effective in 2009 and was most recently amended and restated in 2021 (the “**Water Supply Agreement**” or “**WSA**”). Wholesale water sales typically account for approximately 70% of total water sales and revenues from such wholesale water sales generally account for approximately 50% of total water sales revenues.

For more information regarding water sales, water sales revenues, and the WSA, see “THE WATER ENTERPRISE,” “FINANCIAL OPERATIONS” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT.”

The SFPUC also provides wastewater services to customers in San Francisco and to several wholesale customers outside of San Francisco (the “**Wastewater Enterprise**”), and power, mainly hydroelectric, for City government operations and to other users (the “**Power Enterprise**”), and manages a Community Choice Aggregation program (“**CleanPowerSF**”). **The revenues of these other enterprises are not available for, and do not secure, payment of the principal of, premium, if any, or interest on the Bonds (as defined herein), including the 2025ABC Bonds.**

SFPUC Water Supply

The SFPUC’s primary water supply source is the Upper Tuolumne River watershed in the Sierra Nevada mountains. The amount of water available to the SFPUC is subject to prevailing hydrological conditions and may be limited during times of drought. The SFPUC has taken a variety of steps to enhance water supply reliability. See “THE WATER ENTERPRISE.”

Security for the Bonds

Under the Indenture, the SFPUC has irrevocably pledged the Revenues of its Water Enterprise and all Refundable Credits (in the case of Bonds issued as Build America Bonds) received by the SFPUC to the punctual payment of principal of, premium, if any, and interest on the 2025ABC Bonds and all outstanding parity revenue bonds, notes or other evidences of indebtedness authorized by the Indenture (collectively, the “**Bonds**”), subject to the allocation of funds provided in the Indenture. The 2025ABC Bonds are payable on parity with certain Outstanding Bonds previously issued by the SFPUC under the Indenture.

The SFPUC is not obligated to pay the principal of, premium, if any, or interest on the 2025ABC Bonds except from Revenues of the Water Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the 2025ABC Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2025ABC Bonds. The 2025ABC Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the SFPUC or any of its income or receipts, except Revenues of the Water Enterprise. The 2025ABC Bonds are not secured by the revenues of the Wastewater Enterprise or the Power Enterprise or the revenues of CleanPowerSF.

No Bond Reserve Account will be established for the 2025ABC Bonds. Bond Reserve Accounts have been established with respect to certain other series of Bonds, but such Bond Reserve Accounts do not secure the 2025ABC Bonds.

See “SECURITY FOR THE BONDS.”

Outstanding and Future Parity Bonds and Other Indebtedness

The SFPUC has previously issued Bonds, and in the future expects to issue additional Bonds, pursuant to the Indenture and secured by Revenues of the Water Enterprise on parity with the 2025ABC Bonds. See “OBLIGATIONS PAYABLE FROM REVENUES.”

The Indenture provides that additional series of Bonds secured by Revenues on parity with the Outstanding Bonds and the 2025ABC Bonds (each an “**Additional Series of Bonds**”) may be issued if certain conditions are met. See “SECURITY FOR THE BONDS – Additional Series of Bonds.”

The SFPUC may issue additional Bonds from time to time to fund additional capital projects (see “FINANCING OF CAPITAL IMPROVEMENTS”) and may also issue refunding Bonds (see “SECURITY FOR THE BONDS – Refunding Bonds”).

Amendments Effected by Forty-Third Supplemental Indenture

The Forty-Third Supplemental Indenture (the “**Forty-Third Supplemental Indenture**”), dated as of July 1, 2023, by and between the SFPUC and the Trustee, amends and supplements certain provisions of the Indenture, including provisions relating to the calculation of “Maximum Annual Debt Service,” “Annual Debt Service,” “Average Annual Debt Service,” the incurrence of “Parity Loans,” the conditions under which Additional Series of Bonds may be issued, the filing of annual audited financial information with the Trustee and the rate covenants. The provisions of the Forty-Third Supplemental Indenture will become effective when the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding and of each Credit Provider, if any, have been filed with the Trustee and certain other requirements under the Indenture have been satisfied. Approximately 19.5% of the aggregate amount of the Bond Obligation of the Bonds currently Outstanding have been obtained. **By their purchase of 2025ABC Bonds, the purchasers of 2025ABC Bonds irrevocably agree to, accept and consent to the provisions of such amendments.** Upon the issuance of the 2025ABC Bonds, approximately __% of the aggregate amount of the Bond Obligation of the Bonds then Outstanding will have been obtained. See “PROPOSED AMENDMENTS TO INDENTURE” and “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO

INDENTURE” for a more detailed explanation of the amendments effected by the Forty-Third Supplemental Indenture.

Risk Factors

Investment in the 2025ABC Bonds is subject to certain risks that should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the 2025ABC Bonds. For a general overview of certain risk factors, see “RISK FACTORS.”

Continuing Disclosure

The SFPUC will covenant for the benefit of the Owners and Beneficial Owners of the 2025ABC Bonds to provide certain financial information and operating data regarding the Water Enterprise not later than March 31 following the end of its Fiscal Year (presently June 30), beginning on March 31, 2026, with respect to the report for Fiscal Year 2024-25, and to provide notices of the occurrence of certain enumerated events. These covenants will be made to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “Rule”). See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Other Matters

Brief descriptions of the 2025ABC Bonds, the security and sources of payment for the 2025ABC Bonds, the SFPUC, the Water Enterprise, the SFPUC’s capital improvement program are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the SFPUC at:

San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
Attention: Assistant General Manager, Business Services and Chief Financial Officer
(415) 554-3155

THE 2025ABC BONDS

General

The 2025ABC Bonds will be dated as of their date of delivery and will accrue interest from their date of delivery at the rates per annum set forth on the inside cover pages of this Official Statement. Interest on the 2025ABC Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the 2025ABC Bonds is payable on May 1 and November 1 of each year, beginning November 1, 2025.

The 2025ABC Bonds will mature on the dates and in the principal amounts set forth on the inside cover pages of this Official Statement. The 2025ABC Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple of \$5,000.

Under the Indenture, the record date with respect to the payment of principal of and interest on the 2025ABC Bonds is the 15th day of the calendar month immediately preceding an interest payment date, whether or not such day is a Business Day.

The 2025ABC Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”), New York, New York, as the Owner of the 2025ABC Bonds. So long as DTC, or its nominee, Cede & Co., is the Owner of the 2025ABC Bonds, all payments on the 2025ABC Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the 2025ABC Bonds will be the responsibility of the DTC Participants. See “APPENDIX F – SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM.”

Optional Redemption of 2025A Bonds. The 2025A Bonds maturing on or after November 1, 20__ are subject to redemption prior to their stated maturity, at the option of the SFPUC, from any source of available funds, as a whole or in part, on any date on or after _____, 20__ from such maturities or portions of maturities as are determined by the SFPUC and (except as otherwise provided under the procedures of Securities Depository for the 2025A Bonds) by lot within any one maturity, at a redemption price equal to 100% of the principal amount of the 2025A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption of 2025A Bonds. The 2025A Bonds maturing on November 1, ____ (the “**2025A Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025A Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025A Bonds) by lot within any such maturity if less than all of the 2025A Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 2025A Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025A Term Bonds (____) prior to maturity as described above):

The 2025A Bonds maturing on November 1, ____ (the “**2025A Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025A Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025A Bonds) by lot within any such maturity if less than all of the 2025A Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

5

The 2025A Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025A Term Bonds (____) prior to maturity as described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
†	
† Maturity.	

Optional Redemption of 2025B Bonds. The 2025B Bonds maturing on or after November 1, 20__ are subject to redemption prior to their stated maturity, at the option of the SFPUC, from any source of available funds, as a whole or in part, on any date on or after _____, 20__ from such maturities or portions of maturities as are determined by the SFPUC and (except as otherwise provided under the procedures of Securities Depository for the 2025B Bonds) by lot within any one maturity, at a redemption price equal to 100% of the principal amount of the 2025B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption of 2025B Bonds. The 2025B Bonds maturing on November 1, ____ (the “**2025B Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025B Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025B Bonds) by lot within any such maturity if less than all of the 2025B Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 2025B Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025B Term Bonds (____) prior to maturity as described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
†	
† Maturity.	

The 2025B Bonds maturing on November 1, ____ (the “**2025B Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025B Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025B Bonds) by lot within any such maturity if less than all of the 2025B Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 2025B Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025B Term Bonds (____) prior to maturity as described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
†	
† Maturity.	

Optional Redemption of 2025C Bonds. The 2025C Bonds maturing on or after November 1, 20__ are subject to redemption prior to their stated maturity, at the option of the SFPUC, from any source of available funds, as a whole or in part, on any date on or after _____, 20__, from such maturities or portions of maturities as are determined by the SFPUC and (except as otherwise provided under the procedures of Securities Depository for the 2025C Bonds) by lot within any one maturity, at a redemption price equal to 100% of the principal amount of the 2025C Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption of 2025C Bonds. The 2025C Bonds maturing on November 1, ____ (the “**2025C Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025C Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025C Bonds) by lot within any such maturity if less than all of the 2025C Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 2025C Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025C Term Bonds (____) prior to maturity as described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
†	
† Maturity.	

The 2025C Bonds maturing on November 1, ____ (the “**2025C Term Bonds (____)**”), are further subject to redemption prior to their stated maturity, and payable from the 2025C Sinking Fund Account, on each November 1 on and after November 1, ____, (except as otherwise provided under the procedures of Securities Depository for the 2025C Bonds) by lot within any such maturity if less than all of the 2025C Term Bonds (____) of such maturity are then being redeemed, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

The 2025C Term Bonds (____) are subject to mandatory redemption on November 1 in each of the years and in the respective principal amounts as follows (such schedule subject to adjustment as directed by the SFPUC in the event of optional redemption of any portion of such 2025C Term Bonds (____) prior to maturity as described above):

Redemption Date (November 1)	Principal Amount
†	
† Maturity.	

Purchase In Lieu of Mandatory Sinking Fund Redemption. In lieu of mandatory sinking fund redemption of the 2025ABC Bonds as described above, the SFPUC may satisfy, in whole or in part, the related minimum Sinking Fund Account payment amounts and redemption of 2025ABC Term Bonds of the respective Sub-Series by depositing with the Trustee 2025ABC Term Bonds of the respective Sub-Series for cancellation prior to the Trustee's selection of the 2025ABC Term Bonds of such Sub-Series for redemption, or may request the Trustee to purchase 2025ABC Term Bonds of the respective Sub-Series, at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the SFPUC may direct, not to exceed the principal amount thereof. The par amount of any of such 2025ABC Bonds so deposited or purchased in any twelve-month period ending on September 15 in any year will be credited towards and will reduce the par amount of such 2025ABC Bonds required to be redeemed as described above on the next succeeding November 1.

Selection of 2025ABC Bonds for Redemption. Subject to DTC's procedures relating to the selection of bonds for redemption described above, whenever less than all of the 2025ABC Bonds, of any one tenor and maturity are called for redemption and those 2025ABC Bonds are redeemable by lot, the Trustee will select the 2025ABC Bonds of the tenor and maturity to be redeemed from the Outstanding 2025ABC Bonds of that tenor and maturity, by lot or by any other manner the Trustee deems fair and equitable. For purposes of such selection, 2025ABC Bonds will be deemed to be made up of \$5,000 portions of principal, any of which may be redeemed separately.

Notice of Redemption. Notice of redemption will be mailed by the Trustee at least 30 days but not more than 60 days prior to the redemption date, to DTC (so long as DTC's book-entry system is used). The actual receipt by the owner of any 2025ABC Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive a redemption notice or any defect in a redemption notice will not affect the validity of the proceedings for the redemption of such 2025ABC Bond or the cessation of the accrual of interest on the date fixed for such redemption. See "APPENDIX F – SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM."

Rescission of Notice of Redemption. The SFPUC may, at its option, prior to the date fixed for redemption in any notice of optional redemption, rescind and cancel such notice of redemption by written request to the Trustee and the Trustee will mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

Effect of Redemption. When notice of redemption has been duly given as described above, and moneys for payment of the redemption price are held by the Trustee, the 2025ABC Bonds called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice; and from and after the date so designated interest on such 2025ABC Bonds called for redemption will cease to accrue, and such 2025ABC Bonds will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2025ABC Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee, upon surrender for payment of any of said 2025ABC Bonds will pay such 2025ABC Bonds at the applicable redemption price, together with accrued interest thereon. All 2025ABC Bonds redeemed will be cancelled upon surrender and no 2025ABC Bonds will be issued in place thereof.

Defeasance

The obligations of the SFPUC and the pledge, lien, covenants and agreements of the SFPUC made or provided for in the Indenture will be fully discharged and satisfied as to any 2025ABC Bond and will no longer be deemed outstanding thereunder if certain conditions set forth in the Indenture are satisfied. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFEASANCE.”

PLAN OF REFUNDING*

General

On March 17, 2025, the SFPUC, with the assistance of Jefferies LLC (the “**Dealer Manager**”), released an Invitation to Tender Bonds for Purchase (the “**Invitation**”) inviting beneficial owners of certain maturities (such maturities, the “**Target Bonds**”) of the SFPUC’s outstanding San Francisco Water Revenue Bonds, 2016 Series AB, 2016 Sub-Series A (Refunding) (the “**2016A Bonds**”), San Francisco Water Revenue Bonds, 2017 Series DEFG, 2017 Sub-Series D (Refunding) (Green Bonds) (the “**2017D Bonds**”), San Francisco Water Revenue Bonds, 2019 Series ABC, 2019 Sub-Series A (Refunding – Federally Taxable) (WSIP) (Green Bonds) (the “**2019A Bonds**”), 2019 Sub-Series B (Refunding – Federally Taxable) (Hetch Hetchy) (the “**2019B Bonds**”), and 2019 Sub-Series C (Refunding – Federally Taxable) (Local Water Main) (the “**2019C Bonds**”), San Francisco Water Revenue Bonds, Series 2020EFGH, 2020 Sub-Series E (Refunding – Federally Taxable) (WSIP) (Green Bonds) (the “**2020E Bonds**”), 2020 Sub-Series F (Refunding – Federally Taxable) (Non-WSIP) (the “**2020F Bonds**”), 2020 Sub-Series G (Refunding – Federally Taxable) (Local Water) (the “**2020G Bonds**”), and 2020 Sub-Series H (Refunding – Federally Taxable) (Hetch Hetchy Water) (the “**2020H Bonds**”) to tender such Bonds for purchase pursuant to the terms of the Invitation. The preliminary list of Target Bonds is set forth under “– Refunded Bonds – *Target Bonds and Advance Refunded Bonds*” below. Target Bonds that are 2019A Bonds, 2019B Bonds, 2019C Bonds, 2020E Bonds, 2020F Bonds, 2020G Bonds and 2020H Bonds are collectively referred to herein as the “**Taxable Target Bonds**.” Beneficial owners of the Target Bonds must review the Invitation for further information regarding the SFPUC’s offer. The Invitation provides that all tenders for purchase must be made on or before March 31, 2025*. On April 2, 2025*, the SFPUC will determine whether to accept any Target Bonds tendered for purchase pursuant to the Invitation. Target Bonds validly tendered and accepted for purchase (collectively, the “**Purchased Bonds**”) will be purchased on April 17, 2025*, subject to the Invitation, and cancelled.

Concurrently with purchasing the Purchased Bonds, the SFPUC currently expects to advance refund certain maturities of Taxable Target Bonds that are not purchased pursuant to the terms of the Invitation, as well as certain maturities of the 2019A Bonds, 2020F Bonds, 2020G Bonds and 2020H Bonds that are not Taxable Target Bonds (such maturities are collectively referred to herein as the “**Advance Refunded Bonds**”), if deemed necessary by the SFPUC to comply with applicable tax law. Any advance refunding of such Advance Refunded Bonds will be in the SFPUC’s sole discretion.

The 2025ABC Bonds are also being issued to refund all or a portion of the SFPUC’s outstanding San Francisco Water Revenue Bonds, 2015 Series A (Refunding) (the “**2015A Bonds**”), San Francisco Water Revenue Bonds, 2017 Series ABC, 2017 Sub-Series A (WSIP) (Green Bonds) (the “**2017A Bonds**”), 2017 Sub-Series B (Non-WSIP) (the “**2017B Bonds**”), and 2017 Sub Series C (Hetch Hetchy) (the “**2017C Bonds**”). Such refunded 2015A Bonds will be redeemed on May 17, 2025*, and such refunded 2017A Bonds, 2017B Bonds and 2017C Bonds will be redeemed on April 18, 2025*.

The proceeds of the 2025A Bonds will be applied to (i) refund by means of tender, purchase and cancellation or by means of defeasance a portion of the Target Bonds, (ii) advance refund certain Advance Refunded Bonds, (iii) current refund all or a portion of the 2015A Bonds (such portion, the “**Refunded 2015A Bonds**”) and all or a portion of the 2017A Bonds (such portion, the “**Refunded 2017A Bonds**”) and (iv) pay the costs of issuance of the 2025A Bonds.

* Preliminary, subject to change.

The proceeds of the 2025B Bonds will be applied to (i) refund by means of tender, purchase and cancellation or by means of defeasance a portion of the Target Bonds, (ii) advance refund certain Advance Refunded Bonds, (iii) current refund all or a portion of the 2017B Bonds (such portion, the “**Refunded 2017B Bonds**”) and (iv) pay the costs of issuance of the 2025B Bonds.

The proceeds of the 2025C Bonds will be applied to (i) refund by means of tender, purchase and cancellation or by means of defeasance a portion of the Target Bonds, (ii) advance refund certain Advance Refunded Bonds, (iii) current refund all or a portion of the 2017C Bonds (such portion, the “**Refunded 2017C Bonds**”) and (iv) pay the costs of issuance of the 2025C Bonds.

Refunded Bonds

Target Bonds and Advanced Refunded Bonds

The following tables detail the Target Bonds, as well as the additional 2019A Bonds, 2020F Bonds, 2020G Bonds and 2020H Bonds that are not Target Bonds, to be refunded with proceeds of the 2025ABC Bonds as described above under “– General.” The Purchased Bonds and any Advance Refunded Bonds will only be determined by the SFPUC at the time that the SFPUC and the Underwriters execute a bond purchase contract for the 2025ABC Bonds and as set forth in the Invitation. Until such time, the series, maturity dates and principal amounts of the Target Bonds and any Advance Refunded Bonds remain subject to change by the SFPUC in its sole discretion.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2016 Series AB
2016 Sub-Series A (Refunding)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Purchased†
2029	\$ 51,135,000	5.00%	H69	\$
2030	53,460,000	4.00	H77	
2031	15,945,000	5.00	H85	
2032	26,770,000	5.00	H93	
2033	23,830,000	5.00	J26	
2034	19,905,000	5.00	J34	
2035	12,830,000	5.00	J42	
2036	43,670,000	4.00	J59	
2039**	141,995,000	4.00	J67	
Total:	\$389,540,000			\$

** Term Bond.

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† The final Official Statement will identify the principal amount of Target Bonds validly tendered and accepted for purchase, if any.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2017 Series DEFG
2017 Sub-Series D (Refunding) (Green Bonds)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Purchased [†]
2030	\$ 18,100,000	5.00%	2K4	\$
2031	2,430,000	4.00	2N8	
2031	7,465,000	5.00	2M0	
2032	31,835,000	5.00	2P3	
2033	18,250,000	5.00	2Q1	
2034	39,510,000	5.00	2R9	
2035	8,090,000	5.00	2S7	
Total:	\$125,680,000			\$

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2019 Series ABC
2019 Sub-Series A (Refunding – Federally Taxable) (WSIP) (Green Bonds)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP*	Principal Amount to be Purchased [†]	Principal Amount to be Advance Refunded [‡]
2025	\$ 2,760,000	2.261%	79771F FE2	--\$	\$
2026	2,820,000	2.371	79771F FF9	--\$	
2027	1,865,000	2.483	79765R 4S5	--\$	
2028	1,310,000	2.533	79765R 4T3	\$	
2029	2,980,000	2.593	79771F FG7		
2030	3,060,000	2.703	79771F FH5		
2031	29,910,000	2.803	79771F FJ1		
2032	2,835,000	2.953	79771F FK8		
2033	2,925,000	3.053	79771F FL6		
2034	2,885,000	3.153	79765R 4Z9		
2039**	153,555,000	3.303	79765R 5A3		
2043**	183,475,000	3.473	79765R 5B1		
Total:	\$390,380,000			\$	\$

** Term Bond.

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[†] The final Official Statement will identify the principal amount of Target Bonds validly tendered and accepted for purchase, if any.

[‡] The final Official Statement will identify the principal amount of Target Bonds to be advance refunded, if any.

[§] These maturities are not Target Bonds that are part of the Invitation but may be advance refunded in whole or in part at the SFPUC's discretion.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2019 Series ABC
2019 Sub-Series B (Refunding – Federally Taxable) (Hetch Hetchy)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Purchased†	Principal Amount to be Advance Refunded‡
2034**	\$ 4,735,000	3.153%	5C9	\$	\$
2041**	11,435,000	3.523	5D7		
Total:	\$16,170,000			\$	\$

** Term Bond.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2019 Series ABC
2019 Sub-Series C (Refunding – Federally Taxable) (Local Water Main)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Purchased†	Principal Amount to be Advance Refunded‡
2034**	\$ 5,160,000	3.153%	5E5	\$	\$
2041**	12,455,000	3.523	5F2		
Total:	\$17,615,000			\$	\$

** Term Bond.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2020 Series EFGH
2020 Sub-Series E (Refunding – Federally Taxable) (WSIP) (Green Bonds)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79771F)	Principal Amount to be Purchased†	Principal Amount to be Advance Refunded‡
2041**	\$141,290,000	2.825%	AA5	\$	\$
2047**	41,430,000	2.945	AB3		
Total:	\$182,720,000			\$	\$

** Term Bond.

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† The final Official Statement will identify the principal amount of Target Bonds validly tendered and accepted for purchase, if any.

‡ The final Official Statement will identify the principal amount of Target Bonds to be advance refunded, if any.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2020 Series EFGH
2020 Sub-Series F (Refunding – Federally Taxable) (Non-WSIP)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79771F)	Principal Amount to be Purchased†	Principal Amount to be Advance Refunded‡
2025	\$ 1,450,000	0.843%	AF4	--\$	\$
2026	1,465,000	1.140	AG2	--\$	
2027	1,485,000	1.340	AH0	--\$	
2028	1,505,000	1.618	AJ6	\$	
2029	1,530,000	1.718	AK3		
2030	5,720,000	1.788	AL1		
2031	5,830,000	1.988	AM9		
2032	5,955,000	2.188	AN7		
2033	6,090,000	2.288	AP2		
2034	6,235,000	2.388	AQ0		
2035	6,385,000	2.488	AR8		
2041**	37,330,000	2.845	AS6		
2047**	51,605,000	3.145	AT4		
Total:	\$132,585,000			\$	\$

** Term Bond.

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† The final Official Statement will identify the principal amount of Target Bonds validly tendered and accepted for purchase, if any.

‡ The final Official Statement will identify the principal amount of Target Bonds to be advance refunded, if any.

§ These maturities are not Target Bonds that are part of the Invitation but may be advance refunded in whole or in part at the SFPUC's discretion.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2020 EFGH
2020 Sub-Series G (Refunding – Federally Taxable) (Local Water)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79771F)	Principal Amount to be Purchased [†]	Principal Amount to be Advance Refunded [‡]
2025	\$ 7,635,000	0.843%	FQ5	--\$	\$
2026	5,485,000	1.140	AZ0	--\$	
2027	6,550,000	1.340	BA4	--\$	
2028	1,815,000	1.618	BB2	\$	
2029	4,610,000	1.718	BC0		
2030	5,485,000	1.788	BD8		
2031	12,170,000	1.988	BE6		
2032	2,380,000	2.188	BF3		
2034	1,140,000	2.388	BH9		
2035	325,000	2.488	BJ5		
2043**	10,705,000	3.095	BK2		
Total:	\$58,300,000			\$	\$

** Term Bond.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2020 Series EFGH
2020 Sub-Series H (Refunding – Federally Taxable) (Hetch Hetchy Water)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79771F)	Principal Amount to be Purchased [†]	Principal Amount to be Advance Refunded [‡]
2025	\$ 695,000	0.843%	BP1	--\$	\$
2026	700,000	1.140	BQ9	--\$	
2027	710,000	1.340	BR7	--\$	
2028	720,000	1.618	BS5	\$	
2029	735,000	1.718	BT3		
2030	2,740,000	1.788	BU0		
2031	2,790,000	1.988	BV8		
2032	2,850,000	2.188	BW6		
2033	2,915,000	2.288	BX4		
2034	2,985,000	2.388	BY2		
2035	3,055,000	2.488	BZ9		
2041**	17,860,000	2.845	CA3		
2047**	24,685,000	3.145	CB1		
Total:	\$63,440,000			\$	\$

** Term Bond.

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[†] The final Official Statement will identify the principal amount of Target Bonds validly tendered and accepted for purchase, if any.

[‡] The final Official Statement will identify the principal amount of Target Bonds to be advance refunded, if any.

[§] These maturities are not Target Bonds that are part of the Invitation but may be advance refunded in whole or in part at the SFPUC's discretion.

Current Refunded Bonds

The following tables detail the 2015A Bonds, 2017A Bonds, 2017B Bonds and 2017C Bonds to be refunded with proceeds of the 2025ABC Bonds as described above under “– General” (collectively, the “Current Refunded Bonds”). The Current Refunded Bonds will only be determined by the SFPUC at the time that the SFPUC and the Underwriters execute a bond purchase contract for the 2025ABC Bonds and as set forth in the Invitation. Until such time, the series, maturity dates and principal amounts of the Current Refunded Bonds remain subject to change by the SFPUC in its sole discretion.

Public Utilities Commission of the City and County of San Francisco San Francisco Water Revenue Bonds 2015 Series A (Refunding)

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Refunded [†]	Redemption Date [†]
2025	\$ 30,990,000	5.000%	D63	\$ 30,990,000	05/17/2025
2026	20,945,000	5.000	D71	20,945,000	05/17/2025
2027	20,530,000	5.000	D89	20,530,000	05/17/2025
2028	9,155,000	5.000	D97	9,155,000	05/17/2025
2029	10,585,000	5.000	E21	10,585,000	05/17/2025
2030	11,370,000	5.000	F95	11,370,000	05/17/2025
2030	4,050,000	3.250	E39	4,050,000	05/17/2025
2031	22,370,000	5.000	E47	22,370,000	05/17/2025
2032	19,390,000	5.000	E54	19,390,000	05/17/2025
2033	21,525,000	4.000	E62	21,525,000	05/17/2025
2034	28,610,000	4.000	E70	28,610,000	05/17/2025
2035	25,290,000	4.000	F87	25,290,000	05/17/2025
2035	4,475,000	3.625	E88	4,475,000	05/17/2025
2036	15,365,000	5.000	E96	15,365,000	05/17/2025
Total:	\$244,650,000			\$244,650,000	

Public Utilities Commission of the City and County of San Francisco San Francisco Water Revenue Bonds, 2017 Series ABC 2017 Sub-Series A (WSIP) (Green Bonds)

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Refunded [†]	Redemption Date [†]
2025	\$ 2,705,000	5.00%	Q93	\$ 2,705,000	04/18/2025
2026	2,840,000	5.00	R27	2,840,000	04/18/2025
2027	2,990,000	5.00	R35	2,990,000	04/18/2025
2028	3,140,000	5.00	R43	3,140,000	04/18/2025
2029	3,300,000	5.00	R50	3,300,000	04/18/2025
2036	4,685,000	5.00	S42	4,685,000	04/18/2025
Total:	\$19,660,000			\$19,660,000	

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[†] Preliminary, subject to change.

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2017 Series ABC
2017 Sub-Series B (Non-WSIP)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Refunded [†]	Redemption Date [†]
2025	\$ 3,295,000	5.00%	T82	\$ 3,295,000	04/18/2025
2026	3,465,000	5.00	T90	3,465,000	04/18/2025
2027	3,645,000	5.00	U23	3,645,000	04/18/2025
2028	3,830,000	5.00	U31	3,830,000	04/18/2025
2029	4,025,000	5.00	U49	4,025,000	04/18/2025
2036	5,715,000	5.00	V30	5,715,000	04/18/2025
Total:	\$23,975,000			\$23,975,000	

*Public Utilities Commission of the City and County of San Francisco
San Francisco Water Revenue Bonds, 2017 Series ABC
2017 Sub-Series C (Hetch Hetchy)*

Maturity (November 1)	Outstanding Principal Amount	Interest Rate	CUSIP* (Base No. 79765R)	Principal Amount to be Refunded [†]	Redemption Date [†]
2025	\$ 1,575,000	5.00%	W96	\$ 1,575,000	04/18/2025
2026	1,660,000	5.00	X20	1,660,000	04/18/2025
2027	1,745,000	5.00	X38	1,745,000	04/18/2025
2028	1,830,000	5.00	X46	1,830,000	04/18/2025
2029	1,925,000	5.00	X53	1,925,000	04/18/2025
2036	2,735,000	5.00	Y45	2,735,000	04/18/2025
Total:	\$11,470,000			\$11,470,000	

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* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services data base. Neither the SFPUC nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

† Preliminary, subject to change.

Escrow Fund

A portion of the proceeds of the 2025ABC Bonds in an amount sufficient to refund and legally defease the Current Refunded Bonds and any Advance Refunded Bonds will be deposited in an Escrow Fund established by the Trustee, acting as escrow agent (the “**Escrow Agent**”), under an Escrow Agreement, dated as of April 1, 2025 (the “**Escrow Agreement**”), by and between the SFPUC and the Escrow Agent. A portion of the funds deposited in the Escrow Fund will be invested in certain securities, the principal of and interest on which, when received, will be sufficient, together with other available amounts held in the Escrow Fund, to pay the principal of and interest on the Current Refunded Bonds and any Advance Refunded Bonds to be refunded on their respective redemption dates. Pursuant to the Indenture and the irrevocable instructions in the Escrow Agreement, the Current Refunded Bonds and any Advance Refunded Bonds to be refunded will be redeemed on their respective redemption dates at a redemption price equal to the principal amount of such Bonds, plus accrued interest to the redemption date, without premium. As a result of the deposit and application of funds as provided in the Escrow Agreement, the Current Refunded Bonds and any Advance Refunded Bonds will be defeased pursuant to the Indenture as of the date of issuance of the 2025ABC Bonds.

Sufficiency of the deposits in the Escrow Fund for the purposes described in the previous paragraph will be verified by AW Smith LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2025ABC Bonds are expected to be applied as follows:

	2025A Bonds	2025B Bonds	2025C Bonds	Total 2025ABC Bonds
<u>Sources of Funds</u>				
Par Amount	\$	\$	\$	\$
[Plus/Less] Original Issue [Premium/Discount]				
Debt Service Fund Releases				
Total Sources	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>Uses of Funds</u>				
Deposit to Purchased Bonds Fund ⁽¹⁾	\$	\$	\$	\$
Deposit to Escrow Fund ⁽²⁾				
Costs of Issuance ⁽³⁾				
Total Uses	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Represents deposits to the 2025 Series ABC Purchased Bonds Fund established under the Forty-Seventh Supplemental Indenture. See “PLAN OF REFUNDING.”

⁽²⁾ Represents deposits to the Escrow Fund established under the Escrow Agreement. See “PLAN OF REFUNDING.”

⁽³⁾ The costs of issuance include underwriters’ discount and amounts for legal fees, Dealer Manager fees, Trustee and Escrow Agent fees, municipal advisor fees, Verification Agent fees, escrow bidding agent fees, rating agency fees, printing costs, and other costs relating to the issuance of the 2025ABC Bonds.

GREEN BONDS DESIGNATION AND CLIMATE CERTIFICATION

Designation as Green Bonds

The SFPUC is committed to providing retail drinking water services to San Francisco and wholesale water to three Bay Area counties in a manner that values environmental and community interests, and sustains the resources entrusted to its care. San Francisco issued its first climate action plan in 2004. Environmental stewardship is a key element of the SFPUC's mission statement and the SFPUC remains prominent in the City's most recent climate action plan, released in 2021 and supplemented in 2023 (see "THE WATER ENTERPRISE – Climate Action Plan"). The 2025A Bonds are being designated by the SFPUC as "Green Bonds" based on the climate adaptation and/or mitigation benefits of the WSIP projects to be refinanced by the 2025A Bonds and pursuant to certification of the WSIP program by the Climate Bonds Initiative (the "CBI"), as further described below under "– Certification by the Climate Bonds Initiative."

The purpose of designating the 2025A Bonds as "Green Bonds" is to allow investors to invest directly in bonds that finance the cost of environmentally beneficial projects ("**Green Projects**"). For purposes of such determination, the SFPUC considers the projects included in the WSIP to be Green Projects ("**WSIP Green Projects**"). See "PLAN OF REFUNDING," "ESTIMATED SOURCES AND USES OF FUNDS" and "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water System Improvement Program."

The Indenture does not restrict the use of proceeds of future issuances of Bonds to the financing of Green Projects and in the future the SFPUC may issue additional Bonds which are not designated as "Green Bonds" or certified by the CBI. The repayment obligations of the SFPUC with respect to the 2025A Bonds are not conditioned on the completion of any particular project or the satisfaction of any condition relating to the status of the 2025A Bonds as "Green Bonds" or the certification of such bonds by the CBI. The SFPUC assumes no obligation to ensure compliance with any legal or other principles of "Green Bonds," as such principles may evolve over time. See "SECURITY FOR THE BONDS." The terms "Climate Bond" and "Green Bonds" are neither defined in, nor related to the Indenture, and their use herein is for identification purposes only and is not intended to provide or imply that a holder of the 2025A Bonds is entitled to any additional security other than as provided in the Indenture. The SFPUC has no continuing legal obligation to maintain the Climate Bond certification of the 2025A Bonds.

The designation of the 2025A Bonds as "Green Bonds" does not imply that such obligations are entitled to any particular advantageous treatment under the Internal Revenue Code of 1986 (the "**Code**").

Projects to be refinanced by the 2025B Bonds and the 2025C Bonds may also be considered to be environmentally beneficial projects; however, because such projects are not part of WSIP, the 2025B Bonds and the 2025C Bonds have not been certified by the CBI or designated as "Green Bonds" by the SFPUC.

Certification by the Climate Bonds Initiative

The CBI is an international, investor-focused non-profit organization working to focus the global bond market on climate change solutions through the development and promotion of an efficient green bond market. The CBI establishes and manages the Climate Bonds Standard (the "**Climate Bonds Standard**").

The 2025A Bonds have been certified by the CBI as "Climate Bonds Standard Certified" based on a 2016 pre-issuance verification report from Morningstar Sustainalytics ("**Sustainalytics**"), a verifier approved by the Climate Bonds Standard Board and retained by the SFPUC. Sustainalytics has verified that the SFPUC's bonds issued to finance and refinance WSIP Green Projects meet the requirements of the Water Criteria of the Climate Bonds Standard. The CBI also requires post-issuance verification of compliance as part of the certification process. As such, the SFPUC has provided information concerning prior and anticipated capital project expenditures related to the WSIP (some of which does not appear in this Official Statement) to Sustainalytics. Certification of the 2025A Bonds by the CBI essentially reflects the alignment of the issuance with Climate Bonds Standard Version 2.1 and the explanation of the significance of this certification may be obtained from the CBI.

The certification of the 2025A Bonds as “Climate Bonds” by the CBI is based solely on the Climate Bonds Standard and does not, and is not intended to, make any representation, warranty, undertaking, express or implied, or give any assurance with respect to any other matter relating to the 2025A Bonds or any WSIP Green Project, including but not limited to this Official Statement, the transaction documents, the SFPUC or the management of the SFPUC.

The certification of the 2025A Bonds as “Climate Bonds” by the CBI was addressed solely to the SFPUC and is not a recommendation to any person to purchase, hold or sell the 2025A Bonds and such certification does not address the market price or suitability of the 2025A Bonds for a particular investor. Each potential purchaser of the 2025A Bonds should determine for itself the relevance of this certification. Any purchase of the 2025A Bonds should be based upon such investigation that each potential purchaser deems necessary. The certification also does not address the merits of the decision by the SFPUC or any third party to participate in any WSIP Green Project and does not express and should not be deemed to be an expression of an opinion as to the SFPUC or any aspect of any WSIP Green Project (including but not limited to the financial viability of any WSIP Green Project) other than with respect to conformance with the Climate Bonds Standard.

In issuing or monitoring, as applicable, the certification, the CBI has assumed and relied upon and will assume and rely upon the fairness, accuracy, reasonableness and completeness in all material respects of the information supplied or otherwise made available to the CBI. The CBI does not assume or accept any responsibility or liability to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any WSIP Green Project or the SFPUC. In addition, the CBI does not assume any obligation to conduct (and it has not conducted) any physical inspection of any WSIP Green Project. The certification may only be used with the 2025A Bonds and may not be used for any other purpose without the CBI’s prior written consent.

The certification does not, and is not in any way intended to, address the likelihood of timely payment of interest when due on the 2025A Bonds and/or the payment of principal at maturity or any other date.

The certification may be withdrawn at any time in the CBI’s sole and absolute discretion and there can be no assurance that such certification will not be withdrawn. The SFPUC has not undertaken to contest any such withdrawal or to provide notice thereof.

The CBI is not a licensed broker-dealer or a nationally recognized statistical ratings organization. Certification by the CBI is not a recommendation to buy, sell or hold securities, and such certification may be subject to revision or withdrawal, including, without limitation, if the SFPUC’s future capital expenditures from the proceeds of the 2025A Bonds vary from the anticipated expenditures reviewed by the CBI. The SFPUC will undertake reasonable efforts to ensure that any adjustment of capital expenditures or other actions taken with respect to the 2025A Bonds will not result in revision or withdrawal of the CBI’s certification; however, there can be no guarantee that such adjustment or other action or a future revision to the CBI’s criteria for certifying bonds will not result in a withdrawal or revision of the CBI’s certification. The SFPUC expects to post information reflecting the expenditure of the proceeds of the 2025A Bonds and the 2017A Bonds, 2017D Bonds, 2019A Bonds and 2020E Bonds to be refunded by the 2025A Bonds on its website. See “– Green Bond Reporting” below.

United Nations Sustainable Development Goals

Impacts from WSIP projects financed and refinanced by the SFPUC’s “Green Bonds” are also aligned with several United Nations Sustainable Development Goals (“UN SDGs”). By reference to the International Capital Market Association (“ICMA”) “Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals” (June 2023), the projects refinanced by the 2025A Bonds primarily aim to address the following goals: 6 (Clean Water and Sanitation), 9 (Industry, Innovation and Infrastructure), 11 (Sustainable Cities and Communities), 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land). The determination of whether the impacts of a particular WSIP Green Project align with one or more UN SDGs is based on criteria that the SFPUC has deemed to be appropriate and may differ from criteria applied by investors. See also “– Process for Project Evaluation and Selection” below.

As promulgated by the ICMA and most recently updated in June 2023, the “Green Bond Principles” have four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting), each of which are further described below.

Use of Proceeds

A portion of the proceeds of the 2025A Bonds will refund or defease all or a portion of the outstanding 2017A Bonds, 2017D Bonds, 2019A Bonds and 2020E Bonds. The proceeds of such refunded bonds have been expended on WSIP Green Projects.

Process for Project Evaluation and Selection

As noted above, the SFPUC considers the projects included in the WSIP to be Green Projects. The WSIP is a program that consists of 87 capital projects to repair, replace and upgrade critical portions of the Regional Water System and the Local Water System to meet specific level of service goals and objectives for seismic reliability, delivery reliability, water quality and water supply in an environmentally sustainable and cost-effective manner. WSIP Green Projects achieve the following goals:

- Improve the water system to provide high-quality water that reliably meets all current and foreseeable local, State, and federal requirements.
- Reduce vulnerability of the water system to damage from earthquakes.
- Increase system reliability to deliver water by providing the redundancy needed to accommodate outages.
- Provide improvements related to water supply/drought protection.
- Enhance sustainability through improvements that optimize protection of the natural and human environment.

WSIP projects, which align with various UN SDGs, include, but are not limited to, the following:

- ***Bioregional Habitat Reserve Program:*** Coordinate and consolidate approach to preserve, enhance, restore or create about 2,350 acres of various habitats. (UN SDGs 14 and 15)
- ***Calaveras Dam Replacement:*** Replace a seismically vulnerable old dam with a new dam, including a fish ladder that supports and restores native aquatic resources. (UN SDGs 6, 9, 11, 13 and 14)
- ***Harry Tracy Water Treatment Plant Long Term Improvements:*** Improve seismic and delivery reliability for the water treatment plant for San Francisco Peninsula’s sole source of emergency water, impacting 2.7 million customers. (UN SDGs 6, 9 and 11)
- ***New Irvington Tunnel:*** Guarantee water service to 2.7 million customers in four Bay Area counties within 24 hours of a major weather or seismic event. (UN SDGs 9 and 11)
- ***Peninsula Pipeline Seismic Upgrade:*** Ensure seismic and supply reliability of pipelines on the San Francisco Peninsula, including preparedness for pipeline ruptures from landslides. (UN SDGs 9 and 11)
- ***Regional Groundwater Storage and Recovery:*** Store 7.5 years of drinking water supply to use in drought years impacting 2.7 million customers. (UN SDGs 6, 9, 11 and 13)
- ***San Joaquin Pipeline System:*** Improve delivery reliability and provide operational flexibility during maintenance activities or unplanned outages resulting from seismic or extreme weather, impacting 2.7 million customers. (UN SDGs 9 and 11)
- ***Vegetation Restoration of WSIP Sites:*** Restore and re-vegetate habitat areas temporarily impacted by construction at Water System Improvement Program sites to pre-construction condition. (UN SDGs 14 and 15)

For more information about the WSIP, see “CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water System Improvement Program.”

Management of Proceeds

The proceeds of the 2017A Bonds, 2017D Bonds, 2019A Bonds and 2020E Bonds to be refunded with proceeds of the 2025A Bonds have all been expended on projects the SFPUC considers to be “Green Projects.” Such projects are generally described above under “– Process for Project Evaluation and Selection.” The SFPUC records proceeds of its green bonds in separate capital project funds available only to eligible projects. Non-eligible projects cannot access proceeds generated from green bonds.

Green Bond Reporting

The SFPUC will provide post-issuance verification reports by Sustainalytics to the CBI as part of the certification process for the 2025A Bonds. In addition, the SFPUC publishes annually a project spending and management of proceeds report (the “**Green Bond Report**”) for all outstanding green bonds issued by the SFPUC, including those issued to finance and refinance capital projects of the Water Enterprise. The Green Bond Report for Fiscal Year 2024-25 will include projects refinanced by proceeds of the 2025A Green Bonds. The post-issuance verification reports and Green Bond Reports will be made available at <https://sfpuc.gov/about-us/reports/debt-management-and-disclosure-reports>. *The website is provided for convenience only and information available on such website is not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2025A Bonds.*

SECURITY FOR THE BONDS

Pledge of Revenues

General. Under the Indenture, the SFPUC has irrevocably pledged the Revenues of the Water Enterprise and all Refundable Credits (with respect to Bonds issued as Build America Bonds) received by the SFPUC to the punctual payment of principal of, premium, if any, and interest on the Bonds, including the 2025ABC Bonds and the Outstanding Bonds described below (see “OBLIGATIONS PAYABLE FROM REVENUES – Outstanding Parity Revenue Bonds”), and any Additional Series of Bonds. This pledge is subject to the allocation of funds provided in the Indenture, as described below. See “– Flow of Funds.”

Pursuant to Section 5451 of the California Government Code, the pledge of, lien on and security interest in Revenues and certain other funds granted by the Indenture is valid and binding in accordance with the terms thereof from the time of issuance of the 2025ABC Bonds without any further action by the SFPUC; the Revenues and such other funds shall be immediately subject to such pledge; and such pledge shall constitute a lien and security interest which shall immediately attach to such Revenues and other funds and shall be effective, binding and enforceable against the SFPUC, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

Limited Obligation. THE SFPUC IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2025ABC BONDS EXCEPT FROM REVENUES OF THE WATER ENTERPRISE. THE SFPUC HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2025ABC BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2025ABC BONDS. THE 2025ABC BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFPUC OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT REVENUES OF THE WATER ENTERPRISE. THE 2025ABC BONDS ARE NOT SECURED BY THE REVENUES OF THE WASTEWATER ENTERPRISE OR THE POWER ENTERPRISE OR THE REVENUES OF CLEANPOWERSF.

Water Enterprise. The Indenture defines “**Enterprise**” (referred to in this Official Statement as the “**Water Enterprise**”) as the whole and each and every part of the municipal water supply, storage and distribution system of

the SFPUC, located partially within and partially outside of San Francisco, including all of the presently existing municipal water system of the City and all additions, betterments and extensions to that water system. The Water Enterprise is defined to exclude any water supply, storage or distribution facilities under the jurisdiction of the Hetch Hetchy Water and Power Project (“**Hetch Hetchy Water and Power**”), which consists of upcountry water supply and power generating facilities, including the Power Enterprise, all of which are also under the jurisdiction of the SFPUC. See “THE PUBLIC UTILITIES COMMISSION – General” and “– Organization, Purposes and Powers.”

Revenues. The Indenture defines “**Revenues**” as all gross revenues of the Water Enterprise, including all charges received for and all other income and receipts derived by the SFPUC or the City from the operation of the Water Enterprise, or arising from the Water Enterprise, including water connection and installation charges, but excluding:

- (1) any money received by or for the account of the City or the SFPUC from the levy or collection of taxes;
- (2) moneys received from the State of California (the “**State**”) and the United States of America and required to be deposited in restricted funds;
- (3) refundable deposits made to establish credit;
- (4) advances and contributions made to the SFPUC or the City to be applied to construction;
- (5) moneys required to be paid to the State and the United States of America pursuant to agreements with the City or the SFPUC;
- (6) moneys received from insurance proceeds or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Water Enterprise;
- (7) proceeds from Bonds issued by the SFPUC or proceeds from loans obtained by the SFPUC;
- (8) moneys or securities received by the City or the SFPUC as gifts or grants, the use of which is restricted by the donor or grantor;
- (9) sewer service fees or charges; and
- (10) any surcharge imposed by, or upon the direction of any joint powers agency or other governmental entity, other than the SFPUC, the City or any department or agency of the City, whether or not collected by the SFPUC, the City or any department or agency of the City, for the purpose of financing improvements to the facilities comprising the Water Enterprise.

The term “**Revenues**” also includes (i) all interest, profits or other income derived from the deposit or investment of any moneys in any fund or account established under the Indenture (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the Water Enterprise and legally available to pay Debt Service on the Bonds, and (ii) any other moneys, proceeds and other amounts that the SFPUC determines should be “**Revenues**” under the Indenture.

Refundable Credits. The Indenture defines “**Refundable Credits**” as (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the federal government under Section 6431 of the Code, which the SFPUC has elected to receive under Section 54AA(g)(1) of the Code, and (b) with respect to a Series of Bonds issued as Build America Bonds under any other provisions of the Code that creates, in the determination of the SFPUC, a substantially similar direct-pay subsidy program, the amounts which are payable by the federal government under the applicable provisions of the Code, which the SFPUC has elected to receive under the applicable provisions of the Code. As described below under “– Rate Covenants – *Debt Service Coverage*,” the SFPUC is permitted to include within the calculation of Revenues any Refundable Credits which are required or permitted to be made, taking into account federal sequestration legislation.

Flow of Funds

Deposits to Revenue Fund and Interest Fund. In accordance with the Charter, but subject to the budget and fiscal provisions of the Charter, the entire gross revenue of the Water Enterprise will be deposited into the Revenue Fund held by the Treasurer of the City (the “**Treasurer**”). The Treasurer will hold the amounts in the Revenue Fund separate from all other City funds. The SFPUC will transfer to the Trustee for deposit into the Interest Fund all Refundable Credits received by the SFPUC.

Application of Revenue Fund. The Treasurer will pay over to the Trustee all moneys in the Revenue Fund, after paying operation and maintenance expenses and making required deposits into pensions or other funds established with respect to SFPUC employees (as required by the Indenture), to the extent necessary to make the following deposits:

Interest. First, on or before the fifth Business Day preceding each interest payment date, the Treasurer is required to pay to the Trustee for deposit in the Interest Fund an amount equal to the sum of the following:

- (1) The amount of interest becoming due and payable on the Outstanding Bonds of such Series that are Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) on such interest payment date (less any amounts on deposit in such fund, including, but not limited to, Refundable Credits available to pay such interest, but excluding amounts on deposit which are reserved as capitalized interest to pay interest during any subsequent period); and
- (2) 110% of the estimated aggregate amount of interest due on such interest payment date on the Outstanding Bonds of such Series that are Variable Rate Indebtedness. However, the amount required to be deposited to the Interest Fund for any period may be reduced by the amount by which the deposit in the prior period for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that period. Also, the amount required to be deposited into the Interest Fund for any period will be increased by the amount by which the deposit in the prior period for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accruing during that period. Finally, the amount required to be deposited into the Interest Fund for any period will be reduced by any Refundable Credits on deposit in the Interest Fund and available to pay interest for such period.

No deposit needs to be made into the Interest Fund if the amount contained in that fund is at least equal to the interest to become due and payable on the next interest payment date upon all Bonds that are Outstanding (but excluding any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any interest payment dates following said next interest payment date). See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – REVENUES AND FUNDS – Establishment and Maintenance of Funds for Revenues; Use and Withdrawal of Revenues – Interest Fund, Refundable Credits.”

Moneys in the Interest Fund will be used and withdrawn by the Trustee solely to pay the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity under the Indenture).

Principal. Second, on or before the fifth Business Day preceding each principal payment date, the Treasurer is required to pay to the Trustee for deposit in the Principal Fund an amount equal to the sum of the following:

- (1) the aggregate amount of Bond Obligation of such Series (less any amounts on deposit in such fund) becoming due and payable on such principal payment date, plus

- (2) the Minimum Sinking Fund Account Payments required to be made with respect to any Term Bonds of such Series on such principal payment date, plus
- (3) if any Letter of Credit Agreement has been entered into on parity with the Bonds, sufficient amounts to pay the obligations of the SFPUC under the Letter of Credit Agreement due on such principal payment date.

If the amounts on deposit in the Principal Fund are insufficient to make all deposits required to be made with respect to any principal payment date, such amounts will be applied on a Proportionate Basis and in such proportion as the Serial Bonds, the Minimum Sinking Fund Payments for Term Bonds, and the Letter of Credit Agreement obligations shall bear to each other. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – REVENUES AND FUNDS – Establishment and Maintenance of Funds for Revenues; Use and Withdrawal of Revenues – Principal Fund; Sinking Fund Accounts.”

Bond Reserve Fund. Third, in the event of any withdrawal from any Bond Reserve Account, the Treasurer is required to pay to the Trustee for deposit in such Bond Reserve Account, on a *pari passu* basis with transfers to any other Bond Reserve Account, on or before the fifth Business Day preceding each interest payment date following such withdrawal, an amount sufficient to replenish any prior withdrawal from such Bond Reserve Account, either in two semi-annual installments for Bond Reserve Accounts established with respect to fixed rate Bonds only or in equal installments over a 12-month period for Bond Reserve Accounts established with respect to any Variable Rate Bonds, so that the balance in such Bond Reserve Account is equal to the Required Reserve with respect to the applicable Series of Bonds (or such larger balance as may be required by any Supplemental Indenture) at the end of such 12-month period.

If a Bond Reserve Fund Policy satisfies all or a portion of the Required Reserve for any Series of Bonds and a drawing is made on the Bond Reserve Fund Policy, on or before the fifth Business Day prior to each interest payment date following such drawing, the Treasurer must pay, either in two semi-annual installments for Bond Reserve Accounts established with respect to fixed rate Bonds only or in equal installments over a 12-month period for Bond Reserve Accounts established with respect to any Variable Rate Bonds, an amount sufficient to repay the aggregate amount of Policy Costs owing with respect to such drawing by the end of such 12-month period to the Reserve Provider (as defined in the Indenture) or to the Trustee (who will remit the payment to the Reserve Provider). See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Funds or a Bond Reserve Fund Policy on deposit in a Bond Reserve Account will be applied solely to the payment of the Series of Bonds to which such Bond Reserve Account relates and will not be available for payment for any other Series of Bonds. **No Bond Reserve Account has been established with respect to the 2025ABC Bonds.**

Rate Covenants

Sufficiency of Revenues. The SFPUC has covenanted in the Indenture that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the water, services and facilities furnished by the Water Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts:

- (1) the interest on and principal of the Bonds as they become due and payable (but not including any interest moneys for the payment of which have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source);
- (2) all other payments required for compliance with the terms of the Indenture and of any Supplemental Indenture providing for the issuance of Additional Series of Bonds pursuant to the Indenture;
- (3) all other payments to meet any other obligations of the SFPUC which are charges, liens or encumbrances upon, or payable from, the Revenues; and

- (4) all current Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs of the Enterprise as are scheduled to be paid by the SFPUC from moneys other than Revenues, such money to be clearly available for such purpose).

Debt Service Coverage. In addition to the requirements set forth in “– Sufficiency of Revenues” above, the Indenture provides that the SFPUC will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the water, services and facilities furnished by the Water Enterprise so as to yield Net Revenues for the twelve months following the date of calculation, which (together with any fund balances of the SFPUC or the Water Enterprise legally available for payment of Debt Service and not budgeted to be expended during such twelve months but excluding the Bond Reserve Fund and Rebate Fund) are equal to at least 1.25 times Annual Debt Service for such twelve-month period, but from such Annual Debt Service excluding any funded interest.

For the purpose of calculating Maximum Annual Debt Service, Annual Debt Service, Debt Service, and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, such amount will be reduced by an amount equal to the Refundable Credits the SFPUC is scheduled to receive during each such twelve-month period ending June 30, taking into account the federal sequestration legislation described below. To avoid double counting, Refundable Credits used as a credit against Debt Service are not included in the calculation of Revenues for any purpose under the Indenture. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS – Maximum Annual Debt Service, Annual Debt Service, Debt Service, Average Annual Debt Service.”

Pursuant to federal sequestration legislation passed by Congress in 2011 and 2013, federal subsidy payments for direct pay bonds, including Build America Bonds, have been reduced (by formula) from the original funding subsidy level of 35% of interest costs on direct pay bonds, including Build America Bonds. The current sequestration reduction rate of the federal subsidy payment for Build America Bonds is 5.7% (or a net subsidy level of 33.005% of interest costs on Build America Bonds), which rate will remain in effect through September 30, 2031, unless changed by legislation. Refundable credits sought by the SFPUC for its Build America Bonds have been and are expected to be reduced by this percentage. This reduction has and will increase the SFPUC’s net interest cost. In Fiscal Years 2022-23 and 2023-24, the SFPUC received approximately \$21.2 million and \$20.1 million, respectively, in Refundable Credits for the Water Enterprise, approximately 3.0% and 2.9%, respectively, of total revenues in such years. Congress can terminate, extend, or otherwise modify reductions in federal subsidy payments due to sequestration at any time. The SFPUC can give no assurance regarding the level of federal subsidy payments or changes in the sequestration rate, if any, in the future.

All or a portion of the SFPUC’s Build America Bonds may be refunded by the 2025DEF Bonds anticipated to be issued in May 2025*. See “INTRODUCTION – General.”

Proposed Amendments to Indenture. The Forty-Third Supplemental Indenture includes amendments to the Indenture impacting the SFPUC’s rate covenant. See “PROPOSED AMENDMENTS TO THE INDENTURE” and “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE.”

Net Revenues and Operation and Maintenance Costs. “Net Revenues” and “Operation and Maintenance Costs of the Enterprise” are defined as follows:

The term “Net Revenues” is defined in the Indenture as:

- all of the Revenues (but not including interest on investment of funds required to be deposited in said funds or investment earnings required to be deposited in the Improvement Fund) less

* Preliminary, subject to change.

- all Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs of the Enterprise as are scheduled to be paid by the SFPUC from moneys other than Revenues, such moneys to be clearly available for such purpose).

The Indenture defines the term **“Operation and Maintenance Costs of the Enterprise”** as the reasonable and necessary costs of operating and maintaining the Water Enterprise, calculated on sound accounting principles, including (among other things) salaries and wages, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, legal fees, accounting fees, repairs and other expenses necessary to maintain and preserve the Water Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), other similar costs, and the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the SFPUC may establish or the Board of Supervisors may require with respect to employees of the SFPUC.

“Operation and Maintenance Costs of the Enterprise” exclude in all cases the following:

- (1) depreciation and obsolescence charges or reserves therefor,
- (2) amortization of intangibles or other bookkeeping entries of a similar nature,
- (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and
- (4) charges for the payment of principal and interest on any general obligation bonds, revenue bonds or other indebtedness heretofore or hereafter issued for Water Enterprise purposes.

See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS.”

No Bond Reserve Account for the 2025ABC Bonds

The Indenture establishes the Bond Reserve Fund and requires the establishment of a bond reserve account (each, a **“Bond Reserve Account”**) within the Bond Reserve Fund for each Series of Bonds issued under the Indenture, if and to the extent required by a Supplemental Indenture pursuant to which that Series of Bonds is issued, and requires the deposit in each Bond Reserve Account of an amount equal to the Required Reserve for the related Series of Bonds. Each Bond Reserve Account is available only for the payment of debt service on the Series of Bonds for which such Bond Reserve Account was established.

Pursuant to the Forty-Seventh Supplemental Indenture, Forty-Eighth Supplemental Indenture and Forty-Ninth Supplemental Indenture, no Bond Reserve Account has been established for the 2025A Bonds, the 2025B Bonds or the 2025C Bonds, respectively. The Bond Reserve Accounts established with respect to other Series of Bonds do not secure, and will not be available for, the 2025ABC Bonds.

Additional Series of Bonds

Additional Series of Bonds Test in the Indenture. The Indenture provides that Additional Series of Bonds secured by Revenues on parity with the Outstanding Bonds and the 2025ABC Bonds may be issued if certain conditions are met, including the SFPUC’s delivery to the Trustee of the following documents (among others):

- (1) A certificate of the SFPUC setting forth the following:
 - (a) Net Revenues for any period of twelve consecutive calendar months out of the eighteen calendar months next preceding the authentication and delivery of the Additional Series of Bonds, and

- (b) the Debt Service for such 12-month period, and demonstrating that for such 12-month period Net Revenues equaled at least 1.25 times the Debt Service.
- (2) If any portion of the proceeds of such Additional Series of Bonds is to be used to finance construction, a certificate of the Consulting Engineers setting forth:
 - (a) the estimated date of completion for the portion of the Project for which such Additional Series of Bonds is being issued and for any other uncompleted portion of the Project, and
 - (b) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project.
- (3) A written report of a Qualified Independent Consultant setting forth estimates for each of the next three Fiscal Years of:
 - (a) Revenues,
 - (b) Operation and Maintenance Costs of the Enterprise, and
 - (c) Net Revenues,

if any portion of the proceeds of such Additional Series of Bonds is to be used to finance construction, the estimate will be made for the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed.

- (4) A certificate of the SFPUC setting forth the following:
 - (a) the estimates of Net Revenues provided by the Qualified Independent Consultant pursuant to paragraph (3) above for each of such three Fiscal Years, and
 - (b) the Annual Debt Service for such three Fiscal Years (including estimated Annual Debt Service for future Additional Series of Bonds, if any), that will be required to complete payment of any uncompleted portion of the Project (based on the estimate of the Consulting Engineers), which certificate demonstrates that the estimated Net Revenues in each of such three Fiscal Years is at least equal to 1.25 times the Annual Debt Service for the corresponding Fiscal Year.

Such certificate may anticipate projected rates not yet enacted and such certificate and the certificate delivered pursuant to clause (1) may also include as an offset to Operation and Maintenance Costs of the Enterprise any such costs which are scheduled to be paid from moneys other than Revenues which are clearly available for such purpose, and include as Revenues any other moneys, proceeds and other amounts that the SFPUC determines should be "Revenues" under the Indenture.

All certificates and written reports will be based upon the actual interest rate or rates determined at the time the Additional Series of Bonds are sold.

Proposed Amendments to Indenture. The Forty-Third Supplemental Indenture includes amendments to the Indenture impacting the requirements for the issuance of an Additional Series of Bonds to finance projects. See "PROPOSED AMENDMENTS TO THE INDENTURE" and "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE."

Issuance of Additional Series of Bonds with Consent of Bond Owners and Credit Provider. The Indenture also provides that Additional Series of Bonds may be issued without compliance with any of the requirements described above with the written consent of Owners of a majority of the aggregate Bond Obligations of Bonds

Outstanding and any Credit Provider, if applicable. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” Any Additional Series of Bonds issued under this provision would, however, be subject to the requirements for issuing revenue bonds under the Charter. See “OBLIGATIONS PAYABLE FROM REVENUES – Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues.”

Refunding Bonds

Indenture Requirements. The Indenture provides that Additional Series of Bonds may be issued to refund any Bonds, including the 2025ABC Bonds, without meeting the test for the issuance of Additional Series of Bonds described above, if the SFPUC delivers to the Trustee (among other documents) a certificate of an Independent Certified Public Accountant to the effect that the Average Annual Debt Service for the Additional Series of Bonds will be equal to or less than the Average Annual Debt Service on the Bonds to be refunded.

Proposed Amendments to Indenture. The Forty-Third Supplemental Indenture includes amendments to the Indenture impacting the requirements for the issuance of an Additional Series of Bonds for refunding purposes. See “PROPOSED AMENDMENTS TO THE INDENTURE” and “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE.”

Other Parity Obligations; Subordinate Obligations; Obligations Not Payable from Revenues

The Indenture permits the SFPUC to incur obligations payable from Revenues and Refundable Credits on a parity with the payment of principal of and interest on the Bonds upon satisfaction of the requirements set forth in the Indenture. See “OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans” and “SECURITY FOR THE BONDS – Additional Series of Bonds.”

The Indenture permits the SFPUC to authorize and issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, the principal of or interest on which would be payable either (i) from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, or (ii) from moneys which are not Revenues. See “OBLIGATIONS PAYABLE FROM REVENUES – Subordinate Debt and Interim Funding Program” and “– Corps Water Infrastructure Financing Program.”

Investments

The Indenture provides that moneys in all funds and accounts held by the Trustee under the Indenture shall be invested upon receipt in time or demand deposits (including certificates of deposit) in any bank or trust company (including the Trustee) authorized to accept deposits of public funds, and may be invested in Permitted Investments (as defined in Appendix A) as directed by the SFPUC, and all accounts funds and accounts held by the Treasurer shall be invested in Legal Investments. “**Legal Investments**” means any bonds, notes, certificates of indebtedness, bills, acceptances or other securities in which the Treasurer may legally invest the SFPUC’s funds. For information regarding the investment of moneys held in the various funds and accounts of the SFPUC, see “FINANCIAL OPERATIONS – Investment of SFPUC Funds.”

PROPOSED AMENDMENTS TO THE INDENTURE

The Forty-Third Supplemental Indenture amends and supplements certain provisions of the Indenture, effective when the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding and each Credit Provider, if any, have been filed with the Trustee and certain other requirements under the Indenture have been satisfied. Approximately 19.5% of the aggregate amount of the Bond Obligation of the Bonds currently Outstanding have been obtained. **By their purchase of the 2025ABC Bonds, purchasers of the 2025ABC Bonds irrevocably agree to, accept and consent to the provisions of such amendments for all purposes of the Indenture.** Upon the issuance of the 2025ABC Bonds, approximately ___% of the aggregate amount of the Bond Obligation of the Bonds then Outstanding will have been obtained.

The proposed amendments in the Forty-Third Supplemental Indenture include, among others, amendments to the Indenture provisions relating to the calculation of “Maximum Annual Debt Service,” “Annual Debt Service,” “Average Annual Debt Service,” the incurrence of “Parity Loans,” the conditions under which Additional Series of Bonds may be issued, the filing of annual audited financial information with the Trustee and the rate covenants. For a description of the proposed amendments set forth in the Forty-Third Supplemental Indenture, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE.”

OBLIGATIONS PAYABLE FROM REVENUES

Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues

City Charter. The Charter authorizes the SFPUC to issue revenue bonds and commercial paper notes and to incur other obligations payable from or secured by a pledge of Revenues. The Charter requires voter approval of revenue bonds issued by the SFPUC unless a specific exception to the voter approval requirement applies. See “– Reconstruction or Replacement of Existing Facilities” and “– Refunding Bonds.”

Proposition A. On November 5, 2002, voters of the City approved Proposition A, specifically authorizing the issuance of up to \$1.628 billion of revenue bonds for the purpose of funding the SFPUC’s Water Enterprise capital improvement program. The SFPUC has previously issued approximately \$1.499 billion aggregate principal amount of Bonds pursuant to such Proposition A authorization.

Proposition E. Section 8B.124 of the Charter, enacted by voters of the City on November 5, 2002 as part of Proposition E (“**Proposition E**”), authorizes the SFPUC to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by two-thirds vote of the Board of Supervisors, for purposes of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the SFPUC.

Proposition E also authorizes the Board of Supervisors to take any and all actions necessary to authorize, issue and repay such revenue bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such revenue bonds. Issuance of such revenue bonds is subject to the following additional conditions set forth in Proposition E:

- (a) Certification by an independent engineer retained by the SFPUC that:
 - (1) the projects to be financed by the revenue bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and
 - (2) estimated net revenues after payment of operating and maintenance expenses will be sufficient to meet debt service coverage and other indenture or resolution requirements, including debt service on the revenue bonds to be issued, and estimated repair and replacement costs.
- (b) Certification by the San Francisco Planning Department that facilities under the jurisdiction of the SFPUC funded with such bonds will comply with applicable requirements of the California Environmental Quality Act (“CEQA”).

Any ordinance approving bonds adopted pursuant to Proposition E will become effective 30 days after its adoption unless it is opposed through the referendum process. Opposition may be made by filing with the Board of Supervisors a petition protesting the passage of that ordinance. Such petition must be signed by voters in a number equal to at least 10% of the votes cast for all candidates for Mayor in the last preceding general municipal election for Mayor. If a referendum passes, the ordinance is suspended from becoming effective. The Board of Supervisors may reconsider the ordinance. If it is not entirely repealed, the Board of Supervisors is required to submit the ordinance to voters at the next general municipal or statewide election or at a special municipal election and it will not become effective until approved by voters at such an election.

Reconstruction or Replacement of Existing Facilities. Section 9.107(6) of the Charter provides that no voter approval is required for bonds issued for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the SFPUC when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors.

Refunding Bonds. Section 9.109 of the Charter authorizes the Board of Supervisors to provide for the issuance of bonds for the purpose of refunding revenue bonds without voter approval if the issuance and sale of such refunding bonds are expected to result in net debt service savings on a present value basis, calculated as provided by ordinance.

The 2025ABC Bonds will be issued by the SFPUC pursuant to authority granted by Section 9.109 of the Charter and the Refunding Ordinance. The Refunding Ordinance authorizes and approves the issuance by the SFPUC of refunding bonds and other forms of indebtedness, without limitation as to principal amount, provided that each such refunding bond issue is permitted under the applicable policies and procedures of the City and authorized by Section 9.109 of the Charter. Such refunding bonds are also subject to the following conditions: (i) three percent (3%) net present value debt service savings or greater is achieved to ensure ratepayer savings; (ii) the maturity of the refunded bonds is not extended, provided that principal payments and term may be adjusted, where permitted under federal and state tax law, only if and when the underlying capital asset funded through said refunded bonds has a useful life not in excess of any limit permitted under federal and state tax law than the refunded term; (iii) the authorization is subject to a five-year term through June 30, 2029, at which time the Board of Supervisors may consider an extension; (iv) principal payments and term may be adjusted, where permitted under federal and state tax law, only if and when the underlying capital asset funded through said refunded bonds has a useful life not in excess of any limit permitted under federal and state tax law than the refunded term; and (v) the SFPUC will within 30 days of any executed refunding transaction provide a savings report prepared by its municipal advisors to the Board of Supervisors, together with a copy of the final official statement with respect to such series of refunding bonds.

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Outstanding Parity Revenue Bonds

All Bonds in the table below (the “**Outstanding Bonds**”) have been issued pursuant to the Indenture and secured by a pledge of Revenues on parity with the 2025ABC Bonds.

Series of Bonds	Purpose	Principal Amount Outstanding as of March 1, 2025
Water Revenue Bonds, 2010 Series ABC ⁽¹⁾⁽²⁾	Water system improvements under Proposition E	\$ 309,420,000
Water Revenue Bonds, 2010 Series DE ⁽²⁾⁽³⁾	Water system improvements under Proposition E	304,680,000
Water Revenue Bonds, 2010 Series FG ⁽²⁾⁽⁴⁾	Water system improvements under Proposition E	351,470,000
Water Revenue Bonds, 2015 Series A (Refunding) ⁽⁵⁾	Refund previously outstanding Bonds of the SFPUC	244,650,000
Water Revenue Bonds, 2016 Series AB (Refunding) ⁽⁵⁾	Refund previously outstanding Bonds of the SFPUC	580,785,000
Water Revenue Bonds, 2016 Series C	Water system improvements under Proposition E	212,895,000
Water Revenue Bonds, 2017 Series ABC ⁽⁵⁾	Water system improvements under Proposition E	55,105,000
Water Revenue Bonds, 2017 Series DEFG (Refunding) ⁽⁵⁾	Refund previously outstanding Bonds of the SFPUC	300,060,000
Water Revenue Bonds, 2019 Series ABC (Refunding) ⁽⁵⁾	Refund previously outstanding Bonds of the SFPUC	424,165,000
Water Revenue Bonds, 2020 Series ABCD	Water system improvements under Proposition A and Proposition E	346,760,000
Water Revenue Bonds, 2020 Series EFGH (Refunding) ⁽⁵⁾	Refund previously outstanding Bonds of the SFPUC	437,045,000
Water Revenue Bonds, 2023 Series AB	Water system improvements under Proposition A and Proposition E	414,035,000
Water Revenue Bonds, 2023 Series CD (Refunding)	Refund previously outstanding Bonds of the SFPUC	514,855,000
Total		\$4,495,925,000

⁽¹⁾ The San Francisco Water Revenue Bonds, 2010 Sub-Series A and 2010 Sub-Series C are no longer outstanding.

⁽²⁾ The San Francisco Water Revenue Bonds, 2010 Sub-Series B (the “**2010B Bonds**”), 2010 Sub-Series E (the “**2010E Bonds**”) and 2010 Sub-Series G (the “**2010G Bonds**”) were issued as Build America Bonds. All or a portion of the Build America Bonds may be refunded by the 2025DEF Bonds anticipated to be issued in May 2025*. See “INTRODUCTION – General.”

⁽³⁾ The San Francisco Water Revenue Bonds, 2010 Sub-Series D are no longer outstanding.

⁽⁴⁾ The San Francisco Water Revenue Bonds, 2010 Sub-Series F are no longer outstanding.

⁽⁵⁾ All or a portion of the outstanding 2015A Bonds, 2016A Bonds, 2017A Bonds, 2017B Bonds, 2017C Bonds, 2017D Bonds, 2019A Bonds, 2019B Bonds, 2019C Bonds, 2020E Bonds, 2020F Bonds, 2020G Bonds, and 2020H Bonds may be refunded by the 2025ABC Bonds. This list of potential refunding candidates is preliminary and subject to change. See “PLAN OF REFUNDING.”

* Preliminary, subject to change.

Parity State Loans

The SFPUC has entered into an Installment Sale Agreement and Grant (the “**CWSRF Agreement**”) with the State Water Resources Control Board (“**SWRCB**”) to finance a portion of the cost of the SFPUC’s San Francisco Westside Recycled Water Project (the “**Westside Recycled Water Project**”), a Water Enterprise recycled water project expected to satisfy the drought mitigation financing criteria and Proposition 1 grant guidelines of the SWRCB’s Water Recycling Funding Program. The CWSRF Agreement was entered into pursuant to the SWRCB’s Clean Water State Revolving Fund Loan Program.

The CWSRF Agreement, most recently amended in April 2023, provides for a \$15,000,000 grant and a \$176,094,031 loan (the “**CWSRF Loan**”). The CWSRF Loan has a 30-year, level amortizing fixed interest rate loan bearing interest at a rate of 1% per annum. Repayment of the CWSRF Loan will begin in October 2025, one year after the estimated construction completion date of the Westside Recycled Water Project set forth in the loan agreement. The SFPUC’s obligation to repay the CWSRF Loan will be payable from and secured by a pledge of the Revenues of the Water Enterprise on a parity with the pledge and lien of the Indenture securing payment of principal of and interest on the Bonds. As of January 9, 2025, the SFPUC had submitted requests for reimbursement for approximately \$174.3 million. In connection with the execution and delivery of the CWSRF Agreement, the SFPUC adopted the Twenty-Fourth Supplemental Indenture which amended the Indenture to clarify the status of “Parity State Loans”, defined as “loan agreements or installment sale agreements entered into between the SFPUC and the State of California (or any board, department or agency thereof) to finance additions, betterments, extensions, repairs, renewals or replacements to the Water Enterprise which, by their terms, are payable from Revenues on a parity basis with debt service on the Bonds”, as “evidences of indebtedness” within the meaning of the term “Bond” for certain purposes of the Indenture, and to make other technical amendments to facilitate the repayment of the CWSRF Loan on a parity with the payment of debt service on the Bonds.

The SFPUC has entered into a loan agreement (the “**DWSRF Loan**”) with the SWRCB to finance the cost of the SFPUC’s Mountain Tunnel Project pursuant to the SWRCB’s Drinking Water State Revolving Fund Program. The DWSRF Loan provides for up to \$238.219 million in borrowing and has a 30-year, level amortizing fixed interest rate at a rate of 1.10% per annum. Repayment of the DWSRF Loan will begin one year after the estimated construction completion date of the Mountain Tunnel Project, which is expected to occur in 2026. The SFPUC’s obligation to repay the DWSRF Loan will be payable from and secured by a pledge of Revenues of the Water Enterprise on a parity with the pledge and lien of the Indenture securing payment of principal of and interest on the Bonds and the SFPUC’s obligation to repay the CWSRF Loan. As of January 9, 2025, the SFPUC had submitted requests for reimbursements for approximately \$117.2 million. See “CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Hetch Hetchy Water.”

In September 2023, the SFPUC completed submission of an application for an additional State Revolving Fund loan to finance the Sunol Valley Water Treatment Plant Ozone Project, estimated to cost \$214 million. This project includes the construction of new ozone facilities (liquid oxygen and nitrogen facility, ozone generation building, ozone contactor structure, open loop cooling water pump station and calcium thiosulfate facility) and other supportive improvements such as yard piping, a new access road, and electrical work. This project is currently in the pre-construction phase. The SWRCB approved the list of new projects selected for State Fiscal Year 2024-25 in August 2024, which included \$50 million in SRF loan financing for the Sunol Valley Water Treatment Plant Ozone Project. Inclusion on such list does not, however, constitute a financing commitment, a guarantee that sufficient funds from the anticipated sources of funds will be available, or a determination of eligibility. Any such funding would take the form of a loan from the SWRCB to the SFPUC, constituting a Parity State Loan.

In September 2024, the SFPUC completed submission of an application for an additional State Revolving Fund loan to finance the As-Needed Water Service Line Replacement Project (also known as the Lead Component Services Program), estimated to cost \$38.5 million. This project includes the replacement of approximately 1,400 existing 2-inch and smaller galvanized water service lines and lead whips with new copper pipes. This project is currently in the construction phase. The SWRCB included this project in their list of priority projects for State Fiscal Year 2022-23 and for State fiscal year 2023-24. The SFPUC is seeking approval to complete and submit the remaining portions of the application. Inclusion on such lists does not, however, constitute a financing commitment, a guarantee that sufficient funds from the anticipated sources of funds will be available, or a determination of eligibility. Any such funding would take the form of a loan from the SWRCB to the SFPUC, constituting a Parity State Loan.

Proposed Amendments to Indenture. The Forty-Third Supplemental Indenture includes amendments to the Indenture impacting the requirements for additional Parity State Loans and includes amendments to the Indenture allowing loans from the federal government (or any board, department or agency thereof), upon satisfaction of certain conditions, to be payable from Revenues on a parity with the Bonds. See “PROPOSED AMENDMENTS TO THE INDENTURE” and “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE.”

Corps Water Infrastructure Financing Program

In December 2023, the SFPUC submitted a pre-application to the U.S. Army Corps of Engineers for a Corps Water Infrastructure Financing Program (“**CWIFP**”) loan to finance a collection of eight Water Enterprise projects supporting dam safety and resilience. These projects are designed to assess the condition of critical dams in the SFPUC’s Regional Water System and to repair, rehabilitate, or replace related facilities if needed. Project objectives include upgrading dams to ensure structural safety, allowing for safe passage of flood events, providing water and hydropower reliability, and safeguarding the environment and economic opportunity. All projects are currently in varying stages of planning and design.

In September 2024, the U.S. Army Corps of Engineers notified the SFPUC that its pre-application was selected to submit a full application for CWIFP financing consideration for a loan up to \$614,811,376. Invitation to submit a full application for CWIFP financing assistance does not guarantee the program will proceed to financial close. The SFPUC plans to submit the full application prior to the deadline of September 9, 2025.

The SFPUC anticipates that any CWIFP loan would be payable from Revenues on a basis subordinate to the payment of debt service on the Bonds.

The SFPUC has no current loan obligations with respect to the Water Enterprise payable to the federal government from Revenues.

Contingent Payment Obligations

The Water Enterprise has no interest rate swaps, caps or hedges or other contingent payment obligations payable from Revenues. The Water Enterprise may in the future, however, incur contingent payment obligations payable from Revenues. Such contingent payment obligations may be payable on parity with the 2025ABC Bonds if the conditions for the issuance of parity debt under the Indenture are met. See “SECURITY FOR THE BONDS – Additional Series of Bonds.”

Subordinate Debt and Interim Funding Program

Interim Funding Program. The SFPUC has established an Interim Funding Program (the “**Interim Funding Program**”) (formerly known as the “Commercial Paper Program”) to fund construction costs relating to capital projects. See “FINANCING OF CAPITAL IMPROVEMENTS.”

The Interim Funding Program is authorized for the Water Enterprise in the aggregate principal amount of \$750 million. Of this amount, \$550 million is authorized for the SFPUC to issue tax-exempt and taxable commercial paper notes (“**Commercial Paper Notes**”) secured by separate bank credit facilities, as set forth below. The remaining \$200 million of the Interim Funding Program is in the form of separate bank revolving credit agreements, as set forth below. Each revolving credit agreement permits the SFPUC to make draws directly from the respective bank, with the SFPUC’s payment obligation evidenced by a tax-exempt revolving note and a taxable revolving note (the “**Revolving Notes**”).

The Commercial Paper Notes and the Revolving Notes are payable from Revenues, and are secured on a parity lien basis with each other. The Commercial Paper Notes and the Revolving Notes, collectively, are secured on a basis subordinate to the payment of debt service on the Bonds.

The Commercial Paper Notes are secured by (i) a \$200 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on June 14, 2027, (ii) a \$100 million letter of credit from Barclays Bank PLC which expires on July 15, 2027, (iii) a \$150 million letter of credit from PNC Bank National Association which expires on February 17, 2028, and (iv) a \$100 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on February 15, 2030. BofA Securities, Inc., J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, serve as dealers for the Commercial Paper Notes.

The Revolving Notes were issued pursuant to (i) a \$100 million revolving credit agreement with U.S. Bank National Association which expires on July 16, 2027, and (ii) a combined revolving credit agreement with Wells Fargo Bank, National Association, \$100 million of which is allocated to the Water Enterprise's Revolving Notes, which expires on March 3, 2028.

As of March 17, 2025, the SFPUC had Commercial Paper Notes outstanding in the aggregate principal amount of \$310.9 million and no amount outstanding under the Revolving Notes. The SFPUC anticipates refunding all outstanding Commercial Paper Notes with proceeds of the 2025DEF Bonds anticipated to be issued in May 2025*. See "INTRODUCTION – General."

Other Subordinate Obligations Payable from Revenues

The SFPUC completed the construction of a 13-story office building at 525 Golden Gate Avenue in San Francisco to house the administrative offices of the SFPUC's three utility enterprises and moved into the building in July 2012. Total project costs were approximately \$202 million and were financed with land and property sale proceeds, fund balances, grants and the proceeds of certificates of participation (the "**2009 Golden Gate COPs**"), representing interests in a City General Fund lease, executed and delivered in two series (one of which constitutes Build America Bonds) on October 7, 2009, in the aggregate principal amount of \$167,670,000. The final maturity date of the 2009 Golden Gate COPs is November 1, 2041. As of March 1, 2025, the principal amount outstanding of the 2009 Golden Gate COPs was \$120.2 million. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC will reimburse the City General Fund for all debt service in connection with this City financing (net of Refundable Credits received). The SFPUC allocates such payment obligations internally among its three utility enterprises based on percentage facility usage. The Water Enterprise has been allocated 71.4% of such obligations, payable from Revenues on a basis subordinate to the payment of principal of and interest on the Bonds and any parity State or federal loans.

Revenue Bond Oversight Committee; Audit of Bond Expenditures

In November 2002, San Francisco voters adopted Proposition P, an ordinance that established the Public Utilities Revenue Bond Oversight Committee ("**RBOC**") to report to the Mayor, the SFPUC and the Board of Supervisors regarding the expenditure of revenue bond proceeds issued by the SFPUC's Water Enterprise, Wastewater Enterprise and Power Enterprise (each as defined herein). Together with the City Services Auditor and outside auditors, RBOC initiated a three-phase performance audit of select revenue bonds issued by the SFPUC. The audit report for the first phase, completed in February 2022, found that revenue bond expenditures were spent appropriately and made recommendations that the SFPUC subsequently implemented. The audit report for the second phase, completed in August 2023, also found that revenue bond expenditures were spent appropriately, with minor exceptions totaling less than 1.5% of audited expenditures, and made several recommendations regarding procurement practices and oversight. The third phase is currently ongoing. The provisions of the ordinance establishing RBOC expired on January 1, 2025, and RBOC no longer exists. The SFPUC anticipates that the audit report for the third phase will be completed by the City Services Auditor later in 2025. The SFPUC is evaluating options for conducting annual audits of the SFPUC's revenue bond proceeds moving forward.

* Preliminary, subject to change.

Debt Service Requirements

Set forth in the following table are debt service requirements on the Outstanding Bonds, the 2025ABC Bonds and Parity Obligations.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS, 2025ABC BONDS AND PARITY OBLIGATIONS

Fiscal Year (ending June 30)	Outstanding Bonds ⁽¹⁾⁽²⁾⁽³⁾	2025A Bonds Principal	2025A Bonds Interest	2025B Bonds Principal	2025B Bonds Interest	2025C Bonds Principal	2025C Bonds Interest	Other Parity Obligations ⁽⁴⁾	Total Debt Service ⁽⁵⁾
2025	\$ 331,288,814	\$	\$	\$	\$	\$	\$	\$ 0	\$
2026	357,486,999							6,832,376	
2027	355,570,493							6,832,376	
2028	352,521,095							6,832,376	
2029	359,503,297							13,629,905	
2030	361,314,418							13,629,905	
2031	358,455,845							13,629,905	
2032	359,334,167							13,629,905	
2033	350,375,077							13,629,905	
2034	350,528,400							13,629,905	
2035	349,648,814							13,629,905	
2036	350,870,100							13,629,905	
2037	354,633,865							13,629,905	
2038	325,445,576							13,629,905	
2039	320,002,788							13,629,905	
2040	318,457,826							13,629,905	
2041	266,872,742							13,629,905	
2042	214,290,493							13,629,905	
2043	172,834,735							13,629,905	
2044	172,397,770							13,629,905	
2045	134,995,768							13,629,905	
2046	134,995,737							13,629,905	
2047	134,994,785							13,629,905	
2048	134,991,686							13,629,905	
2049	136,844,441							13,629,905	
2050	136,843,445							13,629,905	
2051	136,848,513							13,629,905	
2052	29,489,294							13,629,905	
2053	29,489,294							13,629,905	
2054	0							13,629,905	
2055	0							13,629,905	
2056	0							6,797,529	
2057	0							6,797,529	
2058	0							6,797,529	
Total ⁽⁵⁾	<u>\$7,391,326,275</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$408,897,161</u>	<u>\$</u>

(1) Comprised of debt service relating to the Outstanding Bonds. See “– Outstanding Parity Revenue Bonds” and “PLAN OF REFUNDING.”

(2) Net of capitalized interest payments.

(3) Calculation of interest due on Outstanding Bonds shown without an offset for Refundable Credits. See “SECURITY FOR THE BONDS – Pledge of Revenues – *Refundable Credits*” and “– Rate Covenants.”

(4) Consists of debt service on the full principal amount of the CWSRF Loan and DWSRF Loan. See “OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans.”

(5) Totals may not add due to rounding.

THE CITY AND COUNTY OF SAN FRANCISCO

THE FOLLOWING INFORMATION IS PROVIDED FOR CONVENIENCE ONLY. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2025ABC BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2025ABC BONDS. THE 2025ABC BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY.

General. San Francisco is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of San Francisco encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay. San Francisco is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the San Francisco Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the San Francisco Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about an hour's drive to the south, and the Napa-Sonoma wine country is about an hour's drive to the north. The California Department of Finance estimates San Francisco's population as of January 1, 2024 was 843,071 (a decrease of 3.5% from 873,965 as of April 1, 2020).

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "**Bay Area**"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include technology, retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, healthcare, higher education and agriculture. The California State Supreme Court is also based in San Francisco.

San Francisco benefits from a highly skilled, educated and professional labor force. The City estimates the per-capita personal income of San Francisco for fiscal year 2023-24 was \$167,542. The San Francisco Unified School District ("**SFUSD**"), which is a separate legal entity from the City, operates approximately 64 elementary schools, 13 middle schools, 14 high schools, 11 early education schools, six County and Court schools, three continuation schools, and 11 charter schools as of the 2024-25 academic year. Higher education institutions located in San Francisco include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the UC College of the Law, San Francisco (formerly University of California Hastings College of the Law), the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the California College of the Arts, the San Francisco Conservatory of Music, and the Academy of Art University.

San Francisco International Airport ("**SFO**"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County, is owned by the City and is operated by the San Francisco Airport Commission (the "**Airport Commission**"), and is a principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific Rim traffic. San Francisco is also served by the Bay Area Rapid Transit District ("**BART**") (an electric rail commuter service linking San Francisco with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking San Francisco with the San Francisco Peninsula), and bus and ferry services between San Francisco and residential areas to the north, east and south of San Francisco. San Francisco Municipal Railway ("**Muni**"), operated by the San Francisco Municipal Transportation Agency ("**SFMTA**"), provides bus and streetcar service within San Francisco. The Port of San Francisco (the "**Port**"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of California, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, and natural resource protection.

Government. San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California and is the only consolidated city and county in California. Voters approved the City's current Charter at the November 1995 election. The City is governed by a Board of Supervisors elected from 11 districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. At the November 5, 2024 election, San Francisco voters elected Daniel Lurie as Mayor of the City. The City's original budget for fiscal years 2024-25 and 2025-26 totals approximately \$15.9 billion and \$15.6 billion,

respectively. The General Fund portion of each year's budget is \$6.9 billion in fiscal year 2024-25 and \$7.1 billion in fiscal year 2025-26, with the balance allocated to all other funds, including enterprise fund departments, such as the Airport Commission, SFMTA, the Port Commission and the SFPUC. According to the Controller of the City (the "**Controller**"), at the start of fiscal year 2024-25, total net assessed valuation of taxable property in San Francisco was approximately \$351.3 billion.

City Financial Challenges. The City continues to face financial challenges resulting from a variety of factors, including continuing remote work by a significant portion of the regional workforce (which has led to declining property taxes for certain office buildings, lower real estate property transfer taxes, and reductions in taxes based on employees physically located in San Francisco), continuing weakness in the local hospitality and convention industries (resulting in declines in hotel and sales taxes), and general economic conditions. These conditions have resulted in projected budget deficits (absent corrective actions) in the hundreds of millions of dollars in future fiscal years, rising to approximately \$1.47 billion in fiscal year 2029-30. In December 2024, the Mayor's Office issued budget instructions which, among other things, directs certain ongoing, permanent spending reductions to the General Fund, a re-examination of all contractual services and non-personnel expenditures, the elimination of vacant positions and the consideration of future hiring freezes. On January 9, 2025, Mayor Lurie announced a Citywide hiring freeze through the end of the fiscal year. Certain exemptions are permitted including new hires to support public health, public safety, and other core City priorities.

On February 13, 2025, the Controller's Office issued its most recent report on the status of the San Francisco economy through January 2025. The Controller's Office report noted that San Francisco's job market continued its slow recovery, with jobs growing at a rate of 1.4% from October to December 2024. San Francisco's unemployment rate increased to 3.9% in January 2025 after dipping to 3.7% in September and October 2024. San Francisco continues to have one of the lowest unemployment rates among California counties. San Francisco's slow pace of returning to office showed some positive signs as Muni's downtown ridership continued to recover and new data from Placer.ai (an analytics source used by the City that provides data about foot traffic and consumer behavior) shows employee visits increased throughout 2024. Hotel revenue recovery remains flat. The office vacancy rate dropped slightly to 34.3% in the 4th quarter, for its first quarterly decline since 2020. However, Placer.ai data also showed that downtown visitation – mainly by shoppers – has been dropping, and the formation of new restaurants and retail establishments are also trending down. Apartment rents within San Francisco are rising, despite a broader softening trend. Housing prices remain stagnant, and new housing permits remain well below pre-pandemic levels.

The City's financial challenges described above have not significantly impacted the Water Enterprise's operations or financial condition, although reduced demand for service resulting from some of the factors has required increased rate increases by the Water Enterprise. See "THE WATER ENTERPRISE – Recent Factors Impacting Retail Water Sales."

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THE PUBLIC UTILITIES COMMISSION

General

The SFPUC is a department of the City responsible for the maintenance, operation and development of three utility enterprises: the Water Enterprise, the Wastewater Enterprise and the Power Enterprise (which is a component of Hetch Hetchy Water and Power). The SFPUC's enterprises are operated and managed as separate financial entities with separate enterprise funds.

- The Water Enterprise provides drinking water to Retail Customers in San Francisco, to certain Retail Customers outside San Francisco and to wholesale customers in three other Bay Area counties.
- The Wastewater Enterprise provides wastewater and stormwater collection, treatment and disposal services for San Francisco (the **"Wastewater Enterprise"**).
- Hetch Hetchy Water and Power operates dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir), hydroelectric generation and transmission facilities and water transmission facilities from Hetch Hetchy Valley to the connection with the Water Enterprise (collectively, the **"Hetch Hetchy Project"**). In addition, Hetch Hetchy Water and Power provides hydroelectric, solar and other power for municipal and public infrastructure, services and facilities (the **"Power Enterprise"**). CleanPowerSF, managed by the Power Enterprise, is a Community Choice Aggregation program (**"CleanPowerSF"**).

The revenues of the Wastewater Enterprise, the Power Enterprise and CleanPowerSF are not available for payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS – Pledge of Revenues."

Organization, Purposes and Powers

Water Enterprise. The SFPUC serves as the retail water supplier for San Francisco and is responsible for water deliveries to residents and institutions within San Francisco city limits, as well as to a number of retail accounts outside of San Francisco city limits. In addition, the SFPUC sells water to 27 wholesale customer entities in San Mateo, Alameda and Santa Clara counties under the WSA and/or related individual contractual agreements, as applicable. On average, approximately 70% of the SFPUC's water supply is delivered to the wholesale customers and approximately 30% of the SFPUC's water supply is delivered to Retail Customers. See "THE WATER ENTERPRISE."

Wastewater Enterprise. The Wastewater Enterprise's collection and treatment system consists of a combined sewer collection system conveying sewage and stormwater flows within San Francisco to two water pollution control plants and one wet weather treatment facility located within San Francisco. Treated effluent flows are then discharged through mostly deep-water outfalls into the San Francisco Bay and the Pacific Ocean. The Wastewater Enterprise also currently provides sewage treatment service on Treasure Island pursuant to contract, and operates an onsite sewage and stormwater reclamation and treatment facility at the SFPUC headquarters at 525 Golden Gate Avenue, San Francisco, California.

The revenues of the Wastewater Enterprise are not "Revenues" under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See "SECURITY FOR THE BONDS – Pledge of Revenues."

Hetch Hetchy – Water and Power Operations. Hetch Hetchy Water and Power operates the dams (among them O'Shaughnessy Dam being the largest), reservoirs (among them Hetch Hetchy Reservoir being the largest), hydroelectric generation and transmission facilities and water transmission facilities from Hetch Hetchy Valley to the connection with the Water Enterprise, which provides water for distribution through the Water Enterprise and hydroelectric, solar and other power for municipal and public infrastructure, services and facilities of San Francisco. The Power Enterprise was created in 2005 as a separate system within Hetch Hetchy Water and Power. The Power

Enterprise provides electric power to meet the municipal requirements of the City, including power to operate municipal streetcars and electric buses, street and traffic lights, municipal buildings and other City facilities, including SFO. Additionally, the Power Enterprise may provide power to the Modesto Irrigation District and Turlock Irrigation District (collectively, the “**Irrigation Districts**”), located in the central valley of California, to certain commercial customers consistent with prescribed contractual obligations and federal law and to certain retail customers in San Francisco. CleanPowerSF, managed by the Power Enterprise, is a Community Choice Aggregation program, pursuant to which the SFPUC pools the electricity demands of CleanPowerSF customers, including certain of San Francisco’s residents and businesses, for the purpose of buying electricity on behalf of such customers. CleanPowerSF provides San Francisco with clean energy alternatives at competitive rates.

In September 2019, in connection with the bankruptcy of Pacific Gas & Electric Company (“**PG&E**”) and PG&E Corporation, the City submitted a non-binding indication of interest to purchase substantially all of PG&E’s electric distribution and transmission assets needed to provide retail electric service to all electricity customers within the geographic boundaries of San Francisco. The City subsequently submitted an additional non-binding indication of interest to PG&E in September 2020. PG&E has not indicated a willingness to sell any such assets. In July 2021, the City submitted a petition to the California Public Utilities Commission (“**CPUC**”) for a formal determination of the fair market value of PG&E’s assets the City is interested in acquiring. In April 2023, the City filed direct testimony of four expert witnesses with the CPUC regarding the specific assets under consideration for acquisition and the value of such assets. The City remains interested in acquiring these assets from PG&E; however, a transaction has not been consummated, and neither the SFPUC nor the City are able to predict whether a transaction will be consummated or what the terms of any such transaction would be, if consummated.

The revenues of the Power Enterprise and the revenues of CleanPowerSF are not “Revenues” under the Indenture and do not secure the payment of the principal of, premium, if any, or interest on the Bonds. See “SECURITY FOR THE BONDS – Pledge of Revenues.”

Commission Members

Under the Charter, the SFPUC is given exclusive charge of the operation and management of all water, wastewater and energy supplies and utilities owned or maintained by the City, as well as the real, personal and financial assets under the SFPUC’s jurisdiction. The SFPUC is governed by the Commission.

The Commission consists of five members appointed by the Mayor, subject to confirmation by a majority of the Board of Supervisors. Seat 1 is designated for a member with experience in environmental policy and an understanding of environmental justice issues. Seat 2 is designated for a member with experience in ratepayer or consumer advocacy. Seat 3 is designated for a member with experience in project finance. Seat 4 is designated for a member with expertise in water systems, power systems, or public utility management. Seat 5 is designated for an at-large member. Members are appointed for four-year terms and are eligible for reappointment. Members may be suspended by the Mayor and may be removed by a three-fourths vote of the Board of Supervisors for official misconduct.

The current members of the Commission and their appointment dates and expiration dates of their current terms are set forth below:

<u>Name and Title</u>	<u>Seat</u>	<u>Appointment Date</u>	<u>Term Expires</u>
Kate H. Stacy, President	4	October 18, 2022	August 1, 2026
Joshua Arce, Vice President	2	October 16, 2024	August 1, 2026
Avni Jamdar	1	October 22, 2024	August 1, 2028
Stephen E. Leveroni	3	October 20, 2024	August 1, 2028

Seat 5 is currently vacant.

Management

Management of the SFPUC is led by the General Manager. The General Manager is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the General Manager serves at the pleasure of the Commission; however, the Commission also has Charter authority to employ and does employ the General Manager under an individual contract.

Brief biographies of the General Manager and principal members of the senior management of the SFPUC are set forth below.

Dennis J. Herrera. Dennis J. Herrera commenced serving as the General Manager of the SFPUC on November 1, 2021. Prior to his appointment, Mr. Herrera had been re-elected in November 2019 to a four-year term as City Attorney for the City and County of San Francisco. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the United States Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission. Mr. Herrera earned a B.A. from Villanova University and a J.D. from George Washington School of Law.

Ronald P. Flynn. Ronald P. Flynn is the Deputy General Manager and Chief Operating Officer of the SFPUC. Appointed to this role in 2022, Mr. Flynn works with the General Manager on all policy and strategic initiatives, oversees the SFPUC's daily operations, including business services (finance, accounting, audits, customer services, information technology), external affairs (communications, legislative, community benefits, equity), and human resources. Prior to this position, Mr. Flynn served for almost 16 years in the San Francisco City Attorney's Office under Dennis Herrera. For the last seven years he was the Chief Deputy City Attorney, where he oversaw the City's litigation teams, as well as worked closely with departments and agencies, including the SFPUC, on procurement, financial, and litigation matters. He worked on Hetch Hetchy litigation, PG&E's bankruptcy, and other SFPUC-related issues. Mr. Flynn previously served as Team Leader of the Construction and Public Contracting Team in the City Attorney's Office, working on many SFPUC projects, including the Water System Improvement Program. Mr. Flynn earned a B.Sc. from California Polytechnic State University, San Luis Obispo, an Ed.M. from Harvard University, and a J.D. from University of California, Berkeley School of Law.

Nancy L. Hom. Nancy L. Hom is the Chief Financial Officer and Assistant General Manager for Business Services, providing direction and oversight for the Financial Services, Audit, Loans and Grants, Information Technology Services, Customer Services, and Strategy Innovation and Change bureaus. She has led several important bureaus of Business Services, including serving as the Assurance and Internal Control Director for 10 years; and more recently as the SFPUC's Co-Deputy Chief Financial Officer. Ms. Hom has nearly 20 years of experience leading financial and governance teams in public agencies and has extensive knowledge of the City's financial and accounting guidelines and systems, capital improvement projects and regulatory affairs. Prior to joining the SFPUC, she served as the Chief Financial Officer for the Department of Child Support Services and as a leader in the Office of the Controller's Budget and Analysis division. Ms. Hom earned a B.S. in Business Administration from San Francisco State University, concentrating in Finance, Internal Audit, and Project Management. She also maintains two professional certifications from the Institute of Internal Auditors as a Certified Internal Auditor and Certified Risk Management Assurance professional.

Steven R. Ritchie. Steven Ritchie is the Assistant General Manager of the Water Enterprise, responsible for overseeing water system operations and planning from the Hetch Hetchy Project through the Regional Water System to the City Distribution Division. He is also responsible for the management of the SFPUC's lands and natural resources. Mr. Ritchie was the Manager of Planning at the SFPUC from 1995 to 1998. Prior to his current assignment, he managed the South Bay Salt Pond Restoration Project, a multi-agency effort to restore 15,100 acres of valuable habitat in South San Francisco Bay, while providing for flood risk management and public access. In addition, Mr. Ritchie has worked at management positions at the San Francisco Bay Regional Water Quality Control Board (1987-1995), the CalFed Bay Delta Program (1998-2000), and URS consultants (2000-2004). He has a B.S. and M.S. in Civil Engineering from Stanford University.

Masood Ordikhani. Masood Ordikhani serves as the Assistant General Manager, External Affairs for the SFPUC. Previously, he served as the SFPUC's first Chief Equity and Innovation Officer, leading the agency's racial equity work. Prior to that role, he was the Director of Workforce and Economic Program Services within the SFPUC's Infrastructure Division. During his tenure in that role, Mr. Ordikhani and his team have developed and delivered several nationally recognized programs. Prior to joining the SFPUC, Mr. Ordikhani was the Deputy Director of the City's Human Rights Commission. In addition, prior to his more than 14 years of public service, he was an attorney in private practice. He is a graduate of the University of California, Berkeley and UC College of the Law, San Francisco (formerly University of California Hastings College of the Law).

Barbara Hale. Barbara Hale is Assistant General Manager of the Power Enterprise. Ms. Hale oversees the Power Enterprise, where she is responsible for all commercial arrangements associated with the purchase and sale of power, whether wholesale or retail, and operations of retail electric service programs. Prior to this role, Ms. Hale served as Analyst, Advisor to the President, Administrative Law Judge, and Division Director at the California Public Utilities Commission. Ms. Hale graduated cum laude from San Francisco State University with a B.A. in Economics, receiving special recognition for high achievement with the Department Honors Award, and pursued extensive graduate coursework in Applied Economics.

Stephen Robinson. Stephen Robinson is the Assistant General Manager for Infrastructure, where he is responsible for capital programs and project implementation for SFPUC facilities, including the Water Capital Improvement Plan, the Wastewater Capital Improvement Plan (which includes the Sewer System Improvement Program), and the Hetchy Capital Improvement Program. Previously, he was the Director of the Wastewater Enterprise Capital Program for SFPUC's Infrastructure Division. He is a Professional Civil Engineer and a UK Chartered Civil Engineer with over two decades of planning, design, construction, and management experience in the water/wastewater sector. Prior to joining SFPUC, Mr. Robinson worked with MWH/Stantec as a consultant and served in the British Army as a Royal Engineer Captain. Mr. Robinson has a master's degree in Civil Engineering and Management from the Queens University of Belfast, Northern Ireland.

Joel Prather. Joel Prather is the Assistant General Manager of the Wastewater Enterprise. His professional background includes more than a decade at the SFPUC Wastewater Enterprise, and over 20 years with the City. He started with San Francisco Public Works in the Bureau of Street and Sewer Repair and came to the SFPUC in 2011 as a Maintenance Planner. Prior to his appointment in his current role, he held the position of Maintenance Manager, where he managed the day to day maintenance systems and practices for the wastewater treatment facilities. He earned a B.A. in urban studies from San Francisco State University.

Employee Relations

San Francisco

The City's original budget for Fiscal Years 2024-25 and 2025-26 included approximately 40,569 full-time and part-time budgeted City positions. City workers are represented by 36 different labor unions. The largest unions in the City include the International Federation of Professional and Technical Engineers ("IFPTE"), Local 21, which represents Water Enterprise employees.

Wages, hours and working conditions of City employees, including employees of the SFPUC, are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, including managerial and executive-level employees, are represented by labor organizations.

Further, the City Charter requires binding arbitration to resolve negotiations in the event of an impasse. If an impasse occurs, the parties are required to convene a tripartite arbitration panel, chaired by an impartial third-party arbitrator, which sets the disputed terms of the new agreement. The award of the arbitration panel is final and binding. This process applies to almost all City employees. Since 1976, no City employees have participated in a union-authorized strike, which is prohibited by the City Charter. On July 24, 2023, the California Public Employment Relations Board ("PERB") ruled in favor of the Service Employees International Union ("SEIU"), Local 1021 and IFPTE, Local 21, concluding that City Charter sections A8.346 and certain portions of section A8.409 prohibiting strikes by City employees are invalid, affirming a proposed decision of an administrative law judge that such City

Charter provisions violate the Meyers-Milias-Brown Act. The City has filed a notice of appeal to the California Court of Appeal with respect to the PERB decision. The City can give no assurance whether the appeal will be successful. See “RISK FACTORS – Risks Related to Water Enterprise Facilities and Operation – *Labor Actions*.”

The City’s employee selection procedures are established and maintained through a civil service system. In general, selection procedures and other merit system issues, with the exception of discipline, are not subject to arbitration. Disciplinary actions are generally subject to grievance arbitration, with the exception of sworn police officers and fire fighters.

In 2024, the City negotiated three-year agreements (for Fiscal Years 2024-25 through 2026-27) with 27 labor unions, including various labor unions that represent Water Enterprise employees. The parties agreed to the following: a 1.5% wage increase effective July 1, 2024; a 1.5% wage increase effective January 4, 2025; a 1% wage increase effective June 30, 2025, at close of business, and a 1% wage increase effective July 1, 2025, for a total compounded increase of 2.01% effective July 1, 2025; a 1.5% wage increase effective January 3, 2026; a 2% wage increase effective June 30, 2026, at close of business; a 2% wage increase effective January 2, 2027; and a 2.5% wage increase effective June 30, 2027, at close of business. These increases have no off ramps (potential deferrals triggered by the budget). The total compounded increase over three years is 13.753%. All City employees shall earn no less than \$25 per hour as of July 1, 2024 (which affects SEIU, Local 1021, and Laborers, Local 261).

SFPUC

The SFPUC currently employs approximately 2,400 of the City’s workers, of which approximately 43.9% work for the Water Enterprise. The Charter governs the SFPUC’s employment policies and authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies. Of the 36 labor unions representing City workers more broadly, 14 presently represent SFPUC employees, as set forth in “Table 1 – SFPUC and Water Enterprise Employees Covered by Memoranda of Understanding.”

Over the next five years, approximately 35.8% of the SFPUC workforce agency-wide, including approximately 26% of the Water Enterprise workforce, will be eligible for retirement. A new generation of jobs will require workers with specialized training, skills and experience. The SFPUC’s 2020 Strategic Sustainability Plan includes an “effective workforce” goal, which focuses on a number of workforce development and sustainability initiatives. The SFPUC provides career opportunities and training to San Francisco residents and partners with unions, the City and other stakeholders to support apprenticeships and pre-apprentice training programs in the skilled trades to help maintain a skilled and reliable workforce for the SFPUC’s operations and infrastructure development. In addition, the SFPUC provides high school, college and graduate student internship programs that span a variety of fields including engineering, water and wastewater management, finance, communications, human resources and information technology. The SFPUC also provides ethics training, diversity training, management training, environmental management system training, as well as fraud prevention and awareness training.

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The following table summarizes the number of SFPUC and Water Enterprise employees covered by a memorandum of understanding (similar to a collective bargaining agreement), each of which will expire on June 30, 2027.

TABLE 1
SFPUC AND WATER ENTERPRISE
EMPLOYEES COVERED BY
MEMORANDA OF UNDERSTANDING

Employee Bargaining Unit	SFPUC Full-Time Equivalent Employment⁽¹⁾	Water Enterprise Full-Time Equivalent Employment⁽¹⁾
International Association of Machinists, Lodge 1414	55	37
Carpenters, Local 22	21	13
Hod Carriers, Local 36	2	0
International Brotherhood of Electrical Workers, Local 6	142	31
Laborers, Local 261	171	93
Municipal Executives Association	229	46
Operating Engineers, Local 3	24	17
Plumbers, Local 38	240	174
International Federation of Professional and Technical Engineers, Local 21	1,179	239
Service Employees International Union, Local 1021	368	86
San Francisco City Workers United	14	5
Stationary Engineers, Local 39	294	89
Teamsters, Local 853	36	19
Transport Workers Union Local 250-A, Automotive Service Workers	6	5
Unrepresented Employees ⁽²⁾	1	0
Total	2,782	854

⁽¹⁾ Represents budgeted numbers as of July 1, 2024. Actual full-time equivalent employment totals will differ from the number of positions budgeted by the SFPUC for a variety of reasons, including certain requirements in the respective memoranda of understanding (similar to collective bargaining agreements). See “FINANCIAL OPERATIONS – General – *City Budget Process*.”

⁽²⁾ Not covered by a memorandum of understanding (similar to a collective bargaining agreement).

Source: SFPUC.

Employee Benefit Plans

Retirement System Plan Description. The San Francisco City and County Employees’ Retirement System (the “**Retirement System**” or “**SFERS**”) is charged with administering a defined-benefit pension plan (the “**Plan**”) that covers substantially all City employees, including SFPUC employees, and certain other employees. The Retirement System was initially established by approval of San Francisco voters on November 2, 1920, and the State Legislature on January 12, 1921, and is currently codified in the Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election. The Retirement System is administered by the Retirement Board (the “**Retirement Board**”). The Plan provides basic service retirement, disability and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors.

Funding Practices. Employer and employee (member) contributions are mandated by the Charter. Sponsoring employers, including the SFPUC, are required to contribute 100% of the actuarially determined contribution approved by the Retirement Board. The Charter specifies that employer contributions consist of the normal cost (the present value of the benefits that SFERS expects to become payable in the future attributable to a current year’s employment) plus an amortization of the unfunded liability over a period not to exceed 20 years. The Retirement Board sets the funding policy subject to the Charter requirements.

The Retirement Board adopts the economic and demographic assumptions used in the annual valuations. Demographic assumptions such as retirement, termination and disability rates are based upon periodic demographic studies performed by a consulting actuarial firm approximately every five years. Economic assumptions are reviewed each year by the Retirement Board after receiving an economic experience analysis from the consulting actuarial firm.

The Retirement Board adopted the current demographic assumptions at its December 9, 2020 Retirement Board meeting based on the experience study dated August 12, 2020. The current discount rate of 7.20% was adopted at the November 10, 2021 Retirement Board meeting, effective for the July 1, 2021 actuarial valuation. The Retirement Board most recently voted to maintain these assumptions (for the July 1, 2024 actuarial valuation) at its November 13, 2024 meeting.

While employee contribution rates are mandated by the Charter, sources of payment of employee contributions may be the subject of collective bargaining agreements with each union or bargaining unit. Since July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

The following table shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations, as well as total contributions for the last five Fiscal Years ending June 30, 2024.

TABLE 2
CITY AND COUNTY OF SAN FRANCISCO
EMPLOYEES' RETIREMENT SYSTEM
FISCAL YEARS 2020-21 THROUGH 2024-25
(IN THOUSANDS)

As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee and Employer Contribution in Prior Fiscal Year	Employer Contribution Rates in Prior Fiscal Year⁽¹⁾
2020	\$29,499,918	\$26,620,218	\$26,695,844	90.2%	90.5%	\$1,143,634	25.19%
2021	31,905,275	35,673,834	30,043,222	111.8	94.2	1,245,957	26.90
2022	33,591,565	32,798,524	32,275,474	97.6	96.1	1,191,934	24.41
2023	35,351,967	33,688,428	34,137,005	95.3	96.6	1,086,567	21.35
2024	37,314,504	35,417,666	36,038,298	94.9	96.6	1,100,130	18.24

⁽¹⁾ Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C. Employer contribution rates for fiscal years 2024-25 and 2025-26 are 16.91% and 16.53%, respectively.

Source: SFERS' audited year-end financial statements and required supplemental information. SFERS' annual Actuarial Valuation Report dated July 1st.

Note: Information above reflects entire Retirement System, which covers substantially all City employees, including SFPUC employees, and certain other employees.

The City's net pension assets for its proportionate share of the net pension asset of the Plan and net pension liability of the Replacement Benefits Plan, a qualified excess benefit plan that covers some Water Enterprise employees were approximately \$3.6 billion for Fiscal Year 2023-24. The amount allocable to the Water Enterprise, as of June 30, 2024, was approximately \$150.1 million.

The SFPUC is required to contribute at an actuarially determined rate and allocates the applicable portions of such contribution to the separate enterprises, including the Water Enterprise. For Fiscal Years 2019-20 through 2023-24, the SFPUC's employee contribution rates varied from 7.5% to 12.0% as a percentage of gross covered salary. For Fiscal Years 2019-20 through 2023-24, the Water Enterprise has paid 100% of its required contributions. The contributions by the Water Enterprise required for Fiscal Years 2019-20 through 2023-24 are summarized in the following table:

TABLE 3
WATER ENTERPRISE RETIREMENT SYSTEM CONTRIBUTION
FISCAL YEARS 2019-20 THROUGH 2023-24
(IN THOUSANDS)

Fiscal Year (Measurement Period)	Employer Contribution Rates	Water Enterprise Contribution
2019-20	25.2%	\$29,647
2020-21	26.9	33,367
2021-22	24.4	31,151
2022-23	21.3	27,925
2023-24	18.2	26,653

Sources: Compiled from SFERS Actuarial Valuation report as of July 1, 2023, and SFPUC's audited financial statements for Fiscal Years 2023-24 and 2022-23, and for Fiscal Years 2022-23 and 2021-22.

Plan Financial Reports and Funded Status. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on their website at <https://mysfers.org/about-sfers/publications/>. *The website is provided for convenience only and the report is not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2025ABC Bonds.*

Health Care Benefits. The SFPUC participates in the City's agent multiple employer defined benefit plan, which operates as a cost-sharing multiple employer defined benefit plan (the "**OPEB Plan**"). The OPEB Plan is maintained by the City and is administered through the City's Health Service System and provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, and surviving spouses. 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.

As prescribed under Governmental Accounting Standards Board ("**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.

The following table shows the City's reported net OPEB liabilities and the Water Enterprise's proportionate share of such net OPEB liabilities for Fiscal Years 2021-22 through 2023-24:

TABLE 4
ANNUAL OPEB OBLIGATION
FOR FISCAL YEARS 2021-22 TO 2023-24
(IN THOUSANDS)

Fiscal Year	City's Reported Net OPEB Liabilities	Water Enterprise's Proportionate Share of City's Net OPEB liabilities	City's Contribution Amount	Water Enterprise's Proportionate Share of City's Contribution Amount
2021-22	\$3,691,122	\$144,115	\$252,866	\$ 9,873
2022-23	3,746,270	148,601	260,649	10,339
2023-24	3,924,832	158,301	278,701	11,241

Source: SFPUC.

The City issues a publicly available financial report on a City-wide level that includes the complete note disclosures and required supplementary information related to the City's post-retirement health care obligations. The report may be obtained on the Controller's website at <https://www.sf.gov/departments/controllers-office>. *The website is provided for convenience only and the report is not incorporated by reference into this Official Statement and should not be relied upon in making an investment in the 2025ABC Bonds.*

Voter Approved Changes to the Retirement Plan. SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. In 2011, voters approved Proposition C which aimed to reduce future pension costs. Proposition C introduced new lower-cost benefit tiers for all members hired on and after January 7, 2012 and also restricted the payment of any new supplemental COLAs to when SFERS is fully funded. Since 2011, the fully funded requirement for Supplemental COLAs has been removed from all members hired before January 7, 2012. First, the October 2015 Superior Court judgement removed the fully funded requirement for pre-Proposition C members retired on and after November 6, 1996. Then in November 2022, voters approved Proposition A which removed the fully funded requirement for retirees who commenced benefits prior to November 6, 1996. However, for this older group of retirees only, the amount of supplemental COLA is capped at \$200 per month for retirees with annual pensions exceeding \$50,000 when SFERS is not fully funded. The Proposition C fully funded restriction remains in effect for retirees hired on and after January 7, 2012. In addition, for these post-2011 hires, the supplemental COLA is temporary and reverts to zero in any year in which no supplemental COLA is paid.

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THE WATER ENTERPRISE

General

The SFPUC operates the facilities of its Water Enterprise to optimize the reliability and quality of its water deliveries. The SFPUC has made and will continue to make significant capital investments in the facilities of the Water Enterprise, designed to maximize the Water Enterprise's ability to deliver water sufficient to meet the needs of its customers following the occurrence of a major seismic event or during an extended period of drought.

The SFPUC serves as the retail water supplier for San Francisco and is responsible for water deliveries to residents and institutions within San Francisco city limits, as well as to several retail accounts outside of San Francisco city limits. In addition, the SFPUC sells water to 26 Wholesale Customers in San Mateo, Alameda and Santa Clara counties under the WSA and related individual contractual agreements. The Wholesale Customers are members of BAWSCA, which is a public agency separate and apart from the Wholesale Customers. The SFPUC also sells water to wholesale customer Cordilleras Mutual Water Company in San Mateo County, which is not a party to the WSA or a member of BAWSCA. Altogether, approximately 2.7 million people rely on water supplied by the Water Enterprise.

The Water Enterprise consists of over 389 miles of pipeline, over 74 miles of tunnels, 11 reservoirs, 13 groundwater wells, five pump stations, and three water treatment plants located outside of San Francisco, and over 1,235 miles of pipeline, 11 reservoirs, six groundwater wells, 11 storage tanks, 25 pump stations, eight hydropneumatic stations and 18 chlorination stations located within the San Francisco city limits.

The Regional Water System draws approximately 85% of its water from the Upper Tuolumne River watershed feeding a single aqueduct system, delivering water 120 miles by gravity to Bay Area reservoirs and users. The remaining water supply is drawn from local surface waters in the Alameda and Peninsula watersheds.

Water Rights and Related Proceedings

Prior to the Gold Rush in 1849, local water supplies were largely adequate to meet the needs of what is now San Francisco. The Spring Valley Water Company, purchased by the City in 1930, developed much of the local water supplies now available to the Water Enterprise. San Francisco's population grew rapidly after the Gold Rush to nearly 400,000 by the time of the Great Earthquake of 1906.

As early as the 1880s, the City began looking to the Sierra Nevada and the Tuolumne River in what is now Yosemite National Park as a possible source of abundant, clean water for San Francisco and the Bay Area. Hetch Hetchy Valley, which is located on the Tuolumne River in Yosemite National Park, was first recommended in 1891 as a reservoir site in a United States Geological Survey Study. Then-Mayor James D. Phelan made the first filings for water rights and reservoir rights-of-way in the Tuolumne River watershed as a private citizen and transferred those filings to the City in 1903.

Following the Great Earthquake of 1906, the City again sought water rights and reservoir rights-of-way in the Tuolumne River watershed and began to develop a preliminary design for the Hetch Hetchy System (as defined herein). The City also entered into negotiations with the Irrigation Districts to protect their existing water rights and to provide them with a share of the hydroelectric power to be produced by Hetch Hetchy facilities, at cost-based rates.

The federal Raker Act enacted on December 19, 1913 (the "**Raker Act**"), grants to the City rights-of-way and public land use on United States government property in the Sierra Nevada to construct, operate and maintain reservoirs, dams, conduits and other structures necessary or incidental to developing and using water and power. It also imposes restrictions on the City's use of Hetch Hetchy Reservoir, including, among others, the requirement that the City recognize the prior rights of the Irrigation Districts to receive water, up to specified amounts of natural daily flow, for direct use and storage. After 20 years of construction of dams and aqueducts, the City first delivered water from the Hetch Hetchy System to the Bay Area on October 24, 1934.

The City voluntarily releases water into the Tuolumne River and tributaries from its facilities under stipulations with the United States Department of the Interior, which controls a portion of the public lands that contain

Raker Act rights of way. The SFPUC diverts water under its water rights acquired under State water law, which entitles the SFPUC to appropriate more than 400 million gallons per day (“mgd”) from the Tuolumne River and its tributaries.

The City holds “pre-1914” appropriative water rights for the City’s beneficial use, including the storage and diversion of water for the Hetch Hetchy and local water systems. The City also holds a post-1914 appropriative water right license from the SWRCB for the San Antonio Reservoir. Pre-1914 water rights are not subject to the water right permitting authority of the SWRCB but remain subject to jurisdiction concerning adequacy of the right and reasonableness of water use.

See “– Current Water Supply Sources” and “– RISK FACTORS – Risks Related to Water Enterprise Facilities and Operations – *Proposals to Restore Hetch Hetchy Valley.*”

Current Water Supply Sources

Regional Water System. The Regional Water System is a complex system which supplies water from two primary sources: the Tuolumne River through Hetch Hetchy Reservoir and local runoff into Bay Area reservoirs in the Alameda and Peninsula watersheds. Water developed via Hetch Hetchy Reservoir through Hetch Hetchy facilities represents the majority of the water supply available to the SFPUC. Local watershed facilities are operated to capture local runoff for delivery. Local area water production is dependent on precipitation and the ability of the SFPUC to regulate watershed runoff. On average, Hetch Hetchy Reservoir provides approximately 85% of the water delivered, and Bay Area reservoirs provide approximately 15% of the water delivered.

Local Groundwater. San Francisco overlies all or part of seven groundwater basins: the Westside, Lobos, Marina, Downtown, Islais Valley, South and Visitacion Valley basins. The Lobos, Marina, Downtown and South basins are located wholly within San Francisco city limits, while the remaining three extend south into San Mateo County. The portion of the Westside Basin aquifer located within San Francisco is commonly referred to as the North Westside Basin. Except for the Westside and Lobos basins, all of the basins are generally inadequate to supply a significant amount of groundwater for municipal supply due to low yield.

Early in its history, the City made significant use of local groundwater, springs, and spring fed surface water. However, after the development of surface water supplies in the Peninsula and Alameda watersheds by Spring Valley Water Company and the subsequent completion of Hetch Hetchy Reservoir and aqueduct in the 1930s, the municipal water supply system has relied almost exclusively on surface water from the Alameda and Peninsula watersheds, and the Tuolumne River watershed. Local groundwater use, however, has continued in San Francisco primarily for irrigation purposes. The San Francisco Zoo and Golden Gate Park use approximately 1.2 mgd of groundwater for non-potable purposes. In April 2017, the SFPUC began pumping groundwater from the North Westside Basin aquifer. The groundwater is treated and blended with the SFPUC’s regional drinking water supplies before it is delivered to the SFPUC’s customers. Currently, groundwater represents approximately 0.4 mgd in the drinking water supply.

Approximately 0.4 mgd of groundwater is delivered to Castlewood Country Club from well fields operated by the SFPUC in Pleasanton and drawn from the Central Groundwater Sub Basin in the Livermore/Amador Valley. These wells are metered and have been in operation for several decades. There is no physical connection between the Castlewood Country Club wells and the Regional Water System. For purposes of water accounting and billing, these deliveries to Castlewood Country Club are accounted for as part of the SFPUC’s Retail Customer base.

Local Recycled Water. Current use of recycled water for non-potable purposes in San Francisco is less than one mgd, which is reflective of the limited non-potable demands in San Francisco’s dense urban environment. The Sharp Park Recycled Water Project and the Harding Park Recycled Water Project collectively used 0.03 mgd of recycled water for irrigating City-owned golf courses in Fiscal Year 2023-24.

Local Water Conservation. The SFPUC is committed to demand-side management programs; San Francisco’s per capita water use has dropped by almost 50 percent since 1977 in part due to these programs. The first substantial decrease came following the 1976-77 drought in which gross per capita water use dropped from 160 to 130 gallons per capita per day (“gpcd”). Despite nearly continuous growth in San Francisco since then, water

demand levels have remained lower than water demand levels prior to the 1976-77 drought due to building code requirements and improved technology.

A second substantial decrease in water use within San Francisco occurred because of the 1987-92 drought, when a new level of conservation activities resulted in further water use savings, and per capita use dropped sharply again in the 2012-2015 drought. While per capita water use increased very slightly after the 2012-2015 drought and before the 2020-2022 drought, it has remained well below 2013 levels. Gross per capita water use within San Francisco was 68.0 gpcd in Fiscal Year 2023-24, with residential per capita water use calculated to be 41.8 gpcd, one of the lowest per capita rates of any urban area in the State, and approximately one-half of the statewide average. It is anticipated that through the continuation and expansion of these programs, per capita water use will remain low.

The SFPUC's water conservation program offers financial incentives, services and educational assistance, all aimed at promoting efficient water use. The conservation program implemented by the SFPUC is based on, among other things, State and local indoor and outdoor efficiency requirements, the Water System Improvement Program ("WSIP"), and analysis of local efficient plumbing fixture saturation rates and water-saving opportunities in the SFPUC retail service area.

Limitations on Use of Potable Water. The City also restricts the use of potable water for soil compaction and dust control (activities associated with construction) when recycled water is available. In addition, the City requires new developments of 100,000 gross square-feet or more to install and operate onsite water reuse projects. This program currently results in a potable water offset of 0.12 mgd.

Water Supply Storage

The amount of water available to the SFPUC's Retail Customers and wholesale customers is constrained by hydrology, physical facilities, and the institutional parameters that allocate the water supply of the Tuolumne River. While in most years the SFPUC receives adequate water supply to meet its demands, during dry years, the SFPUC has only a small share of Tuolumne River runoff available and the local Bay Area watersheds produce limited volume of water. Due to these constraints, the SFPUC is dependent on reservoir storage to firm up its water supplies. More importantly, reservoir storage provides the Regional Water System with year-to-year water supply carry-over capability. Reservoir storage is critical to the SFPUC during drought cycles since it enables the SFPUC to carry-over water supply from wet years to dry years. See "WATER FACILITIES – Water Storage."

Water Supply Reliability and Drought Planning

The SFPUC water supply system's reliability is expressed in terms of its ability to deliver water during droughts. Reliability is defined by the amount and frequency of water delivery reductions required to balance customer demands with available supplies in droughts. The total amount of water the SFPUC has available to deliver to its Retail Customers and its wholesale customers during a defined period depends on several factors, including the amount of water that is available to the SFPUC from natural runoff; the amount of water in reservoir storage; groundwater supply; and the amount of water that must be released from the SFPUC's system for commitments for purposes other than customer deliveries (such as releases below Hetch Hetchy Reservoir to meet Raker Act and fishery purposes).

The SFPUC operates its system to optimize the reliability and quality of its water deliveries. Two principal objectives guide Hetch Hetchy Reservoir operations: collection of Tuolumne River water runoff for diversion to the Bay Area; and fulfillment of the SFPUC's downstream release obligations. To ensure water supply, Hetch Hetchy Project reservoirs remain high through the early winter, until sufficient snowmelt runoff is forecasted at 90% certainty to fill all Tuolumne reservoirs. When the forecasted snowmelt is certain to be in excess of the fill volume, the reservoirs may be drawn down through power operations to increase revenue without risking water supply.

Similarly, the SFPUC operates the Regional Water System's Bay Area reservoirs to conserve watershed runoff, drawing down reservoirs early in the winter period to capture storms and reduce the potential for spilling water out of the reservoirs. In the spring, Hetch Hetchy water (snowmelt) is often transferred to three of the Bay Area reservoirs that are capable of receiving the water so that any unused local reservoir storage is filled prior to July 1.

Prior to 1976, droughts had not seriously affected the SFPUC's ability to sustain full deliveries to its customers. During a subsequent drought in 1987-92, as reservoir storage continued to decline, it became apparent that continued full deliveries could not be sustained without the risk of running out of water before the drought ended. As a result of these experiences, to provide some level of assurance that water could be delivered continuously throughout a drought (although at reduced levels), the SFPUC adopted a drought planning sequence, incorporating an 8.5-year drought scenario for planning purposes (based on the combined number of actual drought years from 1976-1977 and 1987-92), and associated operating procedures that trigger different levels of water delivery reduction rationing relative to the volume of water actually stored in SFPUC reservoirs. Each year, during the snowmelt period, the SFPUC evaluates the amount of total water storage expected to occur throughout the Regional Water System. If this evaluation finds the projected total water storage to be less than an identified level sufficient to provide sustained deliveries during the drought scenario, the SFPUC may impose mandatory delivery reductions or rationing.

Rationing. With current contractual obligations to deliver up to 184 mgd to the SFPUC's Wholesale Customers and 81 mgd to its Retail Customers combined with current water supplies and reservoir storages, the Regional Water System can be expected to experience up to a 25% shortage from 15% to 20% of the time, over multiple-year drought sequences. During a drought, Retail and Wholesale Customers could experience a reduction in the amount of water received from the Regional Water System. The amount of the reduction would be dictated by existing contractual agreements between the SFPUC and the Wholesale Customers, as detailed in the existing Water Shortage Allocation Plan that is an attachment to the WSA (the "**Water Shortage Allocation Plan**"). The Water Shortage Allocation Plan allocates available water between the Retail Customers and the Wholesale Customers collectively, with specific allocations for each established for different levels of systemwide shortage. Under the Water Shortage Allocation Plan, specific rationing amounts applied to Retail Customers and Wholesale Customers will be determined by their subsequent shortage plans as required to remain with their share of the systemwide allocation.

The Water Shortage Allocation Plan applies to systemwide shortages of up to 20%. For shortages in excess of this amount, the WSA provides that the SFPUC may allocate water at its discretion, subject to legal challenge by Wholesale Customers, if agreement cannot be reached regarding treatment of shortages in excess of 20%. The WSA also includes provisions for drought and emergency pricing. See "FINANCIAL OPERATIONS."

System Delivery Capability. System delivery capability is defined as the water delivery the Regional Water System is able to sustain over historical hydrologic conditions including multiple-year drought sequences. Under existing SFPUC operations policies and procedures, the SFPUC has a system delivery capability of 257 mgd. That is, the Regional Water System is capable of sustaining a 257 mgd annual average delivery over a hydrologic period equivalent to that experienced from 1921 to 2002 with shortages due to drought. This delivery capability is based on the SFPUC's substantial completion of the WSIP program. During non-drought years, the Regional Water System is capable of sustainably delivering 265 mgd.

Water Supply Initiatives. In 2019, with the goal of ensuring that the water needs of Retail and Wholesale Customers will continue to be met under future conditions in the event of dry-year shortages, the SFPUC established an alternative water supply program (the "**AWS Program**") to evaluate new and diverse alternative water supply options, such as expanding storage, groundwater banking, transfers, purified water (potable reuse), desalination and technological innovations. For more information regarding the AWS Program, see "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water Supply Initiatives."

Wholesale Deliveries

Wholesale Service Area and Customer Base. The Water Enterprise provides wholesale water service to 27 wholesale customers, which consist of 25 public agencies, one private utility, and one private, not-for-profit educational institution. All of the wholesale customers are located within Alameda County, Santa Clara County or San Mateo County.

- Alameda County is located to the east of San Francisco Bay and extends from the cities of Berkeley and Albany in the north to the City of Fremont in the south. Alameda County contains 14 incorporated cities. The California Department of Finance Demographic Research Unit estimated Alameda County's

population at 1,641,869 as of January 1, 2024. Most of its population is concentrated in a highly urbanized area between the San Francisco Bay and the East Bay Hills.

- Santa Clara County lies immediately south of San Mateo County and encompasses an area of approximately 1,316 square miles. Santa Clara County contains 15 incorporated cities, including San José, the third largest city in the State. The California Department of Finance Demographic Research Unit estimated Santa Clara County's population at 1,903,198 as of January 1, 2024. Most of its population is concentrated in the extensively urbanized and heavily industrialized northern portion of Santa Clara County.
- San Mateo County is located on the San Francisco Peninsula, immediately south of San Francisco and west of the San Francisco Bay. San Mateo County covers 446 square miles and contains 20 incorporated cities. Coastal mountains run north and south, dividing the lightly populated western part of the county from the heavily populated eastern corridor between San Francisco and Santa Clara/Silicon Valley. The California Department of Finance Demographic Research Unit estimated San Mateo County's population at 741,565 as of January 1, 2024.
- Alameda County, Santa Clara County and San Mateo County all have diversified economies and median household incomes higher than State and national averages.

Collectively, the wholesale customers provide retail water service to over 1.8 million people and 40,000 commercial, industrial and institutional accounts in their respective service areas, with the balance of the respective population being serviced by other providers. All wholesale customers are billed monthly on the basis of metered water use and in accordance with the WSA and their individual water sales contracts.

The following is a list of the 27 wholesale customers:

Wholesale Customers

Municipalities	Water Purveying Districts	Private Entities
City of Brisbane ⁽¹⁾	Alameda County Water District	California Water Service Company ⁽²⁾
City of Burlingame	Coastside County Water District	Stanford University
City of Daly City	Cordilleras Mutual Water Company ⁽⁴⁾	
City of East Palo Alto	Estero Municipal Improvement District	
City of Hayward	Guadalupe Valley Municipal Improvement District ⁽¹⁾	
City of Menlo Park	Mid-Peninsula Water District	
City of Millbrae	North Coast County Water District	
City of Milpitas	Purissima Hills Water District	
City of Mountain View	Westborough County Water District	
City of Palo Alto		
City of Redwood City		
City of San Bruno		
City of San José ⁽³⁾		
City of Santa Clara ⁽³⁾		
City of Sunnyvale		
Town of Hillsborough		

⁽¹⁾ Brisbane and Guadalupe Valley Municipal Improvement District are jointly operated.

⁽²⁾ California Water Service Company, an investor-owned utility, provides water service to three separate districts: Bear Gulch (Atherton/Woodside vicinity and including the former Skyline County Water District), Mid-Peninsula (San Carlos/San Mateo vicinity), and South San Francisco. Over the past five Fiscal Years, California Water Service Company has purchased, on average, approximately 14.4% of the total water delivered annually by the SFPUC. Such purchases accounted, on average, for approximately 12.7% of the SFPUC's total annual revenues.

⁽³⁾ The SFPUC provides water on an interruptible basis to fixed service areas in the northern portions of the cities of San José and Santa Clara. See “—Status of San José and Santa Clara” below.

⁽⁴⁾ Cordilleras Mutual Water Company is the only wholesale customer that is not a member of BAWSCA and not a party to the WSA.

The following table shows the percentage of water purchased from the Regional Water System by each of the Wholesale Customers in Fiscal Year 2022-23, the most recent fiscal year for which data is available. Fifteen of the Wholesale Customers derived over 90% of their water from the SFPUC.

TABLE 5
PERCENTAGE OF WATER PURCHASED FROM THE REGIONAL WATER SYSTEM
BY WHOLESALE CUSTOMERS IN FISCAL YEAR 2022-23⁽¹⁾

	Population	Water Purchased (mgd)		
		SFPUC	Total	% SFPUC
Alameda County Water District	344,000	9.71	32.97	29.45%
California Water Service Company	262,704	26.25	26.33	99.70
City of Hayward	162,954	12.91	13.07	98.78
City of Sunnyvale	156,317	7.92	15.31	51.73
City of Santa Clara	132,476	2.88	17.63	16.34
City of Daly City	107,000	3.14	5.78	54.33
City of Redwood City	90,928	7.25	7.74	93.67
City of Mountain View	81,501	6.72	7.95	84.53
City of Milpitas	81,067	4.57	8.15	56.07
City of Palo Alto	68,624	8.63	9.56	90.27
City of San Bruno	43,910	1.22	2.95	41.36
North Coast County Water District	37,082	2.10	2.13	98.59
City of San José	43,036	3.72	4.45	83.60
Estero Municipal Improvement District	37,443	3.76	3.76	100.00
City of Burlingame	31,080	2.96	2.96	100.00
Mid-Peninsula Water District	30,159	2.16	2.16	100.00
City of East Palo Alto	29,519	1.38	1.39	99.28
City of Millbrae	21,579	1.74	1.74	100.00
City of Menlo Park	20,319	2.19	2.19	100.00
Coastside County Water District	18,890	0.71	1.32	53.79
Stanford University	33,827	1.39	2.50	55.60
Westborough Water District	13,486	0.70	0.70	100.00
Town of Hillsborough	11,592	2.05	2.05	100.00
Purissima Hills Water District	6,245	1.31	1.31	100.00
City of Brisbane / Guadalupe Valley Municipal Improvement District	4,851	0.53	0.53	100.00
Total All Agencies	1,870,589	117.90	176.64	66.75%

⁽¹⁾ Does not include wholesale customer Cordilleras Mutual Water Company, which is not a BAWSCA member agency and not a party to the WSA.

Source: SFPUC; compiled from BAWSCA Annual Survey Fiscal Year 2022-23, dated April 2024.

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The following table summarizes the sources of supply for the Wholesale Customers collectively during Fiscal Year 2022-23 (most recent data available).

TABLE 6
WATER DELIVERIES TO WHOLESALE CUSTOMERS BY SOURCE⁽¹⁾
FISCAL YEAR 2022-23

Source	Acre-Feet	Percent of Total
SFPUC ⁽²⁾	132,082	66.8%
Groundwater	20,657	10.4
Surface Water	6,491	3.3
Recycled Water	7,950	4.0
Other Sources (Includes State/Federal)	<u>30,689</u>	<u>15.5</u>
Total	197,870	100.0%

⁽¹⁾ Does not include wholesale customer Cordilleras Mutual Water Company, which is not a BAWSCA member agency and not a party to the WSA.

⁽²⁾ Purchases from the Regional Water System. Includes supplemental deliveries.

Source: SFPUC; compiled from BAWSCA Annual Survey Fiscal Year 2022-23, dated April 2024.

The Bay Area Water Supply and Conservation Agency. BAWSCA is the successor agency to the Bay Area Water Users Association (“BAWUA”). BAWUA was originally formed as a non-profit mutual benefit corporation to represent the Wholesale Customers’ collective interests in their interactions with the SFPUC. Concerned that their needs and interests were not properly represented by the SFPUC, BAWUA lobbied for the creation of an entity with authority to plan for and acquire supplemental water supplies, encourage water conservation and use of recycled water on a regional basis, and assist in the financing of essential repairs and improvements to the Regional Water System. State legislation AB 2058, passed in 2002, allowed the formal creation of BAWSCA.

BAWSCA is governed by a 26-member Board of Directors that is composed of community leaders representing its 26 members. BAWSCA has the authority to coordinate water conservation, supply and recycling activities for its agencies; acquire water and make it available to other agencies on a wholesale basis; finance projects, including improvements to the Regional Water System; and build facilities jointly with other local public agencies or on its own to carry out its purposes. BAWSCA has not, to date, acquired water or built facilities.

Regional Water System Financing Authority. The Wholesale Customers, together with the SFPUC, formed the San Francisco Bay Area Regional Water System Financing Authority (“RFA”) in 2002. While BAWSCA focuses on planning and water management and may engage in public works projects, the RFA exists solely to help fund capital improvements to the Regional Water System. The RFA has the power to issue revenue bonds to fund projects to improve the reliability of the Regional Water System; provide proceeds of revenue bonds to the City under specified conditions to improve reliability of the system; and apply for and receive State and federal grants, loans and other financial assistance.

Debt service on any bonds issued by the RFA in the future would be secured by, and paid from, a surcharge imposed by the SFPUC upon Wholesale Customers and, under specific conditions, upon Retail Customers. This surcharge would be imposed in an amount sufficient to pay debt service on the RFA’s bonds and its operating expenses. Proceeds of the surcharge would not constitute Revenues under the Indenture, and debt service on these bonds, if issued, would not be a debt or liability of the SFPUC or the City.

The RFA has not, to date, issued any revenue bonds, and the SFPUC is not now aware of any current plans by the RFA to do so. The ability of the RFA to issue bonds expires in December 2030.

Prior Master Water Sales Contract. Between 1984 and 2009, Wholesale Customer rates were set pursuant to a Settlement Agreement and Master Water Sales Contract (the “**Prior Master Water Sales Contract**”). The Prior Master Water Sales Contract put in place a comprehensive method for allocating the costs of the Regional Water System between the SFPUC’s Retail Customers and the Wholesale Customers. Capital costs and most operations and maintenance expenses of the Regional Water System were distributed between the SFPUC and its Retail Customers

and the Wholesale Customers on proportional water usage: approximately one-third to the City and two-thirds to the Wholesale Customers.

The Prior Master Water Sales Contract resolved litigation over certain rate-setting practices. Both sides dismissed, with prejudice, the claims related to water sales overcharges and undercharges with the signing of the Prior Master Water Sales Contract. However, the litigation left open certain questions, such as whether the Wholesale Customers are “Co-Grantees” under the Raker Act and, if so, what rights, benefits and privileges accrue to them by reason of such status, including the right to receive water at cost, and the extent to which the City may be legally obligated to provide water to meet growth demands in Wholesale Customer service areas in excess of the 184 mgd “Supply Assurance” discussed below.

Water Supply Agreement. In 2009, the SFPUC and the Wholesale Customers entered into the WSA, with an effective date of July 1, 2009, which replaced the Prior Master Water Sales Contract. The WSA has a 25-year term (through June 30, 2034), with provisions for two conditional five-year extensions. It was most recently amended and restated in 2021 with the approval of the SFPUC and the Wholesale Customers.

The WSA separates Water Enterprise assets and expenses into three categories: “wholesale only,” “regional,” and “retail only.” Annual operations and maintenance expenses are recovered based on proportional annual use of the Regional Water System in most cases. Costs and revenues of the Hetch Hetchy Project are also separated – the Wholesale Customers do not pay for power-related costs, which are borne by the Power Enterprise, and do not share in power revenues.

The WSA includes the SFPUC’s “Supply Assurance” of 184 mgd (measured on an annual average basis) to 24 of the 26 Wholesale Customers (the “**Supply Assurance**”). The SFPUC has agreed to deliver water to such Wholesale Customers up to the amount of the Supply Assurance, and this agreement is perpetual and survives the expiration of the WSA. The Supply Assurance is, however, subject to reduction due to water shortage, drought, scheduled WSA maintenance activities, and emergencies.

The Supply Assurance is shared among 24 of the Wholesale Customers, 23 of whom have an “Individual Supply Guarantee” (each an “**Individual Supply Guarantee**”), which represents their dedicated individual share of the 184 mgd Supply Assurance. The two Wholesale Customers that do not share in the Supply Assurance, the City of San José (“**San José**”) and the City of Santa Clara (“**Santa Clara**”), are served wholesale water on an interruptible basis and are not part of the Supply Assurance. The City of Hayward (“**Hayward**”) does not have an Individual Supply Guarantee but rather an individual contract that does not limit its water use. Hayward continues to receive water under a contract entered into in 1962 with no expiration or supply limitation. If Hayward’s demand exceeds 22.1 mgd for three consecutive fiscal years, the 23 Wholesale Customers with Individual Supply Guarantees totaling 161.9 mgd would be required to reduce their allocation to meet the needs of Hayward in accordance with the WSA. For Fiscal Year 2023-24, total water purchases by the 23 Wholesale Customers with Individual Supply Guarantees (including Hayward’s use but excluding San José and Santa Clara) were approximately 63.02% of the combined Supply Assurance.

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The following table shows the Individual Supply Guarantees and actual Fiscal Year 2023-24 purchases for the Wholesale Customers and also includes Cordilleras Mutual Water Company, which is not a “Wholesale Customer” party to the WSA.

TABLE 7
WHOLESALE CONTRACTUAL OBLIGATIONS
(IN MGD)

	Individual Supply Guarantee⁽¹⁾	Actual 2023-24 Purchases
Alameda County Water District	13.76	9.94
City of Brisbane / Guadalupe Valley Municipal Improvement District ⁽²⁾	0.46	0.61
City of Burlingame	5.23	3.16
California Water Service Company ⁽³⁾	35.50	25.87
Coastside County Water District	2.18	0.82
City of Daly City	4.29	2.73
City of East Palo Alto	3.46	1.59
Estero Municipal Improvement District	5.90	3.72
City of Hayward	22.80	13.14
Town of Hillsborough	4.09	2.16
City of Menlo Park	4.46	2.55
Mid-Peninsula Water District	3.89	2.27
City of Millbrae	3.15	1.74
City of Milpitas	9.23	5.29
City of Mountain View	12.46	7.36
North Coast County Water District	3.84	2.42
City of Palo Alto	16.57	8.92
Purissima Hills Water District	1.62	1.39
City of Redwood City	10.93	7.66
City of San Bruno	3.25	0.92
City of San José ⁽⁴⁾	0.00	3.90
City of Santa Clara ⁽⁴⁾	0.00	2.73
Stanford University	3.03	1.53
City of Sunnyvale	12.58	9.50
Westborough County Water District	1.32	0.68
Subtotal BAWSCA Demand	184.00	122.60
Cordilleras Mutual Water Company ⁽⁵⁾	--	0.01
Total Wholesale Demand⁽⁶⁾	--	122.61

⁽¹⁾ “Individual Supply Guarantee” refers to each Wholesale Customer’s share of the Supply Assurance as defined in the WSA. The Supply Assurance is the 184 mgd maximum annual average metered supply of water dedicated by SFPUC to public use in the wholesale service area (excluding the cities of San José and Santa Clara). Hayward has no fixed allocation of the Supply Assurance but its share is calculated as 22.1 mgd (184 mgd less the 161.9 mgd total of permanent customer Individual Supply Guarantees).

⁽²⁾ Brisbane and Guadalupe Valley Municipal Improvement District are two Wholesale Customers that are jointly operated.

⁽³⁾ Includes Individual Supply Guarantee of Skyline County Water District, which was purchased by California Water Service Company-Bear Gulch District in 2009.

⁽⁴⁾ San José and Santa Clara do not have an Individual Supply Guarantee or a share in the Supply Assurance due to their temporary, interruptible status under the WSA.

⁽⁵⁾ Cordilleras Mutual Water Company is not a party to the WSA, does not have an Individual Supply Guarantee and does not share in the Supply Assurance.

⁽⁶⁾ Totals may not add due to rounding.

Sources: SFPUC; Water Supply Agreement.

The basic framework of the Prior Master Water Sales Contract regarding coordination of wholesale rates with the annual SFPUC budget process, annual compliance audits, resolution of disputes concerning the SFPUC's determination of the annual Wholesale Revenue Requirement (as defined herein) via binding arbitration and the annual true up of costs using a Balancing Account (as defined herein) continue, but the WSA effected significant changes in the arrangement between the SFPUC and the Wholesale Customers. The WSA included the following significant changes:

Allocation of Capital Costs. Instead of continuing with the “utility method,” the WSA more timely recovers capital costs as follows:

- The costs of existing assets placed in service prior to June 30, 2009, approximately \$367 million in 2009 dollars, were to be repaid based on audited actual costs in monthly installments by Wholesale Customers at an annual interest rate of 5.13% over a 25-year period, in lieu of depreciation and a weighted return on these assets. In February 2013, the Wholesale Customers, through BAWSCA, made an early repayment of the entire cost recovery payment balance.
- The costs of new regional assets placed in service after June 30, 2009 are to be paid for using the “cash method.” Annual wholesale rates are set to recover the Wholesale Customers’ share of regional asset costs from current revenues for cash-funded assets. Wholesale contributions for debt-financed assets include appropriate contributions towards debt service and coverage based on the Wholesale Customers’ proportionate annual use of the Regional Water System.
- For the portion of capital project costs that were appropriated but not expended as of June 30, 2009, a 10-year repayment schedule including 4.00% interest has been calculated, based on audited actual costs. Repayment began in Fiscal Year 2014-15 and was scheduled to end in Fiscal Year 2023-24. In September 2020, the Wholesale Customers prepaid the remaining \$4,030,664 balance.

For more information regarding the wholesale rate setting mechanism, see “FINANCIAL OPERATIONS – Wholesale Water Sales Revenue,” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT – Wholesale Revenue Requirement,” “– Capital Cost Contribution – New Regional Assets” and “– Hetch Hetchy Enterprise Expenses.”

Treatment of Water Supply Issues. The 184 mgd Supply Assurance from the Prior Master Water Sales Contract continues in the WSA. The WSA sets forth how the SFPUC and the Wholesale Customers will implement the “**Interim Supply Limitation**” imposed by the SFPUC in its approval of the WSIP in 2008, which limits to 265 mgd the amount of water annually delivered to the Retail Customers and Wholesale Customers from Regional Water System watersheds. Under the Interim Supply Limitation, Retail Customers receive up to 81 mgd and the Wholesale Customers receive up to 184 mgd from the Regional Water System.

Status of San José and Santa Clara. The cities of San José and Santa Clara retain their temporary, interruptible status. The SFPUC has agreed to supply a combined annual average of 9 mgd to the two cities through 2028, in accordance with the terms of the WSA. The 9 mgd allocated to San José and Santa Clara is not a part of the Supply Assurance but is included within the wholesale portion of the Interim Supply Limitation of 184 mgd.

Creation of Transfer Market. The WSA contemplates the creation of a water transfer market that enhances the Wholesale Customers’ ability to keep purchases within the amounts of their respective Interim Supply Allocations (as defined in the WSA). In addition, the Wholesale Customers may agree to the permanent transfer of portions of their Individual Supply Guarantees (including portions of their Minimum Annual Purchase Quantities, as defined in the WSA, where applicable). All such transfers are subject to SFPUC approval regarding operational and Raker Act concerns. In 2017, the City of Mountain View (“**Mountain View**”) agreed to a permanent transfer of 1.0 mgd of its Individual Supply Guarantee to the City of East Palo Alto (“**East Palo Alto**”). Subsequently in 2018, the City of Palo Alto (“**Palo Alto**”) agreed to a permanent transfer of 0.5 mgd of its Individual Supply Guarantee to East Palo Alto.

Enforcement of Interim Supply Limitation. Commencing in Fiscal Year 2011-12, the SFPUC established a volume-based “Environmental Enhancement Surcharge” to enforce the Interim Supply Limitation. The Environmental

Enhancement Surcharge would apply only if combined retail and wholesale water deliveries from the Regional Water System watersheds exceed 265 mgd. Proceeds of the Environmental Enhancement Surcharge will be placed in a restricted reserve fund to be used only for specific environmental restoration and enhancement measures in the SFPUC's Sierra and local watersheds, such as those identified in the Watershed Environmental Improvement Program. Specific restoration and enhancement projects would be selected by the SFPUC and BAWSCA, following input from environmental stakeholders and other interested members of the public. No surcharges have been imposed, and as discussed above, it appears unlikely that any surcharges will be imposed.

Other Significant Provisions. The WSA also contains the following provisions:

- The SFPUC agrees to operate system reservoirs in a manner that assigns higher priority to the delivery of water to the Bay Area and the environment than to generation of hydroelectric power.
- The "Shortage Allocation Plan," which establishes an allocation of water between the Retail Customers and Wholesale Customers to be applied during droughts, and governs drought shortages of up to 20%.
- Drought pricing and emergency rate increases are allowed.

2028 Water Supply Decisions. Subject to completion of necessary CEQA review and the exercise of retained discretion by the SFPUC to reject or modify proposed projects, the WSA currently requires the SFPUC to make decisions by December 31, 2028 as follows:

- Whether to make San José and Santa Clara permanent customers to the extent that the SFPUC determines that long-term Regional Water System supplies are available.
- Whether to provide water in excess of the Supply Assurance to meet the Wholesale Customers' projected future water demands until the year 2040, and whether to offer a corresponding increase in the Supply Assurance.

Converting San José and Santa Clara to permanent, non-interruptible customers would require the SFPUC to secure 9.0 mgd of additional water supply, reflecting historical deliveries. As noted above, San José and Santa Clara are currently temporary customers with interruptible status. The SFPUC is having ongoing discussions with San José and Santa Clara regarding a possible extension of the December 31, 2028 deadline. See "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water Supply Initiatives."

For a more detailed summary of the WSA, see "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT."

Individual Water Supply Contracts. While the WSA establishes the rate-setting mechanism and the overall supply assurance level for the Wholesale Customers, each wholesale customer (including Cordilleras Mutual Water Company) has an individual water supply contract with the City that defines the terms and conditions (including, among others, the point of delivery and service area) by which water is supplied to each such wholesale customer.

Minimum Annual Purchases. Pursuant to the WSA, four Wholesale Customers – Alameda County Water District and the cities of Milpitas, Mountain View and Sunnyvale – may purchase water from sources other than the SFPUC, provided that each agency purchases a specified minimum annual quantity of water from the SFPUC ("Minimum Annual Purchase Quantity"). Due to the most recent drought in Water Years 2020, 2021 and 2022, and the corresponding call for voluntary rationing from the wholesale and retail customers, the SFPUC waived the minimum purchase requirements for these agencies for Fiscal Years 2021-22 and 2022-23, but reinstated the requirements in Fiscal Year 2023-24 once the SWRCB no longer required the SFPUC to implement the Shortage Level 1 or Shortage Level 2 drought response actions of its Water Shortage Contingency Plan. In Fiscal Year 2023-24, the City of Mountain View and the City of Milpitas did not meet their minimum purchase requirements and were assessed charges for imputed water sales of \$3,951,456 and \$10,378, respectively. The 2021 Amended and Restated WSA includes a new mechanism that allows a Wholesale Customer with a Minimum Annual Purchase Quantity to transfer a portion of that quantity to another Wholesale Customer at the same time that it transfers a portion of its

Individual Supply Guarantee to that other Wholesale Customer. The SFPUC and the Wholesale Customers are also considering other ways to relieve the City of Mountain View of the burden arising from its consistent inability to meet minimum purchase requirements. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT – Restrictions on Purchases of Water from Others; Minimum Annual Purchases.”

Retail Deliveries

Retail Service Area and Customer Base. The SFPUC’s Retail Customers include the residents, businesses and industries located within the corporate boundaries of San Francisco. In addition to these customers, retail water service is also provided to other customers located outside of San Francisco, such as the Town of Sunol, SFO, Lawrence Livermore National Laboratory, Castlewood Country Club and Groveland Community Services District. The SFPUC’s Retail Customers have been metered since 1916.

Residential Water Use. Due to the moderate climate and the high-density housing in San Francisco, much of the water use within San Francisco is indoors. For San Francisco’s many multi-family units, the average outdoor water use is considerably lower than the statewide residential outdoor average water use. Residential per capita water usage has been less than 50 gallons per person per day since 2011, and is currently averaging a little under 42 gallons per person per day. By comparison, the statewide average residential per capita water use in calendar year 2023 was 78 gallons per person per day.

Non-Residential Water Use. Non-residential water use includes all sectors of water users not designated as residential, such as manufacturing, transportation, trade, finance, and government employment sectors, and the large services sector.

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Historical Water Sales and Top Customers

Water Sales. The following table shows water sales to Retail Customers and wholesale customers for Fiscal Years 2019-20 through 2023-24.

TABLE 8
HISTORICAL WHOLESALE AND RETAIL WATER SALES
FISCAL YEARS 2019-20 THROUGH 2023-24
(IN MGD)

	2019-20	2020-21	2021-22	2022-23	2023-24	2023-24% of Total
<u>Retail Customers</u>						
Multi-Family Residential	23.3	22.7	21.9	21.8	21.7	12.4%
Single-Family Residential	14.4	14.6	13.1	12.5	12.2	7.0
Commercial ⁽¹⁾	15.1	10.6	11.8	12.4	12.2	7.0
Industrial	0.2	0.1	0.1	0.1	0.1	0.0
Municipal ⁽²⁾	3.4	2.8	2.8	2.5	2.7	1.6
Suburban Retail ⁽³⁾	3.0	2.8	2.7	2.7	2.9	1.7
Retail water sales	59.4	53.6	52.4	52.0	51.8	29.7%
<u>Wholesale Customers</u>						
California Water Service ⁽⁴⁾	29.0	29.6	29.0	26.4	25.9	14.9%
City of Hayward	14.2	14.5	14.0	12.9	13.1	7.5
Alameda County Water District	7.7	9.5	9.4	9.7	9.9	5.7
City of Sunnyvale	9.4	9.7	8.9	8.1	9.5	5.4
City of Palo Alto	9.7	9.8	9.6	8.6	8.9	5.1
City of Redwood City	8.8	8.6	7.9	7.2	7.7	4.4
City of Mountain View	7.6	7.9	7.4	6.7	7.4	4.2
City of Milpitas	6.1	5.4	4.8	4.5	5.3	3.0
City of San José	4.2	4.2	4.1	3.8	3.9	2.2
Estero Municipal Improvement District	4.3	4.3	3.9	3.5	3.7	2.1
All Other Wholesale Customers	31.0	31.5	29.5	26.4	27.3	15.8
Wholesale water sales⁽⁵⁾	132.0	135.0	128.5	117.8	122.6	70.3%
Total water sales⁽⁵⁾	191.4	188.6	180.9	169.8	174.4	
% Change from prior year⁽⁵⁾	3.9%	-1.6%	-4.1%	-6.1%	3.0%	

⁽¹⁾ Includes docks and ships under Commercial.

⁽²⁾ The Municipal category includes the San Bruno Jail, a City department located outside San Francisco, and master metered Treasure Island water sales. Current Treasure Island usage represents purchases by the Treasure Island Development Authority and various commercial, residential, and governmental lessees. As new development is completed on Treasure Island, customers open individual accounts under the appropriate commercial or residential line items, and the master-metered amount is reduced accordingly.

⁽³⁾ SFO is included as a Suburban Retail Customer because SFO receives water directly from the Water Enterprise.

⁽⁴⁾ California Water Service Company, Daly City, and San Bruno participate in the conjunctive use groundwater program, and receive a bill credit for regional water system usage in-lieu of groundwater pumping. Totals reported in this table exclude water credited to the SFPUC storage account under such conjunctive use program.

⁽⁵⁾ Totals may not add due to rounding.

Source: SFPUC; compiled from Annual Comprehensive Financial Report for Fiscal Years Ended June 30, 2024 and 2023.

Wholesale and retail sales figures do not include “nonrevenue water.” Nonrevenue water includes system leaks and unbilled water (*i.e.*, water used for firefighting, flushing system pipes, or a small volume of unbilled metered municipal use). Over the last three Fiscal Years, nonrevenue water has averaged approximately 7.7% of retail water sales per year. For more information regarding factors that impact water sales, see “– Recent Factors Impacting Retail Water Sales.”

Top Ten Retail and Top Ten Wholesale Customers. The following table sets forth the top ten Retail Customers and top ten wholesale customers based on water sales revenues for Fiscal Year 2023-24.

**TABLE 9
TOP TEN RETAIL CUSTOMERS
AND TOP TEN WHOLESALE CUSTOMERS
FISCAL YEAR 2023-2024**

	Water Sales Revenue (In Thousands)	Percent of all Water Revenues	Percent of Wholesale Customer Revenues⁽¹⁾	Percent of Retail Customer Revenues⁽¹⁾
<u>Retail Customers</u>				
San Francisco International Airport ⁽²⁾	\$ 6,048	0.9%	N/A	1.9%
Lawrence Livermore National Laboratory	2,935	0.5	N/A	0.9
Recreation and Parks Department	1,697	0.3	N/A	0.5
Parkmerced Investors Properties, LLC	2,472	0.4	N/A	0.8
University of California, San Francisco	2,279	0.4	N/A	0.7
NASA Shared Services Center, LLC	2,765	0.4	N/A	0.9
Golden Gate National Cemetery	1,731	0.3	N/A	0.5
Public Health Department	1,415	0.2	N/A	0.4
San Francisco State University	997	0.2	N/A	0.3
1169 Market Street	812	0.1	N/A	0.3
Total:	\$23,151	3.6%	N/A	7.3%
<u>Wholesale Customers</u>				
California Water Service Company	\$ 74,681	11.5%	22.3%	N/A
City of Hayward	35,828	5.5	10.7	N/A
City of Palo Alto	24,600	3.8	7.4	N/A
Alameda County Water District	27,606	4.2	8.3	N/A
City of Sunnyvale	25,779	4.0	7.7	N/A
City of Redwood City	20,941	3.2	6.3	N/A
City of Mountain View	20,068	3.1	6.0	N/A
City of Daly City	11,866	1.8	3.6	N/A
City of Milpitas	14,168	2.2	4.2	N/A
City of San José	10,674	1.6	3.2	N/A
Total:	\$266,211	40.9%	79.7%	N/A

⁽¹⁾ Percentages based on total wholesale revenues of \$334.2 million and total retail revenues of \$316.0 million.

⁽²⁾ Represents water sales to customers through the City enterprise fund for San Francisco International Airport, which is paid through the City's inter-departmental billing system.

Source: SFPUC.

Recent Factors Impacting Retail Water Sales

Several factors have contributed to the SFPUC's reduced retail water sales in recent years, including, but not limited to, certain developments in the local San Francisco economy and weather conditions. For example, there has been a general decline in San Francisco's population in recent years due to, among other factors, widespread business closures, worker migration out of San Francisco due in part to remote work policies, and a general decline in tourism, all of which can be attributed in some part to the enduring impacts of the COVID-19 pandemic. Specifically, according to the California Department of Finance, the population in San Francisco decreased by 3.5% between April 1, 2020 and January 1, 2024. In addition, office attendance stayed between 40-45% of pre-pandemic levels in fiscal year 2023-24, and office vacancy rates were approximately 33% in fiscal year 2023-24.

In addition, weather conditions and actions taken in response thereto over the past several years have resulted in reduced water usage. Water Years 2020, 2021 and 2022 represent the driest three-year period on record for California. During that time, in response to calls for voluntary statewide water use reductions and emergency regulations adopted by the SWRCB, the SFPUC declared a local water shortage emergency, called for voluntary systemwide water use reductions of up to 11% compared to baseline water use during Fiscal Year 2019-20 in

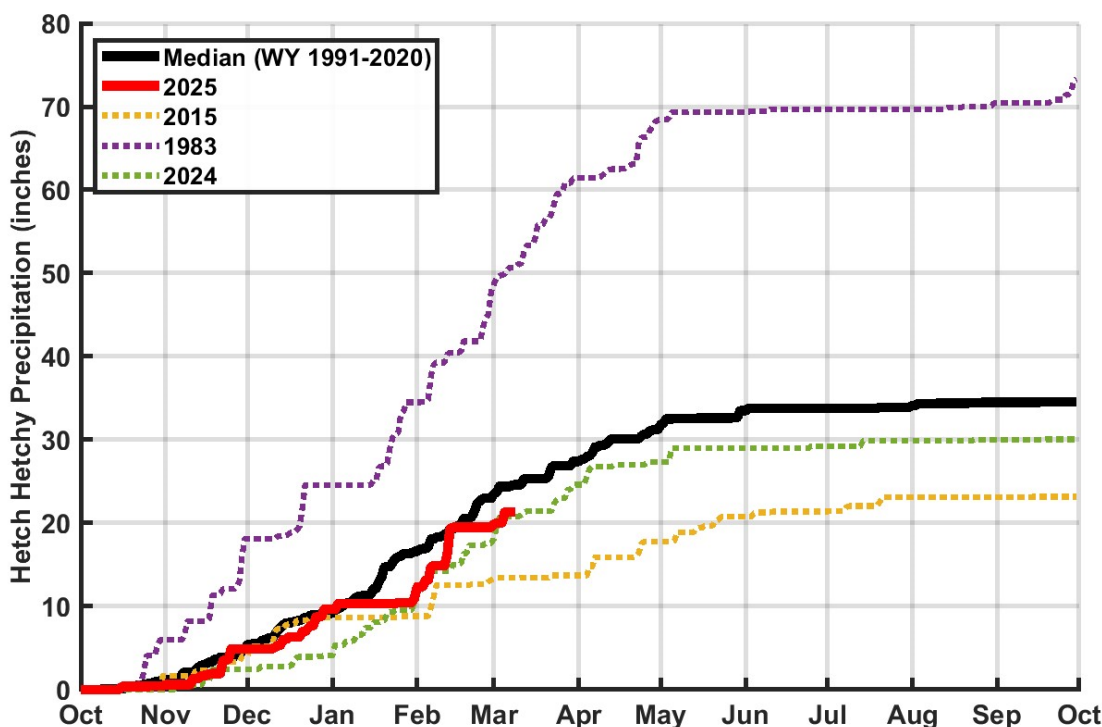
accordance with the SFPUC's Water Shortage Contingency Plan, adopted by the Commission in June 2021, and the Water Shortage Allocation Plan, and implemented a drought surcharge of up to 5% on all retail water and wastewater volumetric rates. As shown in Table 8, water sales declined during this period. Following California's remarkably wet winter in Water Year 2023, the SFPUC ended the local water shortage emergency declaration and the drought surcharge in May 2023 and ended the call for voluntary systemwide water use reductions in June 2023. While removal of drought restrictions generally increases water usage, years with greater-than-normal rainfall may see declines in water sales as customers typically reduce water use for outdoor irrigation. In the San Francisco retail service area, with its low outdoor irrigation usage and high levels of water conservation, there has been limited change in total water sales from the ending of drought restrictions, with Fiscal Year 2023-24 retail water sales showing very little change from the prior fiscal year.

Current Water Conditions

Water Year 2025 has been normal for both precipitation and snowpack. As of March 10, 2025, Water Year 2025 precipitation for upcountry area totals approximately 20.85 inches, which is 67.45% of normal annual total, and Water Year 2025 precipitation for local area totals approximately 18.45 inches, which is 79.02% of normal annual total.

The following graph shows precipitation levels at Hetch Hetchy as of March 10, 2025 for Water Year 2025, as compared to Water Year 2024 (most recent full Water Year), Water Year 1983 (wettest year on record), Water Year 2015 (driest year on record), and the median between Water Years 1991-2020.

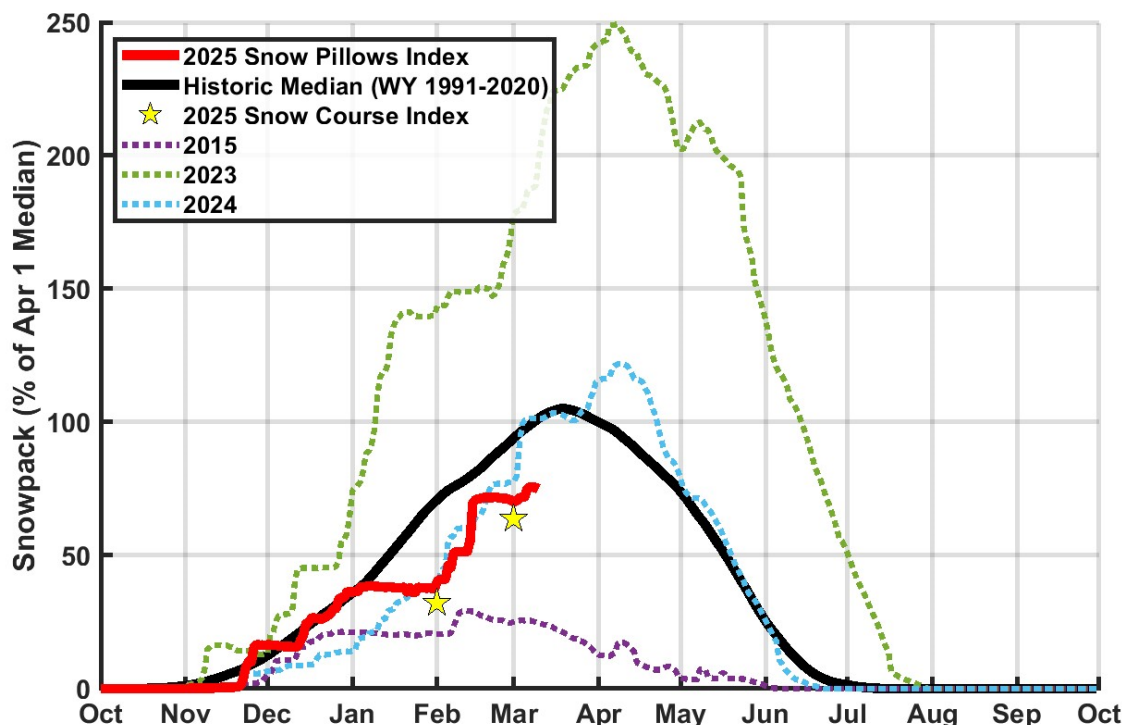
**GRAPH 1
PRECIPITATION AT HETCH HETCHY
(AS OF MARCH 10, 2025)**



Source: SFPUC.

The following graph shows snowpack conditions at Hetch Hetchy as of March 10, 2025 for Water Year 2025, as compared to Water Year 2024 (most recent full Water Year), Water Year 2023 (most amount of snowpack on record), Water Year 2015 (least amount of snowpack on record), and the median between Water Years 1991-2020.

GRAPH 2
UPCOUNTRY SNOWPACK
(AS OF MARCH 10, 2025)



Source: SFPUC.

Curtailment Actions by the State Water Resources Control Board

The SWRCB sought to curtail the exercise of water rights in 2014 and 2015 in response to the 2011-2017 drought. In 2014, the SWRCB enacted emergency regulations for the purpose of curtailing the exercise of junior, post-1914 water rights. The City was not impacted by these 2014 regulations as the City relies primarily on senior, pre-1914 water rights to divert water from the Tuolumne River. In 2015, the SWRCB again sought to curtail the exercise of water rights, but this time, the SWRCB issued curtailment notices to thousands of water rights holders across the State, including to senior, pre-1914 water rights holders, and subsequently prosecuted several enforcement proceedings. The City's water rights were never curtailed. The City did, however, participate in one of the enforcement proceedings before the SWRCB – the Administrative Civil Liability complaint against Byron Bethany Irrigation District (“**BBID**”) – in order to challenge the SWRCB's assertion that it has jurisdiction to curtail pre-1914 water rights. The SWRCB ultimately concluded the prosecution team had failed to carry its burden, and thus, dismissed the enforcement proceeding against BBID on the merits (the SWRCB also dismissed its enforcement proceeding against the West Side Irrigation District in the same order). However, in its order, the SWRCB concluded that it may exercise its enforcement authority to issue curtailment orders against pre-1914 water rights holders if water is unavailable under the diverter's priority of right. On September 2, 2015, the San Joaquin Tributaries Authority (“**SJTA**”), a joint powers authority then comprised of five member agencies, including the City by and through the SFPUC, filed suit seeking writ relief from the SWRCB's order. The SJTA argued that the SWRCB's order in the BBID enforcement proceeding

is inconsistent with established appellate case law and exceeded SWRCB's authority under the applicable law. Two other challenges to the SWRCB's order were filed and these three challenges, along with other pending challenges to the SWRCB's 2014 and 2015 curtailment actions, were assigned to a coordination judge in Santa Clara Superior Court. Judgment was entered in favor of SJTA and other plaintiffs on June 6, 2019, and, on September 12, 2022, the Sixth District Court of Appeal upheld this decision.

In August 2021, the SWRCB again adopted emergency regulations to curtail water rights throughout the Bay-Delta, which the SWRCB then readopted in August 2022. The SWRCB issued orders notifying the City that it may periodically curtail all of the City's water rights on the Tuolumne River subject to water unavailability, beginning August 2021. In response to high precipitation levels in late 2022 and early 2023, the SWRCB began lifting all curtailments, and, on March 24, 2023, Governor Newsom issued an executive order lifting the majority of the provisions of his earlier drought-related executive orders. By June 2023, the SWRCB's emergency curtailment regulations terminated by their own one-year term. On August 19, 2022, SJTA, again, filed a lawsuit challenging the legality of the emergency regulations. Separately, on September 20, 2021, the City filed a petition for reconsideration with the SWRCB on the curtailment orders for SFPUC's water right diversions on the Tuolumne River, which among other issues, informed the SWRCB that it was using incorrect place of use and priority date information for the City's water rights. On October 17, 2022, the SWRCB favorably resolved these place of use and priority date issues. The SFPUC is unable to predict whether future SWRCB initiatives to curtail the exercise of pre-1914 water rights might affect water supplies available to the SFPUC. See "REGULATORY MATTERS – Bay-Delta Water Quality Standards" and "– FERC Proceeding to Increase Flows in the Lower Tuolumne River."

Projected Demand

Wholesale Demand. In 2022, BAWSCA updated its 2020 Regional Water Demand and Conservation Projections Study, which provided demand projections of its member agencies (the Wholesale Customers) using a combination of two different models: (1) an econometric (or statistical) model developed for each member agency and (2) the Demand Side Management Least Cost Planning Decision Support System (also known as the DSS Model). In its 2022 update titled "Regional Water Demand and Conservation Projections Update," BAWSCA sought to meet two objectives: (1) to reflect new data that became available since the 2020 study's completion and (2) to better understand and quantify uncertainty associated with demand estimates and the variables that influence water demands, such as population, employment, climate change, housing densification, landscape transformation, conservation adoption, and rate increases. BAWSCA's population projections for its member agencies are based on each member agency's population projections as provided in their individual 2020 Urban Water Management Plans, the Association of Bay Area Governments ("ABAG") Plan Bay Area 2040 data, and Draft ABAG Plan Bay Area 2050 data. The forecast methodology and resulting projections are documented in the Regional Water Demand and Conservation Projections Update and support implementation of BAWSCA's Long-Term Reliable Water Supply Strategy (the "BAWSCA Strategy"). The BAWSCA Strategy's projections indicate that demands by the Wholesale Customers for Regional Water System supplies through 2045 will be significantly less than anticipated at the time the WSIP was adopted in 2008.

Water supplied by the SFPUC to the Wholesale Customers is metered. The total projected water demands of the Wholesale Customers, as compiled in the BAWSCA Annual Survey for Fiscal Year 2022-23, are shown in Table 10.

In Fiscal Year 2022-23, the Wholesale Customers collectively received approximately 117.91 mgd, or 66.8% of their water supply, from the Regional Water System. By Fiscal Year 2045-46, the Wholesale Customers are projected to receive approximately 170.49 mgd, or 63.8% of their water supply, from the Regional Water System. The remaining sources, including ground water, recycled water, surface water, additional active conservation and other sources are projected to total approximately 96.7 mgd.

TABLE 10
PROJECTED WHOLESALE CUSTOMER WATER DEMAND AND SUPPLIES⁽¹⁾
(IN MGD)

	2025-26	2030-31	2035-36	2040-41	2045-46
Wholesale Customer Purchases from the Regional Water System ⁽²⁾	149.53	155.59	160.26	165.01	170.49
Other Supplies ⁽³⁾	73.99	73.81	79.68	86.30	96.73
Total Wholesale Customer Demand	223.52	229.40	239.94	251.31	267.22

⁽¹⁾ Does not include wholesale customer Cordilleras Mutual Water Company, which is not a BAWSCA member agency and not a party to the WSA.

⁽²⁾ This projected demand includes increased deliveries to interruptible customers, the cities of San José and Santa Clara, as well as to other permanent customers such as East Palo Alto.

⁽³⁾ Estimated as the difference between the “Total Wholesale Customer Demand” and the “Wholesale Customer Purchases from the Regional Water System.”

Note: Amounts set forth in the table are projections. Actual results may differ materially from these projections. See “FORWARD-LOOKING STATEMENTS.”

Source: SFPUC; compiled from BAWSCA Annual Survey Fiscal Year 2022-23, dated April 2024.

The SFPUC plans to meet its contractual obligation of serving the Wholesale Customers Supply Assurance (as defined herein) of 184 mgd. In addition to the Supply Assurance, the SFPUC provides 9 mgd to San José and Santa Clara as interruptible customers, which is the level of demand that is reflected through 2046 in the table above. East Palo Alto was previously projecting a 1.5 mgd supply shortfall. In 2017, Mountain View agreed to a permanent transfer of 1.0 mgd of its Individual Supply Guarantee (defined below) to East Palo Alto. Subsequently, in 2018, Palo Alto agreed to a permanent transfer of 0.5 mgd of its Individual Supply Guarantee to East Palo Alto. See “– Wholesale Deliveries – Creation of Transfer Market” and “– 2028 Water Supply Decisions.”

Retail Demand. Municipal retail water service providers are required to prepare an Urban Water Management Plan every five years. The purpose of the Urban Water Management Plan process is to project future retail water demand with a view to facilitating the planning necessary to assure that future water supply will be adequate to meet future demand. By reason of the periodic nature of the Urban Water Management Plan process, the SFPUC’s current Urban Water Management Plan may not reflect the most current information. Further, for financial planning and rate-setting purposes, the SFPUC projects water sales conservatively. As a consequence, demand projections derived from the SFPUC’s Urban Water Management Plans will not match the water sales projections used for financial planning purposes.

The SFPUC’s current retail demand projections are based on the 2023 Interim Water Demand Projections, prepared in September 2023 (the “**2023 Interim Water Demand Projections**”), which reflect slightly higher housing projections than those used in the 2020 Urban Water Management Plan, adopted by the SFPUC in June 2021 (the “**2020 Urban Water Management Plan**”). Both the 2020 Urban Water Management Plan and 2023 Interim Water Demand Projections used an econometric model that incorporates socioeconomic factors to forecast demand, which has become a more prevalent methodology for forecasting demand among urban water utilities and managers. The econometric model combined 10 years (2010-2020) of historical San Francisco account-level water usage data with property characteristics, demographic characteristics and historical climate data. For the 2020 Urban Water Management Plan, demand was projected based on housing and employment forecasts available at that time from the San Francisco Planning Department. Housing projections were based on the City’s housing plan objective of producing an average of 5,000 housing units per year with adjustments for certain large development plans. Employment projections were based on the Planning Department’s Land Use Allocation 2017, a City-specific refinement of the ABAG’s growth forecasts, and ABAG Projections 2017, which reflect assumed growth from ABAG’s Plan Bay Area and Sustainable Communities Strategy Jobs-Housing Connections Scenario. The resulting employment projections anticipate approximately 16% of growth in the number of jobs between 2020 and 2045. After, and unrelated to, adoption of the 2020 Urban Water Management Plan, the San Francisco Planning Commission certified the Housing Element 2022 Update (the “**Housing Element 2022 Update**”) Environmental Impact Report in November 2022. The Housing Element 2022 Update Environmental Impact Report, which supported the City’s adoption of the Housing Element 2022 Update in January 2023, assumed slightly higher housing unit projections than

those used in the 2020 Urban Water Management Plan, but still in line with the objective to produce an average of 5,000 housing units per year. However, the SFPUC determined that its 2020 Urban Water Management Plan, which was completed prior to recent developments that have affected San Francisco’s population and the local economy, no longer accounted for all projected retail water demands and subsequently prepared the 2023 Interim Water Demand Projections in September 2023 to reflect housing growth consistent with the Housing Element 2022 Update. The resulting demand projections increased by about 0.6 to 0.8% compared to those in the 2020 Urban Water Management Plan.

Demand is forecasted to increase steadily through Fiscal Year 2044-45, with more rapid growth happening in the later years of the projection period. After accounting for the projected conservation savings, the total retail demand (excluding water loss) is projected to increase by about 22% between Fiscal Years 2019-20 and 2044-45. Although population and total retail water demand are projected to increase, residential per capita water usage is forecasted to decrease.

The water demand projections show that, throughout the retail service area, single family residential water use is expected to decrease by 7% and multi-family residential water use is projected to increase by 46% between Fiscal Years 2019-20 and 2044-45. Non-residential water use is projected to increase by 13% between Fiscal Years 2019-20 and 2044-45. These projections will be updated in summer 2025 as the SFPUC compiles information for the next Urban Water Management Plan, which will take into consideration the City’s housing plan objectives available at that time.

The following table sets forth retail water demand projections, which are based on the 2023 Interim Water Demand Projections.

TABLE 11
PROJECTED RETAIL WATER DEMAND
(IN MGD)

	2025	2030	2035	2040	2045
In City Residential Demand (Single and Multiple Family)	38.0	39.7	41.8	44.4	47.1
In City Non-residential (Business/Industrial/Municipal Demands) ⁽¹⁾	22.9	22.9	22.8	23.1	23.6
Subtotal – In City Retail	60.9	62.6	64.6	67.5	70.6
In City Water Loss ⁽²⁾	6.0	6.0	6.0	6.0	6.0
Subtotal – In City Losses	6.0	6.0	6.0	6.0	6.0
Suburban Residential	0.1	0.1	0.1	0.1	0.1
Suburban Non-residential ⁽³⁾	4.0	4.0	4.0	4.0	4.0
Groveland CSD	0.3	0.3	0.3	0.3	0.3
Subtotal – Suburban Retail⁽⁴⁾	4.4	4.4	4.4	4.4	4.4
Total – Retail Demand	71.3	73.0	75.0	77.9	81.1
Local Water Supplies	3.5	4.9	5.9	6.9	6.9
Net Retail Demand from Regional Water System	67.8	68.1	69.1	71.0	74.1

⁽¹⁾ Includes Builders & Contractors, Docks & Shipping, and all dedicated irrigation.

⁽²⁾ Water losses include both apparent and real losses.

⁽³⁾ Includes the San Francisco County Jail, San Francisco International Airport, Lawrence Livermore National Laboratory, Castlewood Country Club, Sunol Valley Golf Course, and other non-residential suburban or municipal accounts.

⁽⁴⁾ Suburban retail water losses are considered to be negligible.

Note: Amounts set forth in this table are projections. Actual results may differ materially from these projections. See “FORWARD-LOOKING STATEMENTS.”

Sources: 2020 Urban Water Management Plan, released July 2021; 2023 Interim Water Demand Projections, released September 2023.

Cybersecurity

City Measures. The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City's systems technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the City invests in multiple forms of cybersecurity and operational safeguards. In 2016, the City adopted a City-wide Cybersecurity Policy (the "**City Cyber Policy**") to support, maintain, and secure critical infrastructure and data systems. The objectives of the City Cyber Policy include protecting critical infrastructure and information, managing risk, improving cyber security event detection and remediation, and facilitating cyber awareness across all City departments. The City's Department of Technology has established a cybersecurity team to work across all City departments, including the SFPUC, to implement the City Cyber Policy. The City Cyber Policy is reviewed periodically. The City has also appointed a City Chief Information Security Officer (the "**CCISO**"), who is directly responsible for understanding the business and related cybersecurity needs of the City's departments, including the SFPUC. The CCISO is responsible for identifying, evaluating, responding, and reporting on information security risks in a manner that meets compliance and regulatory requirements, and aligns with and supports the risk posture of the City.

SFPUC Measures. Federal agencies have recently reported that critical infrastructure sectors, such as water and wastewater, may be specific targets of cybersecurity threat actors. The occurrence of military conflicts or terrorist activities, including cyber terrorism, could adversely impact the Water Enterprise's operations and finances. For example, cyberattacks directed at water sector operations could damage water transmission, treatment, distribution or storage assets, causing operational malfunctions and outages, and resulting in costly recovery and remediation efforts. In January 2024, the SFPUC's system was targeted by a suspected foreign state-sponsored threat actor. The SFPUC's prompt execution of its cybersecurity incident response plan, as further described below, successfully contained the incident without any significant impact.

The SFPUC abides by the City Cyber Policy and maintains its own cybersecurity and disaster recovery program (the "**SFPUC Cybersecurity Program**") that is based on the National Institute of Standards and Technology cybersecurity guidance. In addition, control networks for the Water Enterprise and the Wastewater Enterprise adhere to the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency's ("**CISA**") Cross-Sector Cybersecurity Performance Goals, as recommended by the United States Environmental Protection Agency (the "**USEPA**"). Control networks for the Power Enterprise adhere to the North American Electric Reliability Corporation critical infrastructure protection controls. In anticipation of future USEPA regulatory requirements, the SFPUC has completed operational cybersecurity assessments in alignment with CISA's cross-sector performance objectives.

The SFPUC has also appointed a Chief Information Security Officer (the "**CISO**"), who reports to the SFPUC's Chief Information Officer. The SFPUC's cybersecurity team also includes dedicated information technology (IT) and operational technology (OT) staff, as well as third-party specialists who perform a variety of cybersecurity functions. Technology vendors undergo thorough security assessments during procurement, and any procured technology is continuously monitored through the SFPUC Cybersecurity Program.

The SFPUC Cybersecurity Program employs industry-standard cybersecurity solutions and multiple technical controls, including: network segmentation of control environments, secure remote access and domain name system (DNS) protocols, modern authentication methods, secure asset disposal procedures, end user controls, and timely removal of system and facility access for departing SFPUC employees. In addition, the SFPUC has implemented industry-leading technology that provides real-time threat monitoring and response capabilities across all corporate and operational environments. These response capabilities include a cybersecurity incident response plan, incident response services, incident responders, and a cybersecurity insurance policy. The SFPUC's cybersecurity incident response plan is part of the SFPUC's continuity of operation plan, which describes the SFPUC's strategy for ensuring continued delivery of essential services during a disruption in normal operations, and part of the City's Department of Emergency Management Emergency Support Function 18 program, which details the City's operational response in the event of a cybersecurity incident.

The SFPUC Cybersecurity Program is periodically and independently reviewed for effectiveness, most recently in June 2022. The next review is scheduled for September 2025. Pursuant to the SFPUC's policies, the City Services Auditor and independent cybersecurity auditors perform extensive penetration and vulnerability assessment on the SFPUC's business and control networks. In addition, the City Services Auditor conducts annual cybersecurity maturity assessments. Like many other large public and private entities, the SFPUC is continually identifying aging infrastructure and managing infrastructure lifecycle.

See also "RISK FACTORS – Risks Related to Water Enterprise Facilities and Operation – *Cybersecurity*."

Climate Change

Impact on City of San Francisco. Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution.

The 2018 Fourth National Climate Assessment and the 2023 Fifth National Climate Assessment, each published by the United States Global Change Research Program, find that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems. Both reports state that rising temperatures, sea level rise, and changes in extreme events are expected to increasingly disrupt and damage critical infrastructure and property and regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages and service disruptions. Both reports state that the continued increase in the frequency and extent of high-tide flooding due to sea level rise threatens coastal public infrastructure. Both reports also state that expected increases in the severity and frequency of heavy precipitation events will affect inland infrastructure, including access to roads, the viability of bridges and the safety of pipelines.

Sea levels will continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Between 1854 and 2016, the sea level rose about nine inches according to the tidal gauge at Fort Point, a location underneath the Golden Gate Bridge. Weather and tidal patterns, including 100-year or more storms and king tides, may exacerbate the effects of climate-related sea level rise. Coastal areas like San Francisco are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. As a result, the City could lose considerable tax revenues and many residents, businesses, and governmental operations along the waterfront could be displaced. The City may elect to mitigate these effects to maintain its current shoreline and protect critical infrastructure at a potentially significant cost.

Adapting to sea level rise is a key component of the City's policies. The City and its enterprise departments have been preparing for future sea level rise for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled "Sea Level Rise Action Plan," identifying geographic zones at risk of sea level rise and providing a framework for adaptation strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise, including the effects of temporary flooding due to a 100-year storm, of up to 108 inches above the 2015 average high tide. To implement this plan, the Mayor's Sea Level Rise Coordinating Committee, co-chaired by the Planning Department and Office of Resilience and Capital Planning, joined the Port, the SFPUC and other public agencies in moving several initiatives forward. This included a Citywide Sea Level Rise Vulnerability and Consequences Assessment to identify and evaluate sea level rise impacts across the City and in various neighborhoods that was released in February 2020.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resource Agency, the Governor's Office of Planning and Research, and the California Energy Commission) published a report that was formally adopted in March 2018, entitled "Rising Seas in California: An Update on Sea Level Rise Science" (the "**Sea Level Rise Report**") to provide a new synthesis of the state of science regarding sea level rise. The Sea Level Rise Report provides the basis for State guidance to State and local agencies, entitled "State of California Sea-Level Rise Guidance: 2018 Update" (the "**2018 Update**"). The 2018 Update provides guidance for incorporating sea level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates

that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, exacerbated tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets poses a particular risk of sea level rise for the California coastline. An update of both the Sea Level Rise Report and the 2018 Update was adopted by the State of California in 2024. This update, contained in a single document entitled “State of California Sea Level Rise Guidance: 2024 Science & Policy Update,” revised findings regarding best available science and updated guidance to State and local agencies, superseding the 2018 Update. Though high-end projections of sea level rise were reduced based on new science, the fundamental findings of the more recent reports as well as the specifics cited above agreed with those of the previous reports.

In March 2020, a consortium of State and local agencies, led by the Bay Conservation and Development Commission, released a detailed study entitled, “Adapting to Rising Tides Bay Area: Regional Sea Level Rise Vulnerability and Adaptation Study,” on how sea level rise could alter the Bay Area. The study states that a 48-inch increase in the bay’s water level in coming decades could cause more than 100,000 Bay Area jobs to be relocated, nearly 30,000 lower-income residents to be displaced, and 68,000 acres of ecologically valuable shoreline habitat to be lost. The study further argues that without a far-sighted, nine-county response, the region’s economic and transportation systems could be undermined along with the environment. For example, runways at SFO could largely be under water.

The City has already incorporated site specific adaption plans in the conditions of approval for certain large waterfront development projects, such as the Candlestick/Hunters Point Shipyard, Treasure Island, Pier 70 and Mission Rock projects. Also, the City has partnered with the U.S. Army Corps of Engineers to develop a plan to fortify the Port’s seawall from sea level rise. A draft plan estimates the total cost of that project at \$13.5 billion; and, subject to U.S. Army Corps of Engineers and Congressional approval, 65% of the cost would be eligible for federal funding. The City is developing a financing strategy to provide the remaining funds, including using funding from the November 2018 approved Proposition A, authorizing the issuance of up to \$425 million in general obligation bonds for repair and improvement projects on the seawall.

Portions of the San Francisco Bay Area, including San Francisco, are built on fill that was placed over saturated silty clay known as “Bay Mud.” Bay Mud is soft and compressible, and the consolidation of the Bay Mud under the weight of the existing fill is ongoing. A report issued in March 2018 by researchers at the University of California, Berkeley (“**UC Berkeley**”) and the University of Arizona suggests that flooding risk from climate change could be exacerbated in the San Francisco Bay Area due to the sinking or settling of the ground surface, known as subsidence. The study claims that the risk of subsidence is more significant for certain parts of San Francisco built on fill.

Projections of the effects of global climate change on San Francisco are complex and depend on many factors that are outside the City’s control. The various scientific studies that forecast climate change and its adverse effects, including sea level rise and flooding risk, are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast when sea level rise or other adverse effects of climate change (e.g., the occurrence and frequency of 100-year storm events and king tides) will occur. In particular, the City cannot predict the timing or precise magnitude of adverse economic effects, including, without limitation, material adverse effects on the business operations or financial condition of the City and the local economy during the term of the 2025ABC Bonds. While the effects of climate change may be mitigated by the City’s past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will take additional adaptive mitigation measures. If necessary, such additional measures could require significant capital resources.

In September 2017, the San Francisco City Attorney filed a lawsuit on behalf of the People of the State of California in San Francisco Superior Court against the five largest investor-owned oil companies seeking to have the companies pay into an abatement fund to help fund infrastructure for climate change adaptation. Following litigation regarding defendants’ removal of the case to federal court, the City’s case was remanded to and coordinated with similar municipal lawsuits and the State of California’s lawsuit in San Francisco Superior Court in 2024. In June 2024, the San Francisco City Attorney filed the current amended complaint seeking abatement funds, damages, and other remedies. The Superior Court has since held that personal jurisdiction is appropriate over non-resident defendants sued in the City’s case and denied an “anti-SLAPP” motion to strike by one of the defendants. While the City believes

that the claims in this lawsuit are meritorious, it can give no assurance regarding whether the lawsuit will be successful and obtain the requested relief from the courts, or contributions to the abatement fund from the defendant oil companies.

Impact on SFPUC Water Enterprise. The issue of climate change has become an important factor in water resources planning in the State, and is being considered during planning for the Water Enterprise. The preponderance of evidence indicates that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, there is strong evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes will have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, climate change could result in the following types of water resources impacts in the State, including impacts on the Water Enterprise and associated watersheds:

- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, such as in the Tuolumne River basin, and a shift in snowmelt runoff to earlier in the year;
- Changes in the timing, intensity and annual variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow;
- Long-term changes in watershed vegetation and increased incidence of wildfires that could degrade water quality;
- Sea level rise, which could cause inundation of Water Enterprise assets and/or an increase in saltwater intrusion into groundwater basins;
- Increased water temperatures with accompanying adverse effects on some fisheries and water quality; and
- Changes in urban water demand.

However, other than the general trends listed above, there is no clear scientific consensus on exactly how climate change will quantitatively affect SFPUC or State water supplies.

To help better understand the potential vulnerability of the SFPUC's Regional Water System to uncertain future conditions, the SFPUC partnered with the Water Research Foundation to develop a long-term vulnerability assessment of the Regional Water System, which was published in 2021 with an errata published in 2025 pertaining to a specific study finding. The study was conducted by the University of Massachusetts Hydrosystems Research Group with input from the National Center for Atmospheric Research, other climate scientists, and Deltares. The goal of the long-term vulnerability assessment was to help quantitatively and qualitatively assess to what extent climate change will be a threat to the Regional Water System in comparison to or in combination with other external drivers of change over the next 50 years (2020-2070). More specifically, the assessment aimed to answer the following questions: (1) Under what conditions and when will the Regional Water System no longer meet system performance criteria? (2) Is climate change the most important driver of vulnerability for the Regional Water System and if not, what is? While climate change is the driver of change that triggered this study, the intent was to understand the effects of climate change in the context of effects from other drivers of change on the Regional Water System. Overall, the study found that:

- Climate change exacerbates impacts from other external drivers of change and is not the single most important driver of vulnerability for the Regional Water System.
- The Regional Water System at a baseline demand of 227 mgd is resilient to changes in climate and most external drivers.

- The Regional Water System water supply performance declines with reductions in mean precipitation but is mostly insensitive to increases in temperature.
- The Regional Water System is more vulnerable to changes in demand and instream flow requirements than changes in mean annual temperature and precipitation.
- The Regional Water System is vulnerable to changes in mean climate when demand or instream flow requirements increase.

These findings are based on the following results:

- According to climate projections and expert elicitations of climate scientists, there is a central tendency of warming of +2°C and +4°C by 2040 and 2070 for Representative Concentration Pathway 8.5 (which represents unmitigated global greenhouse gas emissions during the 21st century), respectively, with no clear direction of change in mean annual precipitation over the planning horizon.
- In the Hetch Hetchy watershed, by 2040, most projections and elicitations of warming estimate between +1°C and +4°C and for precipitation change between -5% and +5% compared to historical baseline; and by 2070 estimates of warming range between +3°C and +6°C and for precipitation between -15% and +15% (assuming Representative Concentration Pathway 8.5).
- Changes in hydrology due to climate change affect the Regional Water System's ability to meet water supply targets. At 227 mgd demand, the Regional Water System can sustain up to +4°C and -5% precipitation change before failing to meet targets for delivery reliability, frequency of 20% rationing, storage reliability and duration of rationing. At 227 mgd demand, the Regional Water System is resilient to all median climate projections for the planning horizon 2020-2070. Due to the limitations of the models, these results are likely understating the impact of climate change. Next steps will include improvements on these models to address the bias in the current versions.
- Precipitation change is an important driver for Regional Water System performance. A decrease of 10% or more will cause Regional Water System targets to be missed. The climate projections and expert elicitations show that such a change in precipitation is possible by 2040, although unlikely. The likelihood of this change increases toward 2070.
- The Regional Water System shows minor sensitivity to temperature change for the metrics evaluated in this study. Most metrics stay above target under warming conditions. However, warming conditions often magnify the loss in system performance if precipitation or demand change.
- Demand change appears to be a major driver of future Regional Water System performance. An increase in demand of approximately 16.7% (265 mgd) will lead to failure to meet rationing frequency targets under current climate conditions. At 265 mgd demand, the rationing frequency targets would be met if there is an increase in precipitation of 10%. If demand increases by 30%, the rationing target cannot be met even when precipitation increases by 40%, which is believed plausible but unlikely over the planning horizon.
- The Regional Water System is particularly vulnerable to the SWRCB's "Phase 1" Amendment to the Water Quality Control Plan (see "REGULATORY MATTERS – Bay-Delta Water Quality Standards"), which represents a significant reduction in water available. Under all demand (including baseline demand of 227 mgd) and climate scenarios, the system reliability, defined as frequency of years without rationing, remains below 5%.

SFPUC hydrologists are involved in ongoing monitoring and research regarding climate change trends and will continue to monitor the changes and predictions, particularly as these changes relate to water system operations and management of the Water Enterprise.

Regarding sea level rise, the City has developed policies for considering the potential impact of sea level rise on City assets, “Guidance for Incorporating Sea Level Rise into Capital Planning” that requires all assets in the City’s 10-year capital plan be evaluated for inundation under a variety of sea level rise scenarios plus a 100-year storm. The SFPUC has assets that are part of the Emergency Firefighting Water System (the “**Emergency Firefighting Water System**” or “**EFWS**”), also known as the Auxiliary Water Supply System, the supplementary and emergency water supply managed by the SFPUC. See “WATER FACILITIES – Emergency Firefighting Water System.” These assets have projected functional lifespans of between 90 and 100 years. Several of these assets such as buried pipelines, fireboat manifolds, hydrants, and pump stations are in the potential inundation zone toward the end of the 21st century. The City, through its Sea Level Rise Action Plan, will be evaluating the best approaches and potential adaptive management plans for protecting EFWS assets, along with all other public and private assets potentially subject to inundation caused by sea level rise and large storms.

The SFPUC is a founding member of the Water Utility Climate Alliance (the “**WUCA**”), a group of 12 large water utilities collectively delivering drinking water to over 50 million people in the United States that is focused on collaboratively advancing water utility climate change adaptation. WUCA meets monthly by phone, maintains active projects and committees exploring adaptation best practices on a variety of subjects and features active participation of SFPUC staff.

Climate Action Plan

In September 2021, the City adopted a set of emissions reduction targets: achieve net-zero greenhouse gas emissions generated by the City by 2040 and reduce emissions associated with consumption of all goods and services in the City (regardless of where emissions originate) 80% by 2050. In December 2021, former Mayor Breed released the City’s Climate Action Plan (the “**Climate Action Plan**”) detailing the actions needed to accomplish these targets, developed through a multi-agency and stakeholder process led by the San Francisco Environment Department (the “**Environment Department**”). The Climate Action Plan is a roadmap of goals, strategies and actions to achieve emission reductions across six sectors: energy supply, building operations, transportation and land use, housing, responsible production and consumption, and healthy ecosystems. Key strategies include, but are not limited to, provision of 100% carbon-free energy, decarbonization of buildings, and increases in the public transit, active transportation, and vehicle electrification networks. In addition to reducing emissions to zero over the next 20 years, the Climate Action Plan strives to ensure all San Franciscans have the skills, knowledge, and resources to meet future interconnected challenges, including climate change. To do so, the proposed strategies aim to leverage community strengths, advance racial and social equity, and provide critical benefits to the entire community. The Climate Action Plan includes sections on funding and investment, monitoring and reporting. The City also maintains a public-facing reporting mechanism to keep stakeholders and residents informed on progress made against performance metrics laid out in the Climate Action Plan. The Environment Department contracted with the University of California, Berkeley, Center for Law, Energy & the Environment (the “**CLEE**”) to assess options for funding the equitable implementation of the Climate Action Plan. CLEE released its report entitled “Funding San Francisco Climate Action” in November 2022.

In 2023, together with the Environment Department, the SFPUC released the San Francisco’s Climate Action Plan 2021 – Water Supply Addendum 2023, which adds “water supply” as a seventh sector to the Climate Action Plan. The addendum focuses on how the City plans to address and secure water supplies that are impacted by multiple climate challenges, including climate change, by continuing to implement effective water conservation programs; deploying innovative ways to conserve, recover, and reuse water; and augmenting the SFPUC’s Regional Water System by investing in alternative water supply projects.

WATER FACILITIES

General

The facilities of the Water Enterprise consist of Regional Water System facilities and In-City Distribution System facilities. The Regional Water System evolved through the development of two separate water systems: the Spring Valley Water Company system and the Hetch Hetchy Project.

- The predecessor to the Spring Valley Water Company was established in 1858, developing a spring and several creeks into a local water system. It expanded over the years with the construction of Pilarcitos Reservoir, followed by San Andreas Reservoir, Upper Crystal Springs Reservoir and Lower Crystal Springs Dam, all on the Peninsula in San Mateo County. Later the company extended its system to additional sources on Alameda Creek in Alameda County and expanded its service area to include additional Peninsula and South Bay customers. The City acquired the local supplies and retail distribution system of the Spring Valley Water Company in 1930.
- Following enactment of the Raker Act in 1913, the City was able to proceed with plans to develop its own water supply system. The construction of the Hetch Hetchy Project began in earnest in 1914, and after almost 20 years of construction, including the building of O'Shaughnessy Dam and a required transmission system, Sierra Nevada water began flowing into the local distribution system in 1934. The Hetch Hetchy Project is operated as a combined water storage and conveyance and electric generation and transmission system. The Water Enterprise and the Power Enterprise coordinate operation of the Hetch Hetchy Project to ensure reliable utility services are provided by the combined system. Pursuant to State statute, the Charter and the terms of the WSA, the SFPUC operates the Hetch Hetchy Project pursuant to a "water first" policy to optimize the reliability and quality of its water deliveries and ensure that hydroelectric generation does not cause any reasonably anticipated adverse impact on water service. Power is generated when water is delivered to meet water system operational requirements.

See "THE WATER ENTERPRISE – Water Rights and Related Proceedings."

Since the 1930s, the major additions to the SFPUC's water system have included the raising of O'Shaughnessy Dam at Hetch Hetchy Reservoir (1935-38), and the development of Lake Lloyd (Cherry) Reservoir, the construction of additional pipelines across the San Joaquin Valley, and the local construction of San Antonio Reservoir in Alameda County and the Bay Division Pipelines 2, 3 and 4. Other local projects included Crystal Springs Pipeline No. 3, Sunol Valley and San Andreas Filtration Plants, and the Crystal Springs Bypass Tunnel and Balancing Reservoir. The SFPUC has completed the majority of WSIP projects including the Irvington Tunnels 1 and 2, Bay Division Pipeline 5, and a new tunnel under San Francisco Bay between Newark in Alameda County and East Palo Alto in San Mateo County that replaced the transbay portion of Bay Division Pipelines 1 and 2.

The Regional Water System is geographically delineated between the Hetch Hetchy Project and the Bay Area water system facilities.

- The Hetch Hetchy Project is generally comprised of the reservoirs, hydroelectric generation and transmission facilities, and water transmission facilities from Hetch Hetchy Reservoir west to the Alameda East Portal of the Coast Range Tunnel in Sunol Valley.
- The Bay Area water system is generally comprised of the facilities west of Alameda East Portal and includes the Alameda and Peninsula watershed reservoirs, two water treatment plants and the conveyance system that delivers water to the SFPUC's Retail Customers and wholesale customers.

Water Conveyance and Distribution

Regional Water System. The Regional Water System comprises three regional water supply and conveyance systems: the Hetch Hetchy System; the Alameda System; and the Peninsula System (as herein defined).

Hetch Hetchy System. In the Hetch Hetchy System, water is diverted from Hetch Hetchy Reservoir into a series of tunnels and aqueducts from the Sierra Nevada to the San Joaquin Pipelines that cross the San Joaquin Valley to the Coast Range Tunnel (collectively, the “**Hetch Hetchy System**”) which connects to the Alameda System at the Alameda East Portal. The Tesla Treatment Facility disinfects Hetch Hetchy Water. See “– Water Treatment – *Hetch Hetchy Water.*”

Alameda System. The “Alameda System” includes two reservoirs, San Antonio Reservoir and Calaveras Reservoir, which collect water from the upper Alameda and San Antonio Creek watersheds in Alameda County, plus conveyance facilities connecting the Hetch Hetchy System and Alameda water sources to the Peninsula System. These conveyance facilities include pipelines known as the Alameda Siphons that connect the Coast Range Tunnel to Irvington Tunnels 1 and 2.

Irvington Tunnels 1 and 2 supply the five Bay Division Pipelines that cross the South Bay Area to the Peninsula System. Bay Division Pipelines 1, 2 and 5 connect with the Bay Tunnel on opposite sides of the San Francisco Bay near the Dumbarton Bridge. The Bay Tunnel itself runs beneath the floor of San Francisco Bay. Bay Division Pipelines 3 and 4 traverse the southerly edge of San Francisco Bay delivering water to SFPUC customers along the way. All five pipelines reconnect near the inlet to the Pulgas Tunnel on the Peninsula.

The Sunol Valley Water Treatment Plant filters and disinfects water supplied from San Antonio and Calaveras Reservoirs, and, when necessary, water from the Sierra Nevada.

A turnout from the South Bay Aqueduct of the California State Water Project (the “**State Water Project**”) could be refurbished and utilized to supply limited supplemental water to San Antonio Reservoir. However, the SFPUC currently possesses no entitlements to water from the State Water Project.

Peninsula System. Two reservoirs, Crystal Springs and San Andreas, collect runoff from the San Mateo Creek watershed. Water from Pilarcitos Reservoir, on Pilarcitos Creek, directly serves one of the Wholesale Customers, the Coastside County Water District (which includes the City of Half Moon Bay), and can also deliver water to Crystal Springs and San Andreas Reservoirs. Water delivered from the Bay Division Pipelines in excess of Peninsula System and in-City demands spills into Crystal Springs and San Andreas Reservoirs. The Harry Tracy Water Treatment Plant filters and disinfects water supplied from Crystal Springs and San Andreas Reservoirs before it is delivered to Peninsula customers and the In-City Distribution System. The “Peninsula System” includes conveyance facilities connecting the Bay Division Pipelines to the In-City Distribution System and to other SFPUC customers on the Peninsula.

In-City Distribution System. The City’s retail water supply is delivered to San Francisco in several major pipelines. Water to the east side of the In-City Distribution System is fed by two pipelines that terminate at University Mound. Water to the west side of the In-City Distribution System is fed by two pipelines that terminate at Sunset Reservoir and one that terminates at Merced Manor Reservoir. The In-City Distribution System to homes and businesses in San Francisco is comprised of 1,235 miles of pipeline.

Summary of System Facilities. The Regional Water System and the In-City Distribution System facilities are summarized below.

TABLE 12
SUMMARY OF SYSTEM FACILITIES

	<u>Regional Water System</u>	<u>In-City Distribution System</u>
Pipelines	389 miles	1,235 miles
Tunnels	74.5 miles	None
Pump Stations	5	25
Reservoirs and/or Water Tanks	11 reservoirs	11 reservoirs/8 water tanks
Groundwater Wells	13	6
Treatment Plants	3	None

Source: SFPUC.

Water Treatment

Hetch Hetchy Water. Hetch Hetchy Reservoir is the largest unfiltered water supply on the West Coast and one of only a few large unfiltered municipal water supplies in the nation. The water originates from spring snowmelt flowing down the Tuolumne River to Hetch Hetchy Reservoir, where it is stored.

This water source is located in the well protected Yosemite National Park and the High Sierra region. This area meets or exceeds all federal and State criteria for watershed protection. The water originating from Hetch Hetchy Reservoir is protected in pipes and tunnels as it is conveyed to the Bay Area, and requires pH adjustment to control pipeline corrosion and disinfection for bacteria control. Based on the SFPUC's disinfection treatment practice, extensive bacteriological quality monitoring, and high operational standards, the USEPA and the State of California Department of Health Services have determined that the Hetch Hetchy water source meets federal and State drinking water quality requirements without filtration, and thus the SFPUC is not required to filter water from Hetch Hetchy Reservoir. For further discussion of the State and federal regulatory requirements affecting the Water Enterprise, see "REGULATORY MATTERS."

The Tesla Treatment Facility, a key component of the WSIP, enhances high water quality through ultraviolet ("UV") treatment. The Tesla Treatment Facility was officially dedicated in 2011, following two years of construction. The facility uses UV light to disinfect Hetch Hetchy water to meet federal requirements to control the waterborne parasite *Cryptosporidium*, and is among the largest drinking-water UV disinfection facilities in North America. In the same location, a chlorine disinfection station was constructed to meet current fire and earthquake safety standards and replace the old station built in 1937. See "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water System Improvement Program."

Local Water. All water derived from surface water sources other than Hetch Hetchy Reservoir requires filtration and is currently treated at one of two treatment plants: the Sunol Valley Water Treatment Plant ("**Sunol Valley WTP**") and the Harry Tracy Water Treatment Plant ("**Harry Tracy WTP**"). Major upgrades of these two facilities have been completed as part of the WSIP. See "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water System Improvement Program." New groundwater supply from the San Francisco Groundwater Supply Project does not require filtration. Treatment of groundwater for hexavalent chromium (Chrome-6), nitrate, manganese and other constituents to meet federal and State drinking water regulations will be achieved through blending. Blending treatment is currently taking place within distribution pipelines at Sunset Reservoir.

Sunol Valley Water Treatment Plant. The Sunol Valley Water Treatment Plant treats all water from the two reservoirs in the Alameda System, Calaveras and San Antonio. Sunol Valley WTP has a capacity of 160 mgd. Treatment processes at Sunol Valley WTP include coagulation, flocculation, sedimentation, filtration, and disinfection. Fluoridation, chloramination and corrosion control treatment are provided for the combined Hetch Hetchy Project and Sunol Valley WTP water at the chloramination and fluoridation facilities in Sunol. Sunol Valley WTP also filters Hetch Hetchy water on the occasions when the Sierra supply does not meet required drinking water standards.

The Sunol Valley Water Treatment Plant Expansion and Treated Water Reservoir Project added a fifth sedimentation basin to increase reliable capacity, retrofitted existing filters, and created a 17.5-million-gallon circular treated water reservoir as it leaves the plant. The project included other new connections and facilities that enable the plant to treat enough water to meet basic customer demands alone for up to 60 days after a major earthquake in conjunction with other facilities. These improvements help increase delivery reliability and water quality.

Harry Tracy Water Treatment Plant. The Harry Tracy WTP primarily treats water from the Peninsula System reservoirs and has a peak capacity of 140 mgd and a sustainable capacity of 120 mgd. Treatment processes at the Harry Tracy WTP include ozonation, coagulation, flocculation, filtration, disinfection, fluoridation, corrosion control treatment and chloramination.

Updates to the Harry Tracy WTP included the addition of filters, upgrades to various systems, construction of a new treated water reservoir, and seismic retrofits of critical process units. As a result of the upgrades, the Harry Tracy WTP has improved its delivery reliability and can now achieve a sustained capacity of 140 mgd for at least 60 days and provide 140 mgd within 24 hours following a seismic event on the San Andreas Fault.

Water Storage

Up-Country Storage. The majority of the water delivered by the SFPUC is supplied by runoff from the Upper Tuolumne River watershed on the western slope of the central Sierra Nevada. Three major reservoirs collect runoff: Hetch Hetchy Reservoir, Lake Lloyd (Cherry) Reservoir and Lake Eleanor Reservoir.

Water stored in Hetch Hetchy Reservoir is also used for hydroelectric generation and released downstream to satisfy instream flow requirements. Normally, only Hetch Hetchy Reservoir supplies water exported to the Bay Area for municipal and industrial uses. Releases from Lake Eleanor Reservoir and Lake Lloyd (Cherry) Reservoir are used to satisfy instream flow requirements, satisfy the Irrigation Districts' Raker Act entitlements and produce hydroelectric power.

Downstream of the Hetch Hetchy System on the Tuolumne River is the Don Pedro Project, owned and operated by the Irrigation Districts. The Don Pedro Project includes a dam that impounds the Tuolumne River, creating the New Don Pedro Reservoir, also owned by the Irrigation Districts. The City helped fund the original construction of the Don Pedro Project in exchange for eliminating the City's flood control responsibility and establishing a water bank account (the "**Water Bank**") allowing the SFPUC to receive water credits for advanced releases from the Hetch Hetchy Project to the New Don Pedro Reservoir to meet the Irrigation Districts' downstream requirements. Water Bank storage space in New Don Pedro Reservoir is integrated into the Water System's operations.

Certain water stored in New Don Pedro Reservoir is credited to the City's Water Bank, which allows the City to meet its Raker Act water obligations to the Irrigation Districts and divert water supply from Hetch Hetchy Reservoir to the Bay Area.

Local Storage. On the San Francisco Peninsula, the SFPUC uses Crystal Springs Reservoir, San Andreas Reservoir and Pilarcitos Reservoir located in San Mateo County to capture local watershed runoff. In the Alameda Creek watershed (Alameda County), the SFPUC manages Calaveras Reservoir and San Antonio Reservoir. In addition to using these facilities to capture runoff, the San Andreas, San Antonio and Crystal Springs Reservoirs also provide storage for Hetch Hetchy Project diversions, and, along with Calaveras Reservoir and Pilarcitos Reservoir, serve as water supply delivery facilities in the event of an interruption to Hetch Hetchy Project deliveries.

Dam Supervision. Eighteen dams under the jurisdiction of the SFPUC are presently licensed and regulated by the California Department of Water Resources' Division of Safety of Dams ("**DSOD**"). The SFPUC's Calaveras Dam Replacement Project was completed in 2019. See "REGULATORY MATTERS – Dam Licensing and Safety Issues."

System Storage Capacity. The following table summarizes the storage and capacity of the Regional Water System reservoirs within the Water Enterprise as of March 10, 2025.

TABLE 13
REGIONAL WATER SYSTEM STORAGE AND CAPACITY
(AS OF MARCH 10, 2025)

	Current Storage⁽¹⁾⁽²⁾⁽³⁾ (Acre-Feet)	Maximum Storage⁽⁴⁾ (Acre-Feet)	Available Capacity (Acre-Feet)	Percent of Maximum Storage⁽⁵⁾
<u>Tuolumne Storage</u>				
Hetch Hetchy Reservoir	284,000	360,360	76,360	78.8%
Cherry Reservoir	244,100	273,345	29,245	89.3
Lake Eleanor Reservoir	23,520	27,100	3,580	86.8
Water Bank	558,619	570,000	11,381	98.0
Total Tuolumne Storage:	1,110,239	1,230,805	120,566	90.2%
<u>Local Storage</u>				
Calaveras Reservoir	74,303	96,670	22,367	76.9%
San Antonio Reservoir	44,791	53,266	8,475	84.1
Crystal Springs Reservoir	43,634	68,953	25,319	63.3
San Andreas Reservoir	15,822	18,675	2,853	84.7
Pilarcitos Reservoir	2,194	3,125	931	70.2
Total Local Storage:	180,744	240,689	59,945	75.1%
Total Regional Water System	1,290,983	1,471,494	180,511	87.7%

⁽¹⁾ Upcountry storage is the date's 8:00 a.m. storage value taken from United States Geological Survey data.

⁽²⁾ Water Bank storage reported by Hetch Hetchy Water and Power for March 9, 2025.

⁽³⁾ Local storage is the date's 8:00 a.m. storage value taken from United States Geological Survey data.

⁽⁴⁾ Hetch Hetchy maximum storage is with drum gates activated. Cherry and Eleanor maximum storage is with flashboards in. All maximum storages taken from rating curve.

⁽⁵⁾ The ratio of median storage for this day over maximum storage capacity. Median storage for this day is based on historical storage data from years 1991-2020.

Source: SFPUC.

Table 13 shows storage levels as of March 10, 2025. Total Regional Water System storage levels would normally be at approximately 79.9% of Total Regional Water System storage capacity as of this date. The level as of March 10, 2025, is higher than that at approximately 87.7% of Total Regional Water System storage capacity. The Water Bank is at 98.0% of total capacity as of March 9, 2025. Tuolumne storage is operated to receive snowmelt runoff, which has been at around normal level for Water Year 2025, while local storage relies primarily on Bay Area rainfall, which has been at around normal level for Water Year 2025. Both Tuolumne storage and local storage are close to full at 90.2% and 75.1%, respectively. See "WATER FACILITIES – Water Storage – *System Storage Capacity*." Maximum storage is subject to regulation by the DSOD.

In-City Storage. The Water Enterprise's in-City reservoirs and storage tanks have the capacity to hold approximately 421.9 million gallons, or 1,295 acre-feet. The SFPUC estimates this capacity to be an approximate five-day supply at the current average rate of consumption for San Francisco. In-City reservoirs that are also terminal reservoirs for the Regional Water System moderate flow peaking for the Regional Water System, and water stored in them can be conveyed back to the San Francisco Peninsula.

The following table summarizes the storage capacity of the in-City reservoirs and storage tanks maintained by the Water Enterprise.

TABLE 14
IN-CITY DISTRIBUTION SYSTEM
POTABLE WATER STORAGE CAPACITY

Reservoir	Millions of Gallons
Sunset ⁽¹⁾	176.7
University Mound ⁽¹⁾	140.9
Sutro	31.4
Summit	14.0
College Hill	13.5
Stanford Heights	12.9
Merced Manor ⁽¹⁾	9.5
Lombard	6.2
Potrero	1.3
Hunters Point	1.1
Treasure Island/Yerba Buena Tanks	4.2
Storage Tanks	10.2
Total	421.9

⁽¹⁾ Terminal reservoirs for the Regional Water System.
Source: SFPUC.

In addition, there is an emergency supply of existing non-potable water immediately available within San Francisco at Lake Merced. Lake Merced currently holds approximately 1.5 billion gallons or approximately 4,603 acre-feet.

Physical Condition of Certain Facilities

Certain of the Water Enterprise’s facilities have been in service for considerable amounts of time. Long lived facilities may experience decreased reliability due to unplanned outages and place a greater maintenance burden on SFPUC operations. In addition, the vulnerabilities of the Regional Water System are increased by its limited redundancy. Outages at critical points could disrupt delivery to large portions of the Regional Water System. See “RISK FACTORS – Risks Related to Water Enterprise Facilities and Operations.”

Built between 1917 and 1925, Mountain Tunnel extends 18.9 miles from the Early Intake Dam to Priest Reservoir. The upper 7.4 miles are not lined, and the lower 11.5 miles are lined. Inspections in 1989, 2006, 2008 and 2017 identified signs of deterioration in the lining which were projected to increase over time. The risk of failure of Mountain Tunnel, defined as a loss of 25% carrying capacity, is currently low but, left unaddressed, will increase over time. Failure of Mountain Tunnel would have a significant impact on the Hetch Hetchy water system (“**Hetch Hetchy Water**”) operations and could cause up to six or more months of water supply disruption. The SFPUC is taking action to address the risk of Mountain Tunnel failure (see “CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – *Hetch Hetchy Water – Mountain Tunnel*”).

The Coast Range Tunnel is a 26-mile long tunnel running from Tesla Portal to the Alameda East Portal and was put into operation in 1934. The Coast Range Tunnel was most recently inspected in January 2015 after having been last inspected in 1995. The most recent inspection revealed that the Coast Range Tunnel is still in good condition, with little change noted since the 1995 inspection. The next condition assessment of the Coast Range Tunnel is expected in 2033-2035. Irvington Tunnel 1 was also inspected in winter 2015 and was also found to be in good condition.

The WSIP was designed in part to reduce vulnerability of the Regional Water System and increase reliability of the system to deliver water by improving seismic reliability and redundancy needed to accommodate planned outages for maintenance and unplanned outages resulting from facility failure. The WSIP was not designed to replace

or upgrade the entire water system. Repair of Mountain Tunnel and other Hetch Hetchy water transmission facilities, as well as the replacement, rehabilitation and repair of water transmission and distribution pipelines and other Regional Water System and in-City facilities are included in the SFPUC's 2026 Capital Plan (as defined herein). See "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES."

Prior Heavy Storms

Storms can damage the facilities of the Water Enterprise. Early winter storms at the end of 2022 and beginning of 2023, for example, caused damage to several Water Enterprise facilities. These storms did not, however, significantly impact the operation of the Regional Water System. The SFPUC continued to deliver high-quality drinking water to its retail and wholesale customers throughout the storm events. Watershed roads in Alameda and San Mateo Counties experienced erosion, sinkholes and slides and repairs are needed to restore access. At the Alameda Creek Diversion Dam, fast-rising creek flows damaged fish screens and gates, and debris washed into the concrete diversion structure. There was also superficial erosion on the downstream face of Calaveras Dam that required repair. The Hetch Hetchy Water and Power upcountry facilities faced complete and partial road failures; however, Hetch Hetchy crews managed to maintain access to critical facilities during the storms. Additional reported damages include erosion near the headgate structure of the Early Intake Dam.

The SFPUC anticipates that both short- and long-term capital projects will be necessary to rebuild roads and repair damaged facilities. The total estimated cost of damages is expected to be at approximately \$70 million; however, final costs will not be known until at least fall 2025. The SFPUC expects to cover these costs through reserves, revenues from the Water Enterprise and Power Enterprise, and proceeds from existing Water and Power Enterprise bonds. The City has applied for federal and State disaster relief funding, and the SFPUC plans to seek reimbursement for qualified expenses.

Seismic Hazards

The Hetch Hetchy Project is located largely in Yosemite National Park, one of the most stable seismic zones in the State, and there are no known major faults in the area. The Water Enterprise's distribution and transmission systems and its customers are, however, located in seismically active regions of the State. The San Andreas Fault lies immediately west of San Francisco, and the Hayward Fault is approximately 15 miles to the east. A third major fault, the Calaveras Fault, is a branch of the Hayward Fault and lies east of the Hayward Fault.

During the past 150 years, the San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2 on the Richter scale. The 1868 Hayward earthquake along the Hayward Fault had an estimated magnitude of between 6.8 and 7.0 on the Richter scale. The 1989 Loma Prieta earthquake along the San Andreas Fault had an estimated magnitude of 6.9 on the Richter scale. The 2014 South Napa earthquake on the West Napa Fault, the northern extension of the Calaveras Fault, had a magnitude of 6.0 on the Richter scale and an epicenter near the City of Napa, approximately 50 miles north of San Francisco. The most recent significant earthquake was the 7.0-magnitude 2024 Offshore Cape Mendocino California earthquake, which erupted approximately 40 miles offshore from Petrolia in Humboldt County, along the Mendocino Fault, which sits in an area where three tectonic plates coverage (the Mendocino Triple Junction), one of the most seismically active parts of California.

The Regional Water System crosses several active and potentially active faults, including major strike-slip faults within the San Francisco Bay region. Major fault crossings along the pipeline delivery system include the Orestimba fault at Tesla Portal, the Greenville fault in the Coast Range Tunnel, the Calaveras fault at the Alameda Siphons, and the southern Hayward Fault at the Bay Division Pipelines numbers 1, 2, 3, 4 and 5. In addition, other lower slip rate but potentially active faults cross the water system. These faults potentially move by secondary or triggered slip during large earthquakes on the San Andreas fault. Furthermore, three main transmission pipelines from Harry Tracy WTP – San Andreas Pipeline No. 2, San Andreas Pipeline No. 3 and Sunset Supply Branch Pipeline – cross the Serra fault, a secondary fault located along the peninsula in San Mateo County.

According to the United States Geological Survey, the Greenville, Calaveras, Hayward and San Andreas Faults have a high likelihood of producing a major (magnitude ≥ 6.7) earthquake in the San Francisco Bay region before 2043 (during the period the 2025ABC Bonds will be outstanding). A large earthquake on these faults has the

potential for generating surface fault rupture that is hazardous to specific SFPUC facilities. A major goal of the nearly-completed WSIP is to rehabilitate and strengthen the tunnels, pipelines and other Water Enterprise facilities that cross or are situated near known active faults. The WSIP included 27 projects that had seismic reliability as a primary or secondary goal; all of these projects have been completed with the most recent completion of the Calaveras Dam Replacement project in 2019.

If a major seismic event or other emergency occurs, the SFPUC is authorized under the WSA to adopt emergency rate surcharges outside of the normal budget development process. Such rate surcharges will be applicable to both Retail Customers and wholesale customers and incorporate the same percentage increase for all customers. See “FINANCIAL OPERATIONS – Wholesale Water Sales Revenue.” Any emergency rate surcharge adopted by the SFPUC will remain in effect only until the next budget-coordinated rate-setting cycle, at which time it can be reviewed for continuance and modification.

If a significant earthquake occurs that affects the Water Enterprise’s tunnels, pipelines or other facilities, the SFPUC would attempt to repair any damage as quickly as possible, and the amount of time required to return the facilities to service would depend on the nature and extent of damage incurred. A prolonged reduction in the Water Enterprise’s water supply resulting from a major earthquake could have a material adverse effect on Revenues.

With the completion of the WSIP’s seismic improvement projects, the performance objective for the system is to deliver basic service (average winter month demand) to at least 70 percent of customer turnouts within each of three regions within 24 hours of a major seismic event. For additional reliability, the SFPUC has established intertie connections with the East Bay Municipal Utility District and the Santa Clara Valley Water District to diversify water supply options in case of a major seismic event. Should the Irvington Tunnels or the five major pipelines branching from the Irvington Tunnels become inoperable, the SFPUC would attempt to negotiate additional water sharing agreements with these and other regional water utilities that interconnect with Water Enterprise facilities, but there is no assurance that such negotiations would be successful.

If damage to the Irvington Tunnels or the pipelines that connect to the tunnels resulted in the loss of water transported through the tunnel, the remaining water supply would be limited to storage in three raw water reservoirs in San Mateo County (the Crystal Springs, San Andreas and Pilarcitos Reservoirs); treated water in transmission storage reservoirs, tunnels, and pipelines; and three terminal reservoirs located in San Francisco. Additional supply may be available from existing intertie connections and Regional and San Francisco groundwater wells. The combined capacity of the three San Mateo County raw water reservoirs is approximately 29.8 billion gallons. The SFPUC has historically kept these reservoirs filled to a combined capacity of approximately 18 billion gallons, or an estimated two- and one-half month water supply based on historical average daily water demand of both the Retail Customers and wholesale customers. It is anticipated that in-city storage alone would last approximately four to seven days.

Separate from the SFPUC system, individual wholesale customers have storage ranging from zero to seven days.

System Level of Service Criteria after Seismic Events. The SFPUC has established basic “Level of Service” criteria for the design of new facilities and upgrade of existing facilities, including projects within the WSIP to deliver winter day demand of 229 mgd (projected February 2030 demand) within 24 hours after a major earthquake. This embodies the following primary criteria and assumptions to be used in examining system reliability with system retrofit projects in place:

- Deliver winter day demand to at least 70% of the wholesale customers’ turnouts within each of the three customer groups (Santa Clara/Alameda/South San Mateo County, Northern San Mateo County, and City of San Francisco).
- Achieve a 90% confidence level of meeting the above goal, given the occurrence of a major earthquake. The earthquakes considered are treated independently and with equal weighting, without regard to their return period.

- To achieve the basic level of service, the SFPUC will rely on the wholesale customers' own water systems and other regional water purveyors' systems. The SFPUC will work with the wholesale customers to assess their ability to contribute to their own system reliability.
- The SFPUC will consider a facility to have failed if it cannot be brought back to its intended purpose within twenty-four hours without secondary damage resulting.
- To achieve the basic level of service, the SFPUC will assume that power supplies are available, whether from the grid or from standby sources.

No particular item in the Regional Water System is required to be seismically upgraded or retrofitted as long as the system-wide performance goals established by the SFPUC can be satisfied. Earthquake damage to selected components and systems is acceptable, as long as the system-wide performance remains acceptable.

Wildfire Considerations

Facilities of the Water Enterprise include 107 miles of overhead electrical lines that are located within the California Public Utilities Commission's designated High Fire Threat District. The lines are primarily located in the Sierra Nevada, surrounding foothills, and on the Peninsula. The Peninsula watershed is located within the California Department of Forestry and Fire Protection's (CALFIRE) "High" Fire Hazard Severity Zone, primarily because of its proximity to residential areas.

Wildfires can disrupt the operation of, or cause damage to, facilities used to convey the SFPUC's water supply, e.g., hydro-generation, power and water transmission, and other operational buildings. Wildfires can also significantly impact vegetation and soils which can adversely impact water quality within the SFPUC's water supply and regulating reservoirs. The Rim Fire, a wildfire in 2013, substantially burned the forest around the Holm and Kirkwood Powerhouses and reached the edges of all three Sierra Nevada reservoirs. Though the Rim Fire, by consuming potential fuel, has reduced some near-term risk of wildfire in the region, the SFPUC's Water Enterprise still owns many miles of overhead electrical lines through highly forested areas.

The SFPUC maintains a Wildfire Mitigation Plan (the "**Mitigation Plan**") which describes the numerous programs that the SFPUC has in place to construct, maintain and operate its electrical facilities in order to minimize the risk that its equipment could be the origin or contributing source for a catastrophic wildfire. The Mitigation Plan meets or exceeds the requirements of Section 8387 of the California Public Utilities Code for publicly owned electric utilities. As required, the Mitigation Plan is reviewed by an independent evaluator, approved by the SFPUC Commission, and submitted to the California Wildfire Safety Advisory Board on or before July 1, of each year.

In addition, the SFPUC owns and manages approximately 61,000 acres of watershed lands in the Bay Area that are managed in part to prevent and minimize wildfire risks. In August 2020, rare, major thunderstorm activity in the Bay Area caused numerous fires around the Bay Area and in the SFPUC's watersheds. The Peninsula lightning strikes started approximately 12 small fires which were quickly extinguished. Major wildfires also erupted in the East Bay watersheds, referred to as the SCU Lightning Complex Fires. The SCU Lightning Complex Fires burned roughly 10,000 acres out of 38,000 acres of land that the SFPUC owns in the East Bay. The SFPUC does not own all of the land in the Calaveras Reservoir watershed; however, approximately two-thirds of the Calaveras Reservoir watershed burned. The SFPUC is working to repair watershed fences damaged in the SCU Lightning Complex Fires.

See also "RISK FACTORS – Risks Relating to Financial Operations – *Inverse Condemnation*."

Emergency Firefighting Water System

In response to the 1906 earthquake and fire that ravaged San Francisco, the City constructed multiple systems to fight fires in the event of an emergency. These multiple systems and sources of water supply provide layers of fire protection to residences and businesses across San Francisco.

The first system is a standard-pressure municipal drinking water system connected to approximately 8,552 standard white fire hydrants, which are located on every block throughout the city and regularly used by the San Francisco Fire Department to fight fires. These fire hydrants are fed by 12 reservoirs and six tanks in San Francisco, which are ultimately supplied by the SFPUC reservoirs on the Peninsula, East Bay, and Sierra Nevada.

The second system is the high-pressure Emergency Firefighting Water System connected to approximately 1,335 larger hydrants. The Emergency Firefighting Water System, also known as the Auxiliary Water Supply System, has been constructed over the decades following the 1906 earthquake. The EFWS is an entirely separate water supply and pipeline network for fighting large fires, particularly after emergency events such as earthquakes. The system consists of a resilient 135-mile pipeline network, a high elevation reservoir, two large capacity tanks, two seawater pumping stations, and numerous other bay water intakes (suction connections). The system has unique capabilities, including the ability to deliver water at the high pressures needed by the San Francisco Fire Department to fight large fires, and the ability to use water from the San Francisco Bay as an unlimited source for firefighting.

In 2010, the SFPUC assumed management of the EFWS and began working with the San Francisco Fire Department and San Francisco Public Works to upgrade the system. Since then, the SFPUC has installed 30 new stand-alone cisterns (buried 70,000 gallon tanks), 15 of which are located in westside neighborhoods in San Francisco, to provide additional sources of water for firefighting. San Francisco has approximately 200 cisterns across the city. The SFPUC has also made upgrades and repairs to existing pump stations and reservoirs and constructed new pipelines, including one in the Candlestick Point/Carroll Avenue area.

The EFWS is now being expanded to the Richmond and Sunset Districts in the west side of San Francisco with a new version of piping called the Potable Emergency Firefighting Water System, which will be used for transmission of potable water in normal times but will be isolated for firefighting uses after large earthquakes. The Potable Emergency Firefighting Water System project, estimated to cost approximately \$145 million, \$54.2 million of which is included in the SFPUC's 2026 Capital Plan. The pipelines will be financed with a combination of the SFPUC's water revenue bonds and City general obligation bond funds. The initial segment of the Potable Emergency Firefighting Water System was constructed in 2023 and the next major construction contracts is expected to begin in 2026. Future construction of this system will continue in segments pending additional funding from the SFPUC's water revenue bonds and City general obligation bond funds.

Safety and Security

The safety of the facilities of the Water Enterprise is maintained via a combination of regular inspections by SFPUC employees, electronic monitoring, and analysis of unusual incident reports. Most above-ground facilities operated and maintained by the SFPUC are controlled-access facilities with fencing, gates, closed circuit television systems and security officers at certain points. Smaller, above-ground and subterranean pumping stations operated and maintained by the SFPUC are locked with padlock or internal locking mechanisms, and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and designed to reduce exposure using a series of technology systems enhancements and integration.

The operation of Water Enterprise facilities is also subject to the risk of cyberattack. The SFPUC abides by the City's Citywide Cyber Security Policy and also maintains its own cybersecurity program. See "THE WATER ENTERPRISE – Cybersecurity" and "RISK FACTORS – Risks Related to Water Enterprise Facilities and Operation – *Cybersecurity*."

CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES

Capital and Financial Planning Process

The SFPUC's long-term capital and financial planning is performed on an annual rolling 10-year forward looking basis. The SFPUC prepares a 10-year capital plan for each of its enterprises, as required by the Charter. The 10-year capital plan serves as the basis for the development of the annual 10-year financial plan. Proposed long-term capital programs, projects and investments, and related costs are included in the 10-year financial plan. Consistent with the Charter, updates to the 10-year capital plan and 10-year financial plan are generally reviewed at least annually and adopted by the Commission each February. The 10-year financial plan provides estimated rate impacts of projected capital and operating spending and assures compliance with the SFPUC's adopted financial policies, including its debt service coverage and fund balance reserve policy requirements.

The 10-year capital plan is not a budget and is not "appropriated" like a budget. The annual capital programs can be revised during the development of the budget and final projects, costs and totals for specific capital improvements to be financed can change. Consequently, even though the annual budgets passed are based on the 10-year capital plan, they may occasionally differ from it.

The Water Enterprise's 10-year capital plan for Fiscal Years 2025-26 to 2034-35, which includes the Water Enterprise-related components of the Hetch Hetchy Water and Power 10-year capital plan, adopted by the Commission on February 11, 2025 (the "**2026 Capital Plan**"), totals approximately \$3.044 billion. The 2026 Capital Plan includes projects in three major Water Enterprise categories: (i) Regional Water; (ii) Local Water; and (iii) Hetch Hetchy Water. The Regional Water, Local Water and Hetch Hetchy Water categories of the Water Enterprise's 2026 Capital Plan are expected to be financed by a combination of revenue bonds, commercial paper, revolving notes, Parity State Loans, revenues (pay-as-you-go) and capacity charges. For more information regarding the 2026 Capital Plan programs, see "– Regional Water Program," "– Local Water Program," and "– Hetch Hetchy Water" below. See also "FINANCING OF CAPITAL IMPROVEMENTS."

The following table sets forth the first five years of the Water Enterprise's capital improvement program as set forth in the 2026 Capital Plan.

TABLE 15
WATER ENTERPRISE CAPITAL IMPROVEMENT PROGRAM
FOR FISCAL YEARS ENDED JUNE 30⁽¹⁾
(IN THOUSANDS)

	2026	2027	2028	2029	2030	Total
Regional Water	\$139,808	\$292,595	\$248,638	\$199,537	\$115,035	\$ 995,613
Local Water	337,375	251,731	90,810	70,985	64,811	815,712
Hetch Hetchy Water	85,222	72,477	79,514	41,089	76,292	354,594
Total Appropriations⁽²⁾	\$562,405	\$616,803	\$418,962	\$311,611	\$256,138	\$2,165,919

⁽¹⁾ Amounts are based on anticipated appropriations and are projections from the Water Enterprise 2026 Capital Plan. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS."

⁽²⁾ Totals may not add due to rounding.

Source: SFPUC.

Regional Water Program

The Regional Water Program, projected to comprise approximately \$1.260 billion of the 2026 Capital Plan, finances capital improvements to the Regional Water System. Regional Water Program capital investments include, but are not limited to, water treatment, water transmission, water supply and storage, watersheds and land management, communication and monitoring, and building and grounds management.

The Regional Water category of the 2026 Capital Plan also includes approximately \$60.2 million in funding for project planning related to certain regional projects in the AWS Program, as well as for additional planning efforts

for other alternative water supply options. For more information regarding the AWS Program, see “– Water Supply Initiatives – *AWS Program*.”

Local Water Program

The Local Water Program, projected to comprise approximately \$1.158 billion of the 2026 Capital Plan, finances capital improvements to the In-City Distribution System. The primary component of the Local Water Program, projected to comprise approximately \$755 million, is the local Water Conveyance and Distribution program, which consists of pipeline installation, repair and replacement. For pipeline replacement, the SFPUC has replaced an average of 7.8 miles of pipe annually over the past five years compared to a previous rate of four to six miles per year. The SFPUC has increased its planned investment in the 2026 Capital Plan in order to increase the pipeline replacement rate to approximately 12 miles per year.

The Local Water category of the 2026 Capital Plan also includes planning efforts to advance conservation and develop local water supply sources. For more information about these local water supply initiatives, see “– Water Supply Initiatives – *Local Water Supply Initiatives*.”

Hetch Hetchy Water

General. Upgrades to the aging facilities of Hetch Hetchy Water and Power are being constructed to ensure reliability and preparedness for the future. The Hetch Hetchy Water category of the 2026 Capital Plan is projected to cost approximately \$625.8 million. Upcountry water and power facilities being assessed and rehabilitated, where needed, include three impounding reservoirs, three regulating reservoirs, three large powerhouses, one small powerhouse, two switchyards, three substations, 170 miles of pipeline and tunnels, almost 100 miles of paved road, over 160 miles of transmission lines, as well as watershed land and rights-of-way property. The Water Enterprise will fund all assets relating to Hetch Hetchy Water (consisting of approximately \$187.8 million of Hetch Hetchy Water costs) and the Hetch Hetchy Water portion of jointly-owned assets of Hetch Hetchy Water and the Power Enterprise in the Hetch Hetchy Water and Power System (consisting of approximately \$438.0 million of Hetch Hetchy Water costs). See “THE PUBLIC UTILITIES COMMISSION – Organization, Purposes and Powers – *Hetch Hetchy – Water and Power Operations*.” A significant project among the Hetch Hetchy Water category is the repair of the existing Mountain Tunnel which conveys all Tuolumne River supplies through a single conduit. See “– *Mountain Tunnel*.”

Mountain Tunnel. As part of the Hetch Hetchy Regional Water System, Mountain Tunnel is a critical water conveyance facility. Built between 1917 and 1925, Mountain Tunnel extends 18.9 miles from the Early Intake Dam to Priest Reservoir. The upper 7.9 miles are unlined (natural rock) and the lower 11.0 miles are lined with concrete. Inspections in 1989, 2006, 2008 and 2017 identified signs of deterioration in the lining which were projected to increase over time. The risk of failure of Mountain Tunnel, defined as a loss of 25% carrying capacity, is currently low but will increase over time. Failure of Mountain Tunnel would have a significant impact on Hetch Hetchy Water operations and could cause up to six months of water supply disruption.

The SFPUC created four parallel tracks to investigate and provide repairs to Mountain Tunnel: (1) the Mountain Tunnel Inspection and Interim Repairs Project, completed in 2017, (2) the Mountain Tunnel Adits and Access Improvement Project, also completed in 2017, (3) 2018 Mountain Tunnel Interim Repairs Project, which was completed in 2019, and (4) the Mountain Tunnel Improvements Project, currently in construction. A complete shutdown and draining of Mountain Tunnel was performed during 2017 to accomplish the Inspection and Interim Repairs Project and the Adits and Access Improvement Project, as well as to develop information and knowledge for the design and construction of the Long-Term Improvements Project. Additional interim repairs were performed in 2019 to complete the most significant repairs needed to reduce the risk of failures in the concrete lining. The Mountain Tunnel Improvements Project, currently in construction, provides long term rehabilitation and repairs to the tunnel as well as the addition of flow controls (valving) on the downstream end of the tunnel near Priest Reservoir. The flow controls will allow the tunnel to be operated in a full state at different flow rates which will reduce lining deterioration. The Mountain Tunnel Improvements construction contract was awarded in October 2020, with Notice to Proceed in January 2021. Significant project work has been completed to date including construction of an access shaft for a new flow control facility near Priest Reservoir, construction of new access adit tunnel near Priest Reservoir, partial repair of tunnel interior lining, access road improvements, and various improvements along the tunnel alignment. The current construction contract is forecast to achieve substantial completion at the end of 2026. However, some scope

of work related to the tunnel and roadway improvements at the South Fork site are planned to be removed from the current contract and moved to a future contract due to differences of opinion about constructability with the current contractor. The City is evaluating alternative delivery procurement methods to complete the remaining work. While the majority of the tunnel improvements will be completed, delaying this work will delay the full use of the flow control facility until these repairs can be performed.

Improvements to Mountain Tunnel are projected to cost a total of approximately \$268.7 million; \$210.1 million has been appropriated to the project to date, and an additional \$21.4 million will be appropriated for the 2026 Capital Plan. The portion of the project that performs repairs and improvements to the Mountain Tunnel is projected to cost \$134.3 million; the tunnel has been classified as a Water asset and thus these costs will be funded 100% by Water Enterprise. The remaining portion of the project that constructs the new flow control facility is projected to cost \$134.3 million; because this flow control facility will benefit both water delivery and power production, it has been classified as a joint asset, and thus will be funded by Water Enterprise and Power Enterprise, pursuant to existing cost-sharing agreements with wholesale customers. The current cost sharing agreement allocates 45% of the cost for joint assets to the Water Enterprise and 55% of the cost to the Power Enterprise. See “FINANCIAL OPERATIONS – General – *Allocation of Hetch Hetchy Project Costs*.”

The SFPUC has entered into the DWSRF Loan for up to \$239.219 million with the SWRCB to finance a portion of the cost of the Mountain Tunnel Project pursuant to the SWRCB’s Drinking Water State Revolving Fund Program. For more information regarding the loan, see “OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans.”

Water System Improvement Program

General. The Water System Improvement Program is a \$4.793 billion program that consists of 87 capital projects to repair, replace and upgrade critical portions of the Regional Water System and the Local Water System to meet specific level of service goals and objectives for seismic reliability, delivery reliability, water quality and water supply in an environmentally sustainable and cost-effective manner. Objectives for WSIP include (i) furnishing system improvements to provide high quality water that reliably meets current and foreseeable local, State and federal requirements; (ii) reducing vulnerability of the water system to damage from earthquakes; (iii) increasing reliability of the system to deliver water by improving redundancy needed to accommodate planned outages for maintenance and unplanned outages resulting from facility failure; (iv) providing near-term improvement of water supply/drought protection; (v) setting forth long-term water supply/drought management options for technical evaluation, cost analysis and environmental review; (vi) enhancing sustainability through improvements that optimize protection of the natural and human environment; and (vii) providing improvements resulting in a cost-effective, fully-operational water system. As of December 2024, only two WSIP projects remain to be completed: (i) the Regional Groundwater Storage and Recovery Project, and (ii) the Alameda Creek Recapture Project. Both projects are currently in the construction phase and are further described below.

Schedule and Budget. In 2005, the SFPUC approved the original scope, schedule and a budget of \$4.342 billion for WSIP (the “**2005 Baseline Budget**”). Since then, the SFPUC has approved several revisions to the schedule and budget for WSIP, most recently in April 2024 (the “**2024 Budget**”). The variance between the 2005 Baseline Budget and the 2024 Budget of \$4.793 billion is an increase of approximately \$446 million, or a 10.3% increase and is due mainly to construction cost increases to the WSIP’s largest project, the Calaveras Dam Replacement Project (which increased by approximately \$308 million, or 118% of total project cost). All appropriations for the WSIP have been made and WSIP is consequently not included in the 2026 Capital Plan (as defined herein). Pursuant to the 2024 Budget, the SFPUC anticipates overall program completion in June 2032.

Regional Groundwater Storage and Recovery Project. The Regional Groundwater Storage and Recovery Project has been divided into two phases. The Phase 1 construction contract, which includes the construction of up to 16 new groundwater recovery wells and test wells, chemical treatment equipment, pumping systems and pipelines, and other associated facilities, was completed in September 2022 and closed out in January 2023. Phase 2 has been divided into two construction contracts (Phases 2A and 2B); Phase 2 will provide improvements to the wells installed under Phase 1 to provide corrosion protection and other operational improvements, as well as to complete installation and connection of the South San Francisco Main Well. The Phase 2A contract to install cathodic protection and other improvements to some of the wells started construction in June 2022 and is anticipated to be completed later in 2025.

The Phase 2B contract for installation of the South San Francisco Main Well facility and pipeline started construction in 2024 and is anticipated to be completed in 2026.

Alameda Creek Recapture Project. The Alameda Creek Recapture Project includes construction of facilities in and around an existing quarry pit in Sunol Valley to recapture water that will be released from Calaveras Reservoir and/or bypassed around the Alameda Creek Diversion Dam during future operations of Calaveras Reservoir. Construction of the facility started in June 2021. In April 2023, the SFPUC terminated the project's construction contract due to concerns regarding worsening pond slope erosion, anticipated facility operating and maintenance complexity, and excessive change orders to redesign the facility to accommodate the erosive slope conditions. The project is being re-evaluated for short-term and long-term slope stability remediation and to consider improvements for operation and maintenance sustainability. The SFPUC will work with the quarry operator to stabilize the pond banks and re-evaluate the facility design to simplify operation and maintenance requirements. It is anticipated that a new construction contract will be issued using a design/build project delivery method and explore the possibility of adding initial operation and maintenance scope as part of the contract. The project is anticipated to be completed in 2032.

Water Supply Initiatives

AWS Program

General. With WSIP nearing completion, there are two main drivers for the SFPUC's future infrastructure water needs: (i) environmental flow requirements on the Tuolumne River that could result in a reduction of available water supplies by approximately 105 mgd during dry years at the current contract levels of demand if the 2018 Plan Amendment (as defined herein) requiring the release of 40% of unimpaired flow in the Tuolumne River is implemented (see "REGULATORY MATTERS – Bay Delta Water Quality Standards"); and (ii) a policy decision before the SFPUC on whether to provide a permanent supply guarantee of 9 mgd to the cities of San José and Santa Clara, who are currently interruptible customers (see "– Wholesale Deliveries – *Status of San José and Santa Clara*" and "– 2028 Water Supply Decisions"). Both drivers may cause additional dry-year shortages. In 2019, with the goal of ensuring that the water needs of Retail and Wholesale Customers will continue to be met under future conditions, the SFPUC established the AWS Program to evaluate new and diverse alternative water supply options, such as expanding storage, groundwater banking, transfers, purified water (potable reuse), desalination and technological innovations.

Planning for alternative water supplies requires a comprehensive and detailed evaluation effort that considers several interrelated challenges, many of which are different than those faced through traditional water supply planning at the SFPUC. These planning challenges include complex multi-party partnerships and approaches for integrating new supply sources into an expansive and largely homogenous water system. Additionally, as with any long-term water supply planning effort, the SFPUC must also contend with uncertainties such as new and prospective regulations, climate change and extreme weather events and long-term demand projections. To minimize the risk of overbuilding, the SFPUC's approach involves planning for existing and potential obligations and advancing projects toward implementation based on projected demands on the Regional Water System. The approach is necessarily dynamic as both supply-side and demand-side drivers continue to change over time. As planning continues, whether individual projects proceed to construction will depend on their technical, financial, and institutional feasibility, as well as changes that could affect the drivers of the projected shortages.

AWS Program Planning Priorities and Level of Service Goals and Objectives. The planning priorities of the AWS Program include (i) meeting regulatory requirements including instream flow releases, (ii) meeting existing obligations to existing permanent customers, (iii) determining whether the SFPUC will have long-term water supplies available to make current interruptible customers permanent, and (iv) meeting increased demands of existing and interruptible customers. In conjunction with these planning priorities, the SFPUC considers the level of service goals and objections related to water supply and sustainability when planning for new water supply opportunities. The key level of service goals and objectives relevant to AWS Program planning include (a) meeting dry-year delivery needs while limiting rationing to a maximum 20% system-wide reduction in water service during extended droughts; (b) diversifying water supply options during non-drought and drought periods; (c) improving use of new water sources and drought management, including groundwater, recycled water, conservation, and transfers; (d) meeting, at a

minimum, all current and anticipated legal requirements for protection of fish and wildlife habitat; and (e) providing operational flexibility.

AWS Projects. In 2019, the SFPUC identified six regional alternative water supply options under the AWS Program. The SFPUC has been studying the feasibility of these projects. To date, two regional projects remain active, three projects have been deferred, and one project has been cancelled, each as further described below. Because of the inherent technical, institutional and operational complexities, AWS projects are anticipated to be more expensive than traditional SFPUC capital projects. The 2026 Capital Plan includes approximately \$60.2 million for project planning related to the active projects described below, as well as for additional planning efforts for other alternative water supply options.

PureWater Peninsula (formerly Crystal Springs Purified Water)(Active): This project could provide 6-8 mgd of water supply through reservoir water augmentation at Crystal Springs Reservoir and an additional 4-6 mgd (for a total of up to 12 mgd) through direct potable reuse to other partner agencies. Treated wastewater from Silicon Valley Clean Water and the City of San Mateo would go through a water purification process that uses multi-barrier treatment technology to meet State and federal drinking water quality standards. The purified water would be transmitted over 12 miles to Crystal Springs Reservoir and/or other neighboring water service areas. Water conveyed to Crystal Springs Reservoir would be blended with regional surface water supplies and treated again at Harry Tracy Water Treatment Plant. An alternative that delivers up to 12 mgd directly into the SFPUC's treated water delivery system was also evaluated and the two project alternatives are currently being reviewed by the SFPUC. In addition to the SFPUC and the wastewater agencies, Cal Water, the City of Redwood City, Mid-Peninsula Water District and BAWSCA are also participating in this project.

South Bay Purified Water (Active): As described above under “ – General,” one of the main drivers for the SFPUC's future infrastructure water needs is a policy decision before the SFPUC regarding whether to change the status of the cities of San José and Santa Clara from interruptible to permanent customers (see “THE WATER ENTERPRISE – Wholesale Deliveries – Status of San José and Santa Clara” and “– 2028 Water Supply”). To help offset the potential incremental dry year impact of adding new obligations and support their request for permanent status, San José and Santa Clara are partnering with the SFPUC to evaluate a new water supply project that could provide 3.5 mgd of dry year supply to the SFPUC. Additionally, this project would produce 6.5 mgd of supply in all years for use by San José and Santa Clara. Initial feasibility of the project was completed in July 2023. Discussions regarding agreements are ongoing and additional technical analysis will be needed before project planning is concluded.

Daly City Recycled Water Expansion (Deferred): This project was intended to produce approximately 1.0 mgd of recycled water on an average annual basis, resulting in approximately 0.7 mgd of additional dry-year potable supply availability in the South Westside Groundwater Basin. The primary purpose of this project was to provide recycled water for certain cemetery and irrigation use, offsetting existing groundwater pumping from the South Westside Groundwater Basin, and thereby increasing the reliability of the basin for additional drinking water supply during droughts for SFPUC customers. This project has been deferred due to, among other reasons, high capital cost requirements and reduced water supply benefits to the SFPUC, and may be reevaluated in the future.

Alameda County Water District – Union Sanitary District Purified Water Partnership (Deferred): This project was intended to provide Alameda County Water District (“ACWD”) with a new purified water supply by treating wastewater from Union Sanitary District (“USD”) to meet drinking water standards and transmitting such purified water to the Quarry Lakes Groundwater Recharge Area to supplement recharge into the Niles Cone Groundwater Basin or for other uses in the ACWD service area. The first phase of the project was intended to provide ACWD with up to 5.4 mgd of additional water supply, enabling an in-lieu exchange with the SFPUC that would preserve more water in SFPUC's Regional Water System. This project has been deferred due to, among other reasons, relatively high capital cost requirements and USD and ACWD pursuing other, higher-priority planning efforts, and may be reevaluated in the future.

Calaveras Reservoir Expansion (Deferred): This project was intended to add up to an additional 289,000 acre-feet, or 94 billion gallons, of water storage to the Calaveras Dam (which currently has a water storage capacity of 96,850 acre-feet, or 31 billion gallons) that could be available in all water year types. This project included raising the dam, expanding the capacity of the outlet structures and spillway, and adding necessary transmission and pumping

infrastructure to convey water to the Calaveras Reservoir. This project has been deferred due to, among other reasons, high capital cost requirements, and may be reevaluated in the future.

Los Vaqueros Reservoir Expansion (Cancelled): This project was a storage project proposed by Contra Costa Water District (“CCWD”), which owns and operates the existing Los Vaqueros Reservoir located in northeastern Contra Costa County. CCWD invited other water agencies in the region, including the SFPUC, to participate in the project, which would have enlarged the reservoir for use by the other agencies, to increase water supply reliability for customers and to provide ecosystem benefits to south-of-Delta wildlife refuges and Delta fisheries. The SFPUC contemplated storage space in the project to provide a dry-year water supply benefit to the SFPUC’s customers; however, CCWD cancelled the project in fall 2024 due to, among other reasons, high capital cost requirements, reduced water supply benefits, and other project risks.

San Joaquin Valley Projects

In addition to the AWS Program described above, the SFPUC is also exploring opportunities for collaboration in the San Joaquin Valley that could reduce potential future water supply shortfalls in the SFPUC service area. These three concepts are described below.

Groundwater Banking. Groundwater banking in the Modesto Irrigation District and Turlock Irrigation District service areas could be used to provide some additional water supply to meet instream releases in dry years reducing water supply impacts to the SFPUC service area. For example, additional surface water could be provided to irrigators in wet years, which would off-set the use of groundwater, thereby allowing the groundwater to remain in the basin rather than be consumptively used. The groundwater that remains in the basin can then be used in a subsequent dry year for irrigation, subsequently freeing up surface water that would have otherwise been delivered to irrigators to meet instream flow requirements.

Inter-Basin Collaborations. Inter-Basin collaborations could include establishing a partnership between interests on the Tuolumne River and those on the Stanislaus River, which would allow responsibility for streamflow to be assigned variably based on the annual hydrology. The Tuolumne system tends to spill more excess flow in wetter years than the Stanislaus system, and this excess flow could be shaped and credited to meet Stanislaus system requirements, while New Melones Reservoir in the Stanislaus system is refilling. Stored water could then be partially used to provide required streamflow to meet Stanislaus and Tuolumne requirements in future dry years.

Dry Year Water Transfer. The SFPUC has initiated discussions with Oakdale Irrigation District to transfer 2 mgd (2,240 acre-feet) from Oakdale Irrigation District in dry years only. While no transfer has been secured to date, the SFPUC continues to explore potential transfer opportunities on the Tuolumne River and throughout the San Joaquin Valley.

Local Water Supply Initiatives

The SFPUC is also continually expanding efforts to advance conservation and develop local supply sources. These ongoing local programs are described below.

Local Water Conservation. The SFPUC maintains a robust water conservation program and has one of the lowest rates of per capita water use in California. Conservation programs include rebates and incentives for replacement of inefficient plumbing fixtures, appliances and equipment; water-wise evaluations; free water-saving devices; tools to help customers understand and manage their water use; education; and outreach.

Onsite Water Reuse. The Onsite Water Reuse Program allows for the collection, treatment and use of alternate water sources for non-potable applications in individual buildings and at the district-scale. The SFPUC also administers the Non-Potable Water Ordinance that requires onsite water reuse systems for new development projects of 100,000 gross square feet or greater in San Francisco, and the Stormwater Management Ordinance that outlines the mandatory requirements for managing post-construction stormwater runoff and provides guidance on how to incorporate green infrastructure into site design.

Ideation to Implementation (I2I) Program: This program helps the SFPUC better align and overcome challenges that can affect successful implementation of new water supply and conservation projects. These challenges may be related to regulations, resource availability, climate uncertainty, or affordability. The I2I Program encourages creativity, collaboration, and opportunities for partnership in addressing implementation challenges. Examples of the I2I Program’s work that have been executed are demonstrations of new technologies and grant funds to support partnership opportunities for applications such as piloting atmospheric water generation technology, supporting heat recovery in non-potable systems, testing leak detection, and developing guidance for breweries treating process water for reuse.

PureWaterSF: This program aims to plan for the phased development of a new local drinking water supply in San Francisco of approximately 2-8 mgd through the treatment of recycled water from the Oceanside Water Pollution Control Plant (PureWaterSF – West) and the Southeast Water Pollution Control Plant (PureWaterSF – East). From 2018-2020, the SFPUC completed a temporary small-scale research and demonstration purified water (potable reuse) project at its headquarters. In 2022, the SFPUC completed an evaluation of four alternative scenarios for purified water development. The SFPUC is currently reviewing treatability and developing preliminary design for an initial phase of the PureWaterSF – East project. The initial phase includes the planning and construction of a purified water public engagement and operator training facility. While the total cost of this program has not been determined and requires further analysis, the SFPUC anticipates significant capital expenditures will be necessary for full implementation.

Environmental Planning Considerations

Projects undertaken by the SFPUC are subject to CEQA and certain projects involving the participation of federal agencies, including projects on federal land, are also subject to the National Environmental Policy Act (“NEPA”). The San Francisco Planning Department (the “**Planning Department**”), acting as the CEQA lead agency under Chapter 31 of the City’s Administrative Code (“**Chapter 31**”), generally coordinates CEQA review of SFPUC projects. The SFPUC also coordinates with federal NEPA lead agencies to prepare NEPA documentation for SFPUC projects.

Under CEQA, a project that may have a significant effect on the environment and is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an environmental impact report (“**EIR**”). The EIR reflects not only an independent technical analysis of the project’s potential environmental impacts, but also the comments of other agencies with some form of jurisdiction over the project and the comments of interested members of the public. Contents of the EIR include a detailed statement of the project’s significant environmental effects; any such effects that cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between short-term and long-term impacts; any significant irreversible environmental changes that would result from the project; the project’s growth-inducing impacts; and a brief statement setting forth the agency’s reasons for determining that certain effects are not significant and hence do not require discussion in the EIR. Before approving a project, the SFPUC must make findings on whether or how it can mitigate the significant environmental effects of the project. If the project requires mitigation, the SFPUC must adopt a mitigation monitoring and reporting program on how the mitigation is carried out during project implementation. If a project’s significant effects can be mitigated, the SFPUC can adopt a written statement (called a mitigated negative declaration) or if the project will not have a significant effect on the environment, the SFPUC may adopt a written statement (called a negative declaration) to that effect and in both cases need not prepare an EIR. After deciding to approve or carry out a project, either following the EIR process or after adopting a mitigated negative declaration or a negative declaration, the Planning Department must file a notice of such determination with the Office of the County Clerk. CEQA also contains several exemptions, which the SFPUC uses for its projects when appropriate.

Any action or proceeding challenging the Planning Department determination must be brought within 30 days following the filing of such notice. Actions have been, and in the future may be, filed challenging a project’s compliance with CEQA, including the adequacy of the EIR and other environmental documents for particular projects. If an action challenging the SFPUC’s compliance with CEQA is successful, the particular project could be delayed, revised, suspended or canceled.

As part of its regular planning and budgetary process, the SFPUC gives careful attention to environmental considerations. All projects are evaluated under the SFPUC's environmental evaluation procedures (Infrastructure Procedures 7.01 and 7.02), developed in compliance with federal and State laws and regulations, City ordinances and the City's Administrative Code procedures, including Chapter 31.

Prior to the sale of new money bonds, the Planning Department will issue a "Planning Certificate" required under Proposition E. The Planning Certificate will identify the status of environmental review for each capital project to be funded under the proposed bond sale and the type of CEQA document either completed or to be completed for each project. CEQA compliance must be completed for each project prior to project approval or approval to award a construction contract to implement any project to be funded by the proposed bond sale. No Planning Certificate is required prior to the sale of the 2025ABC Bonds.

FINANCING OF CAPITAL IMPROVEMENTS

Long Term Financing of Capital Program

The Water Enterprise's 10-year financial plan for Fiscal Years 2025-26 to 2034-35 (the "**2026 Financial Plan**") was adopted by the Commission on February 11, 2025. The 2026 Financial Plan is based on the 2026 Capital Plan. Pursuant to the 2026 Financial Plan, long-term debt financing, comprised of additional Bonds and State Revolving Fund loans, is projected to fund approximately \$1.908 billion of the 2026 Capital Plan, and revenue (pay-as-you-go) funding is projected to fund approximately \$1.134 billion of the 2026 Capital Plan. See "OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans."

The SFPUC's long-term capital and financial planning is performed on an annual rolling 10-year forward looking basis. Although the 2026 Financial Plan currently contemplates the issuance of additional Bonds and State Revolving Fund loans to finance the capital program, the SFPUC may also consider additional financing options in the future, including but not limited to other parity or subordinate federal and State loans.

Interim Funding Program Facilities

The SFPUC's Interim Funding Program is a short-term financing program consisting of a combination of lines of credit and credit facilities, liquidity facilities and letters of credit supporting the SFPUC's ability to issue short-term indebtedness, including the issuance of Commercial Paper Notes. The SFPUC utilizes the Interim Funding Program to meet the expenditure and encumbrance needs of capital projects on an interim basis through design and into the early project construction phase. The Interim Funding Program is authorized for the Water Enterprise in the aggregate principal amount of \$750 million. Of this amount, \$550 million is authorized for the SFPUC to issue Commercial Paper Notes and the remaining \$200 million is in the form of separate bank revolving credit agreements, each of which permits the SFPUC to make draws directly from respective bank, with the SFPUC's payment obligation evidenced by the Revolving Notes. See "OBLIGATIONS PAYABLE FROM REVENUES – Subordinate Debt and Interim Funding Program."

Interim funding program obligations are then refunded and consolidated into either long-term revenue bond issues or a Parity State Loan when the outstanding and encumbered amount of the interim funding obligations approaches authorized limits. This approach allows the SFPUC to take advantage of historically lower short-term interest rates, and to size and closely time long-term financings with projected need.

As of March 17, 2025, the SFPUC had Commercial Paper Notes outstanding in the aggregate principal amount of \$310.9 million and no amount outstanding under the Revolving Notes. The SFPUC anticipates refunding all outstanding Commercial Paper Notes with proceeds of the 2025DEF Bonds anticipated to be issued in May 2025*. See "INTRODUCTION – Outstanding and Future Parity Bonds and Other Indebtedness." The SFPUC anticipates issuing additional Commercial Paper Notes and making draws directly on the revolving credit agreements to provide interim financing for Water Enterprise capital projects.

* Preliminary, subject to change.

Sources of Funding the Capital Improvement Program

The following table sets forth the projected sources of funds for the first five years of the Water Enterprise's capital improvement program as set forth in the 2026 Capital Plan.

TABLE 16
WATER ENTERPRISE CAPITAL IMPROVEMENT PROGRAM
FUNDING SOURCES⁽¹⁾
FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS)

Appropriations	2026	2027	2028	2029	2030	Total
Revenue Bonds / Parity State Loan	\$458,266	\$524,965	\$308,595	\$205,080	\$144,827	\$1,641,733
Water Revenues	102,726	90,369	108,840	104,943	109,660	516,538
Capacity Charge Revenues	1,412	1,469	1,528	1,589	1,652	7,650
Total Sources ⁽²⁾	\$562,404	\$616,803	\$418,963	\$311,612	\$256,139	\$2,165,921

⁽¹⁾ Amounts are based on anticipated appropriations and are projections from the Water Enterprise 2026 Capital Plan. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS."

⁽²⁾ Totals may not add due to rounding.

Source: SFPUC.

The repayment of projected principal and interest on future debt issues has been incorporated into the development of the SFPUC's approved retail water rates through Fiscal Year 2025-26, and has also been reflected in the remaining projection period set forth in the 2026 Financial Plan. Pursuant to the WSA, a share of debt service associated with improvements to the Regional Water System is the responsibility of the Wholesale Customers.

Pursuant to the 2026 Financial Plan, the SFPUC projects that retail water rates will increase annually by an average of approximately 6.2% from Fiscal Year 2025-26 to Fiscal Year 2034-35. On May 23, 2023, the Commission approved retail water rates and charges for the three-year period effective July 1, 2023 through June 30, 2026. However, no retail rate increases beyond June 30, 2026, have been proposed to, or adopted by, the Commission or submitted to the Board of Supervisors, and any future retail water rate increases are subject to future approval by the Commission, subject to the Board of Supervisors' ability to reject rate increases. See "FINANCIAL OPERATIONS – Retail Water Sales Revenue."

FINANCIAL OPERATIONS

General

The SFPUC is a department of the City and, as such, the financial operations of the SFPUC's three enterprises are included in the Annual Comprehensive Financial Report of the City and shown as enterprise funds. *The City's Annual Comprehensive Financial Report is not incorporated by reference herein.*

The following information is provided with respect to the Water Enterprise only and does not purport to reflect the financial position of the SFPUC or the City as a whole.

Basis of Accounting. The accounts of the Water Enterprise are organized based on a proprietary fund type, specifically an enterprise fund. The financial activities of the Water Enterprise are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net position; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The SFPUC applies all applicable GASB pronouncements.

City Budget Process. The SFPUC's operating and capital budget preparation and approval is a part of a City-wide process. The SFPUC is one of several departments that prepares biennial budgets. The Commission reviews and approves the SFPUC's two-year budget, which is then submitted to the Mayor's Office for review. The Mayor then incorporates the proposed budget, with amendments, into the City-wide budget that is submitted to the Board of Supervisors for approval. Under the Charter, the Board of Supervisors may increase or decrease any proposed expenditure in the Mayor's budget so long as the aggregate changes do not cause the expenditures to exceed the total amount of expenditures proposed by the Mayor. The Charter further provides that the Mayor may reduce or reject any expenditure authorized by the Board of Supervisors except appropriations for bond interest, redemption or other fixed charges, subject to reinstatement of any such expenditure by a two-thirds vote of the Board of Supervisors.

City Services Auditor. The City Services Auditor ("CSA") is an audit function within the Office of the City Controller. The CSA has broad oversight authority and responsibilities including, but not limited to, (i) reporting upon level of effectiveness for City public services, (ii) auditing financial and management performance of City departments and functions, (iii) ensuring the financial integrity and improving the overall performance and efficiency of City government, and (iv) maintaining a whistleblower hotline to investigate upon reports of fraud, waste and abuse.

Sources of Revenue. The Water Enterprise's principal source of revenue is the sale of water to its Retail Customers and wholesale customers. The setting of water rates by the SFPUC is not subject to any State or federal regulatory approval. The SFPUC's ability to generate revenue may be limited by certain provisions of the State Constitution and the Charter of the City. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS."

Allocation of Hetch Hetchy Project Costs. A number of the facilities of the Hetch Hetchy Project are joint assets and are used for both water transmission and power generation and transmission, benefitting both Hetch Hetchy Water and the Power Enterprise. All power sales revenues are allocated to the Power Enterprise. Per negotiation with the Wholesale Customers reflected in the terms of the WSA, operating and capital costs benefitting the Power Enterprise and 55% of operating and capital costs that jointly benefit both Hetch Hetchy Water and the Power Enterprise are allocated to the Power Enterprise. Operating and capital costs benefitting Hetch Hetchy Water and 45% of operating and capital costs jointly benefitting both Hetch Hetchy Water and the Power Enterprise are allocated to the Water Enterprise. Costs allocated to the Water Enterprise are paid through an inter-enterprise transfer from the Water Enterprise to Hetch Hetchy Water and Power. Such transfers constitute "Operation and Maintenance Costs of the Enterprise." See "- Operating and Maintenance Expenses – Inter-Enterprise Transfers."

Wholesale Water Sales Revenue

Wholesale Rate-Setting Process. Wholesale Customer rates are determined annually based upon the Wholesale Customers' collective share of the Water Enterprise's total revenue requirements, known as the "**Wholesale Revenue Requirement**" in the WSA. The Wholesale Revenue Requirement under the WSA consists of the sum of the Wholesale Customers' allocated shares of the following costs of the Water Enterprise in providing water to the Wholesale Customers: operating and maintenance expenses, capital expenses, administrative and general expenses, property taxes, and the "Suburban Hetch Hetchy Assessment," being the costs of operating the Hetch Hetchy Project allocated exclusively to the Water Enterprise or jointly to the Water Enterprise and the Power Enterprise. Payments made by Wholesale Customers can as a general matter be considered by Wholesale Customers to be costs of purchased water, an operation and maintenance expense under applicable accounting rules.

The cost of service for the Wholesale Customers includes a pro-rata share of Operation and Maintenance Costs of the Enterprise. Capital costs are recovered under the cash method as needed to cover revenue-funded capital improvements of the Regional Water System and debt service associated with bond-funded capital projects. The operating costs and plant investment for Hetch Hetchy Water and Power are first classified as power-specific, water-specific or joint. The water-related costs and the Water Enterprise's share of joint costs are reflected in the Wholesale Revenue Requirement.

Finally, the WSA contains a rate device known as the balancing account (the "**Balancing Account**"). If the amount of the revenues received in any Fiscal Year is greater than the actual expenses associated with the allocated cost of wholesale service, the amount of the excess is added to the Balancing Account. If the amount of the revenues received in any Fiscal Year is less than the actual expenses associated with the allocated cost of wholesale service, the

amount of the deficit is subtracted from the Balancing Account. As of the end of any Fiscal Year, the Balancing Account may have a positive balance (reflecting amounts “owed” by the SFPUC to the Wholesale Customers) or a negative balance (reflecting amounts “owed” by the Wholesale Customers to the SFPUC). The Balancing Account balance is used to adjust the following year’s rate recovery up or down depending on whether there is a shortfall or surplus in the Balancing Account. For Fiscal Year 2022-23, the Balancing Account balance was approximately \$10.1 million due from the Wholesale Customers, and for Fiscal Year 2023-24, the Balancing Account balance was approximately \$26.1 million due from the Wholesale Customers (*i.e.*, such amounts were “owed” by the Wholesale Customers to the SFPUC). See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT – Balancing Account.”

Statutory and Contractual Limits on Wholesale Water Rates. The sale and delivery of water to the Wholesale Customers under the WSA are subject to the “Rules and Regulations Governing Water Service to Customers” of the Water Enterprise adopted by the Commission, as they may from time to time be amended, that are (1) applicable to the sale and delivery of water by the SFPUC to the Wholesale Customers, (2) reasonable, and (3) not inconsistent with either the WSA or with an individual contract.

Wholesale Water Rate Adjustments. Under the WSA, adjustments to the Wholesale Customers’ rate schedules, other than emergency rate adjustments and drought pricing, discussed below, are coordinated with the budget development process. If the SFPUC intends to increase Wholesale Customer rates, it is required to provide certain yearly budget information to the Wholesale Customers prior to adoption of any such rate increases. Failure to do so will not prohibit the SFPUC from adoption of such rates, but, in the event of such failure, the Wholesale Customers may either invoke arbitration, or seek injunctive relief to compel the SFPUC to remedy the failure as soon as reasonably practical.

The SFPUC may increase the water rates applicable to the Wholesale Customers without compliance with the above-described procedures in the event of a drought, earthquake, other act of God, malfunctioning of the Regional Water System or other emergency which requires an increase in rates. Rates may be increased on an emergency basis to cover operating expenses and capital costs. Any such emergency rate increase must be accompanied by a rate increase for Retail Customers of an equal percentage.

Any emergency rate surcharge adopted by the SFPUC could go into effect within 30 days of such adoption (subject to any action by the Board of Supervisors) and would remain in effect only until the next budget coordinated rate-setting cycle, at which time it can be reviewed for continuance and modification.

Drought pricing for Wholesale Customers, if required, could also be changed under similar terms and conditions set forth for emergency rate increases. Any drought-related pricing or surcharge adopted by the Commission would also remain in effect only until the next budget coordinated rate-setting cycle.

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Historical and Adopted Wholesale Water Rate Adjustments. The following table lists wholesale water rate adjustments since Fiscal Year 2014-15 for the Wholesale Customers.

TABLE 17
HISTORICAL AND ADOPTED PERCENTAGE INCREASES (DECREASES)
IN WHOLESALE WATER RATES

Effective Date	Change in Wholesale Rates⁽¹⁾
July 1, 2014	19.6%
July 1, 2015	28.0
July 1, 2016	9.3
July 1, 2017	0.0
July 1, 2018	0.0
July 1, 2019	0.0
July 1, 2020	0.0
July 1, 2021	0.0
July 1, 2022	15.9
July 1, 2023	9.7
July 1, 2024	8.8

⁽¹⁾ Pursuant to the 25-year Water Supply Agreement, wholesale rates are adopted annually based on an estimate of the Wholesale Revenue Requirement.

Source: SFPUC.

Arbitration for Disputes. The Prior Master Water Sales Contract had a binding arbitration provision for disputes related to wholesale rate setting by the SFPUC. The SFPUC and its Wholesale Customers arbitrated one dispute over the 25-year term of the Prior Master Water Sales Contract. The WSA continues the practice of binding arbitration, and the SFPUC and its Wholesale Customers have resolved other disputes, without invoking arbitration, as part of the true-up process for determining the actual Wholesale Revenue Requirement following the close of each fiscal year.

Retail Water Sales Revenue

Retail Rate Structure. Retail Customers pay a flat monthly service charge based on meter size plus a volumetric charge for water usage based on one-month meter readings. Volumetric charges for single- and multi-family residential customers are based on a two-tiered rate structure, where the first tier is applicable to the first 4 CCF (400 cubic feet) of use per month (single-family) or 3 CCF (300 cubic feet) of use per month (multi-family), and the second tier is applicable to all additional use for both single- and multi-family residential customers. Volumetric charges for non-residential customers are based on a uniform rate. The tables below detail retail water rates for Fiscal Years 2023-24 and 2024-25.

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TABLE 18
RATES FOR RETAIL WATER SERVICE IN SAN FRANCISCO

	Fiscal Year 2023-24 ⁽¹⁾			Fiscal Year 2024-25 ⁽¹⁾		
	Single-Family Residential (\$/CCF) ⁽²⁾	Multi-Family Residential (\$/CCF)	Non-Residential (\$/CCF)	Single-Family Residential (\$/CCF) ⁽²⁾	Multi-Family Residential (\$/CCF)	Non-Residential (\$/CCF)
Tier 1 ⁽³⁾ (0-4 or 0-3 CCF)	10.33	10.19	--	10.85	10.70	--
Tier 2 (All other usage)	11.47	10.94	--	12.05	11.49	--
Uniform	--	--	11.12	--	--	11.68

⁽¹⁾ Rates adopted May 23, 2023.

⁽²⁾ One “CCF” equals 100 cubic feet of water (equal to 748 gallons).

⁽³⁾ Tier 1 for single-family residential is from 0-4 CCF; tier 1 for multi-family residential is from 0-3 CCF.

Source: SFPUC.

The retail water rates in the previous table do not reflect any drought surcharges. See “– *Retail Water Rate Adjustments.*”

The following tables compare the typical monthly charges for representative Retail Customer classes based on average use for Fiscal Years 2023-24 and 2024-25.

TABLE 19A
TYPICAL MONTHLY CHARGES FOR RETAIL WATER SERVICE IN SAN FRANCISCO
FISCAL YEAR 2023-24

Customer Type	Average Use (CCF)	Meter Size	Fixed Charge	Volume Charge	Total Monthly Charges (Volume + Fixed)
Average Single-Family Residence	4.4	5/8”	\$16.64	\$46.37	\$63.01
Larger Single-Family Residence	12.0	5/8”	16.64	133.08	149.72
Large Apartment Building	101.0	3”	151.35	1,005.94	1,157.27
Large Office	351.0	3”	151.35	3,903.12	4,054.47
Department Store	340.0	4”	232.18	3,780.80	4,012.98
Hotel	3,314.0	6”	456.70	36,851.68	37,308.38

Source: SFPUC.

TABLE 19B
TYPICAL MONTHLY CHARGES FOR RETAIL WATER SERVICE IN SAN FRANCISCO
FISCAL YEAR 2024-25

Customer Type	Average Use (CCF)	Meter Size	Fixed Charge	Volume Charge	Total Monthly Charges (Volume + Fixed)
Average Single-Family Residence	4.8	5/8”	\$17.48	\$49.43	\$66.91
Larger Single-Family Residence	12.0	5/8”	17.48	139.80	157.28
Large Apartment Building	101.0	3”	158.92	1,056.21	1,215.13
Large Office	351.0	3”	158.92	4,099.68	4,258.60
Department Store	340.0	4”	243.79	3,971.20	4,214.99
Hotel	3,314.0	6”	479.54	38,707.52	39,187.06

Source: SFPUC.

Retail Rate-Setting Process. The SFPUC is authorized and required under the Charter and Proposition E to set rates, fees, and other charges in connection with providing the utility services under its jurisdiction, subject to rejection – within 30 days of submission – by resolution of the Board of Supervisors. If the Board of Supervisors fails to act within 30 days, the rates will become effective without further action. If the Board of Supervisors rejects proposed rates, the prior rates remain in effect.

Under the Charter, in setting retail rates, fees, and charges (for water, wastewater and power utility services) the SFPUC is required to do the following:

- (1) Establish rates, fees, and charges at levels sufficient to improve or maintain financial condition and bond ratings at or above levels equivalent to highly rated utilities of each enterprise under its jurisdiction, meet requirements and covenants under all bond resolutions and indentures (including, without limitation, increases necessary to pay for the retail customers' share of the debt service on bonds and operating expenses of any State financing authority), and provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise, consistent with good utility practice.
- (2) Retain an independent rate consultant to conduct rate and cost of service studies for each utility at least once every five years.
- (3) Set retail rates, fees, and charges based on the cost of service.
- (4) Conduct all studies mandated by applicable State and federal law to consider implementing connection fees for water and clean water facilities servicing new development.
- (5) Conduct studies of rate-based conservation incentives and rate structures to help low-income users, and to use the results of such studies to establish rates, fees, and charges, in accordance with applicable State and federal laws.
- (6) Adopt annually a rolling five-year forecast of rates, fees and other charges.
- (7) Establish a Rate Fairness Board consisting of seven members: the City Administrator or their designee; the Controller or their designee; the Director of the Mayor's Office of Public Finance or their designee; two residential retail customers, one appointed by the Mayor and one by the Board of Supervisors; and two business retail customers, one a large business customer appointed by the Mayor and one a small business customer appointed by the Board of Supervisors. Duties for the Rate Fairness Board include:
 - (a) an annual review of a five-year rate forecast;
 - (b) hold one or more public hearings on annual rate recommendations before the SFPUC adopts rates;
 - (c) provide a report and recommendations to the SFPUC on any rate proposal; and,
 - (d) in connection with periodic rate studies, recommend rate policies and cost allocations among retail utility customer classifications, subject to any outstanding bond requirements.

The Rate Fairness Board is not authorized to reject proposed rates approved by the Commission.

Retail rates and the rate-setting process must also comply with the requirements of the State Constitution, including notice, protest and public hearing requirements. See "CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – State Law Limitations."

Retail Water Rate Adjustments. The SFPUC’s retail rates and charges for delivered water are set to equal the cost of operation, maintenance, replacement, debt service and other costs incurred in gathering, treating, and delivering water to its retail customers. The SFPUC regularly reviews and has often increased its retail water rates to fund operating and capital costs. Furthermore, the SFPUC may adjust and re-classify rates, fees, and charges, but will not decrease them unless, following such reduction, the rates, fees, and charges will continue to be sufficient to meet the rate covenants set forth in the Indenture. See “SECURITY FOR THE BONDS – Rate Covenants.”

In 2022, pursuant to the Charter, the SFPUC retained an independent rate consultant to conduct a water and wastewater cost of service study to establish a proposed three-year water and wastewater retail rate schedule for Fiscal Years 2023-24 through 2025-26 (the “**2023 Rate Study**”). The SFPUC took several measures to mitigate the risk of over-projecting volumes, which could potentially lead to revenue shortfalls. First, projections in the 2023 Rate Study were based on actual water usage for Fiscal Year 2022-23, which reflected decreased water usage due to the COVID-19 pandemic, conservation related to the recent drought, and observed population declines in San Francisco. Second, the projections in the 2023 Rate Study assumed that San Francisco never fully recovers from the decline in water usage caused by the pandemic and the resulting shift to remote work and declining daytime population. See “THE WATER ENTERPRISE – Recent Factors Impacting Retail Water Sales.” Finally, instead of approving rates for four years, as was done following the two prior rate studies, the SFPUC approved a three-year rate schedule to allow for a realignment of rates to observed sales volumes on a more frequent basis should further declines materialize. Following completion of the 2023 Rate Study in April 2023, the Commission approved a three-year water and wastewater retail rate schedule for Fiscal Years 2023-24 through 2025-26 on May 23, 2023. In accordance with the Charter, the next rate study will be conducted by Fiscal Year 2026-27.

The following table lists historical retail water rate adjustments since Fiscal Year 2014-15 through Fiscal Year 2024-25, and the adopted retail water rate adjustment for Fiscal Year 2025-26. There was no water rate adjustment for Fiscal Year 2022-23.

TABLE 20
HISTORICAL AND ADOPTED PERCENTAGE INCREASES (DECREASES)
IN RETAIL WATER RATES

<u>Effective Date</u>	<u>Change in Retail Rates</u>
July 1, 2014 ⁽¹⁾	--
July 1, 2015 ⁽¹⁾	12.0%
July 1, 2016 ⁽¹⁾	10.0
July 1, 2017 ⁽¹⁾	7.0
July 1, 2018 ⁽²⁾	7.8
July 1, 2019 ⁽²⁾	8.3
July 1, 2020 ⁽²⁾	7.8
July 1, 2021 ⁽²⁾	7.9
July 1, 2022 ⁽³⁾	0.0
July 1, 2023 ⁽⁴⁾	5.0
July 1, 2024 ⁽⁴⁾	5.0
July 1, 2025 ⁽⁴⁾	5.0

- ⁽¹⁾ Four-year retail rates effective July 1, 2014.
⁽²⁾ Four-year retail rates effective July 1, 2018.
⁽³⁾ No water rate adjustment for Fiscal Year 2022-23.
⁽⁴⁾ Three-year retail rates effective July 1, 2023.
Source: SFPUC.

As part of the three-year water and wastewater retail rate schedule for Fiscal Years 2023-24 through 2025-26, the Commission approved the implementation of a temporary drought surcharge that is levied only when the Commission puts the SFPUC’s Water Shortage Contingency Plan into effect, requesting that customers reduce water usage. When implemented, the drought surcharge increases the volumetric water and wastewater rates for all customer types up to the percentages shown in the following table. These percentages are calculated to recover costs based on reduced billed volumes. The SFPUC may set the percentage surcharge lower than shown on the following table to ensure that rates do not exceed the costs of providing water and wastewater services to customers.

TABLE 21
TEMPORARY DROUGHT SURCHARGE⁽¹⁾

Water Shortage Contingency Plan Stage	Target Water Usage Reduction	Drought Surcharge on Volumetric Water & Wastewater Rates
Stages 1-3	5%	Up to 5%
Stage 4	5-18%	Up to 18%
Stage 5-6	18-32%	Up to 32%

⁽¹⁾ Effective July 1, 2023.

Source: SFPUC.

Discount Programs. Effective in 2023, the SFPUC’s Customer Assistance Program offers a two-tiered discount off water charges for individually metered single-family residential customers. Customers with incomes below 50% of the area median income receive a 25% discount and customers with incomes below 30% of the area median income receive a 40% discount. In addition, the SFPUC’s Low-Income Non-Profit Housing Program offers a 15% discount off water charges for residential customers in properties owned and operated by certain nonprofits. Finally, the SFPUC’s Community Housing Program offers a 15% discount off water charges for certain single-room-occupancy hotels providing transitional housing to the homeless and general assistance recipients.

Billing and Collection Procedures. Generally, all Retail Customers are billed monthly for their respective metered water use. In the event of non-payment, the SFPUC has the authority and power to discontinue service and, in owner-occupied buildings and master metered apartment buildings, to record liens on property.

Delayed Billing. The SFPUC relies on Advanced Metering Infrastructure (“AMI”) for the collection of its customer usage information for almost all of its customers. The AMI system uses a transmitter to relay water meter readings to the SFPUC billing system. The AMI system in use is at the mid-point of its useful life and is beginning to experience an acceleration of transmitter malfunction with unit components requiring replacement. In summer 2023, the SFPUC experienced a procurement delay for transmitter replacement parts due to supply chain challenges with the vendor, resulting in a growing backlog of unbilled accounts across the SFPUC’s San Francisco service area. In winter 2023-24, the SFPUC’s Customer Services Bureau experienced significant turnover of staff, affecting its ability to address the backlog of malfunctioning meter transmission units. Though still recording water usage, the billing system defaulted to estimated monthly billings for three months when a malfunction was detected, and ceased billing if the malfunctioning meter was not addressed. The number of affected unbilled accounts dated back to fall 2023, resulting in approximately \$6.6 million in unbilled revenues that were accrued as a receivable in Fiscal Year 2023-24.

The SFPUC immediately implemented an action plan to bill and collect the unbilled revenues that included prioritizing and accelerating field service visits to address malfunctioning meter transmission units; reassigning plumbers from other divisions to accelerate the replacement of the malfunctioning AMI components for usage data to be transmitted from affected meters; expediting the hiring of new staff and retaining contractors to accelerate processing of delayed bills for affected accounts; enhancing the billing system to allow for extended bill estimates, increasing the threshold from three months to 36 months; and developing an automated workflow to expedite the processing of affected accounts with delayed bills and payment plans.

As part of the action plan, the SFPUC also initiated an extensive and proactive customer outreach campaign to provide advance notice to all affected customers of their delayed billing and when it would resume. To assist customers unable to pay the entire amount due, the SFPUC is offering payment plans of up to nine months. The SFPUC anticipates collecting the majority of delayed revenues by June 30, 2025.

Delinquencies. The SFPUC reviews water accounts routinely to determine whether they have a past due balance that is delinquent. Typically, once an account is delinquent, a series of notices are sent to the customer and if payment is still not made, action to shut-off the water supply is initiated. However, if the delinquent account is in the name of the property owner and payment is still not made despite such notices, the customer will receive a lien warning notice. After a lien notice is delivered, a lien hearing is held and, if the bill still remains outstanding, the lien is recorded and can only be removed upon full payment of all unpaid charges, plus administrative fees and interest. Liens not paid

during the Fiscal Year in which they are recorded are transferred to the City Tax Collector’s Office, Bureau of Delinquent Revenues, for collection as a lien against the property. Accounts for which property transfers occurred prior to recording the lien and closed accounts with amounts less than \$25 are normally written off as uncollectible.

The number of water accounts that are delinquent and the amount of accounts receivable from delinquent bills have grown significantly since the beginning of the COVID-19 pandemic. As of July 1, 2019, the number of delinquent water accounts more than 90 days past due was 3,968 and the amount of accounts receivable from such delinquent water accounts totaled approximately \$520.1 thousand. By contrast, as of July 1, 2024, the number of delinquent water accounts more than 90 days past due was 22,433 and the amount of accounts receivable from such delinquent water accounts totaled approximately \$10.5 million. The table below shows the amount of accounts receivable from delinquent water accounts for Retail Customers as of July 1, 2022, July 1, 2023 and July 1, 2024.

TABLE 22
ACCOUNTS RECEIVABLES AGING REPORT

Period	As of July 1, 2022		As of July 1, 2023		As of July 1, 2024	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
0 - 30 Days	\$27,985,674	73.5%	\$27,656,269	65.1%	\$34,810,384	67.9%
31 - 60 Days	2,453,115	6.4	2,774,744	6.5	4,462,966	8.7
61 - 90 Days	3,425,923	9.0	1,427,331	3.4	1,497,506	2.9
Over 90 Days	4,218,790	11.1	10,644,314	25.0	10,475,447	20.4
Total ⁽¹⁾	\$38,083,502	100.0%	\$42,502,658	100.0%	\$51,246,303	100.0%
Credit Balances	(\$903,834)		(\$855,799)		(\$1,632,263)	
Total Aged Receivables	\$37,179,668		\$41,646,859		\$49,614,040	
Less Receivables from Municipal Customers	(\$1,095,247)		(\$3,416,076)		(\$3,548,023)	
Less Allowance for Doubtful Accounts	(\$4,571,491)		(\$9,270,191)		(\$10,296,945)	
Accounts Receivable, Net of Allowance	\$31,512,930		\$28,960,592		\$35,769,072	

⁽¹⁾ Totals may not add due to rounding.
Source: SFPUC.

In March 2020, in response to the COVID-19 pandemic, the SFPUC first suspended shutoffs of water and sewer service and prohibited the imposition of late payment penalties, fees, and charges (the “**COVID-19 Moratorium**”). In addition, in May 2020, the SFPUC first authorized a temporary Emergency Customer Assistance Program (“**E-CAP**”), offering a discount off water charges for qualifying residential and commercial ratepayers. Between 2020 and 2023, the SFPUC periodically extended and modified the COVID-19 Moratorium and E-CAP. In 2023, the SFPUC changed the Customer Assistance Program to incorporate practices from E-CAP (for current program details, see “FINANCIAL OPERATIONS – Retail Water Sales Revenue – *Discount Programs*”), and further approved exemptions from disconnections of water and sewer service and liens due to unpaid bills for households enrolled in the Customer Assistance Program and for customers who fall between 51% to 80% of area median income who experience extenuating circumstances. In November 2024, the Commission approved sunsetting the COVID-19 pandemic procedures for water and sewer customer bill collection and delinquency actions; resuming normal business practices for shutoffs, liens, and fines; amending water and wastewater shutoff and lien policies to provide exemptions, subject to limitations, to (i) customers with an outstanding bill balance of \$100 or less, (ii) customers enrolled in the Customer Assistance Program, and (iii) customers within defined area mean income limits who qualify for extenuating circumstances. Such changes went into effect January 1, 2025. The SFPUC anticipates that utilizing all collection tools available will result in a significant reduction of delinquent water accounts.

Comparative Retail Water Rates. The following table compares monthly charges by selected California water providers for a typical single-family residential usage account with a 5/8-inch meter.

TABLE 23
COMPARATIVE TYPICAL MONTHLY RESIDENTIAL WATER CHARGES⁽¹⁾

Water Provider	Typical Monthly Charge
San Francisco Public Utilities Commission⁽²⁾	\$ 68.83
City of Oakland (East Bay Municipal Utility District)	80.79
City of San José	99.05
Los Angeles (Los Angeles Department of Water and Power & Los Angeles Sanitation and Environment)	99.35
City of San Diego	104.53
City of Santa Clara	130.22

⁽¹⁾ Typical monthly charge has been compiled by the SFPUC based on rates that have been obtained from publicly available sources and have not been independently verified by the SFPUC.

⁽²⁾ Based on water charges as of July 1, 2024.

Source: SFPUC.

Affordability. Nearly all Retail Customers are also served by the Wastewater Enterprise and such Retail Customers receive a single monthly bill reflecting both charges for water service and charges for sewer service. The SFPUC's affordability efforts are therefore focused on the cost of water service and sewer service viewed as a whole. The SFPUC is engaged in a major capital program for the Wastewater Enterprise and anticipates that significant increases in sewer charges will be required in addition to the anticipated retail rate increases for water service described herein. The average residential combined water and sewer bill is projected to increase 8%, 9.7%, and 11.5%, in Fiscal Year 2024-25, Fiscal Year 2025-26, and Fiscal Year 2026-27, respectively. Affordability concerns may impact discussions with respect to retail rates for water service and may, among other things, require the SFPUC to prioritize and defer capital projects for the Water Enterprise.

Capacity Charges

The SFPUC imposes a capacity charge on any Retail Customer requesting a new connection, added collection or treatment capacity, or a change to an existing connection to the water distribution system. Beginning July 1, 2024, the capacity charge is \$2,266 per equivalent 5/8-inch meter. The capacity charge is adjusted on July 1 of each year by the annual change in the 20-City Average Construction Cost Index published by ENR Magazine.

Operating and Maintenance Expenses

“Operating and Maintenance Expenses” cover the general operations expenses of the Water Enterprise. These expenses include labor and fringe benefits, contractual services, materials and supplies, depreciation, general and administrative, services from other departments and other miscellaneous costs. See “HISTORICAL OPERATING RESULTS.” Services from other departments include payment for services from other City departments, such as the City Attorney's Office and the General Services Agency. Operating and Maintenance Expenses include payments to Hetch Hetchy Water and Power for services related to water storage and delivery. See “– *Inter-Enterprise Transfers*” and “SECURITY FOR THE BONDS – Rate Covenants.”

Allocation of Costs. Various common costs incurred by the SFPUC are allocated among the Water Enterprise, the Wastewater Enterprise and the Power Enterprise. Allocations are based on methodology established by an independent indirect cost study, and SFPUC management's best estimates and may change from year to year depending on activities undertaken by each enterprise and information available. The SFPUC allocated \$66.1 million in administrative costs to the Water Enterprise for Fiscal Year 2023-24, which are included in the financial statements under various expense categories, and has budgeted \$65.0 million and \$67.3 million for such costs for Fiscal Years 2024-25 and 2025-26, respectively.

Inter-Enterprise Transfers. An annual transfer occurs from the Water Enterprise to Hetch Hetchy Water and Power to pay for services related to water storage and delivery. The annual transfer amount was \$46.3 million for Fiscal Year 2023-24, and the SFPUC has budgeted \$49.2 million and \$52.2 million for such transfers for Fiscal Years 2024-25 and 2025-26, respectively. Should Hetch Hetchy Water and Power incur higher capital costs or higher operating costs in the future, the amount of these transfers could increase.

Payments to/from the City.

Payments to City for Interdepartmental Services. A variety of City departments provide services such as engineering, purchasing, legal, telecommunications and human resources to the Water Enterprise, and charge amounts designed to recover those costs. These charges totaled approximately \$27.6 million for Fiscal Year 2023-24, and the SFPUC has budgeted \$32.0 million and \$34.1 million for such charges for Fiscal Years 2024-25 and 2025-26, respectively.

Lease Certificate of Participation Financing. On October 7, 2009, the City issued \$167.67 million in fixed-rate Certificates of Participation, Series 2009 C and D, to fund the headquarters of the SFPUC at 525 Golden Gate Avenue. Pursuant to a Memorandum of Understanding between the City and the SFPUC, the SFPUC agreed to reimburse the City General Fund for all costs in connection with this City financing. This obligation is subordinate to debt service on the Bonds and payments related thereto are allocated among the three SFPUC Enterprises. See “OBLIGATIONS PAYABLE FROM REVENUES – Other Subordinate Obligations Payable from Revenues.”

Water Payments from Other Agencies. The SFPUC receives payments from other agencies of the City for their share of the proportionate cost of the service provided to them. The Water Enterprise charges all City departments for water (with the exception of itself and the San Francisco Fire Department for water dispensed from fire hydrants). The SFPUC collected approximately \$12.5 million in payments for Fiscal Year 2023-24, and has budgeted to collect \$11.9 million and \$12.8 million in payments for Fiscal Years 2024-25 and 2025-26, respectively.

Financial Management Policies

The SFPUC makes no representation that the following policies and targets will not be revised or amended and, except to the extent required for compliance with the terms of the Indenture, makes no representation that these policies will be followed by the SFPUC or that targets will be met.

Debt Management Policies and Procedures. The SFPUC has established “Debt Management Policies and Procedures” (the “**Debt Policies**”) for debt financing under its jurisdiction. The SFPUC has also established separate “SFPUC Municipal Securities Disclosure Policies and Procedures” (the “**Disclosure Policies**”) which are appended to the Debt Policies. The Debt Policies, including the appended Disclosure Policies, apply to all SFPUC enterprises, including the Water Enterprise, and are intended to enable the SFPUC to effectively manage its debt issuance and administration practices and comply with all debt issuance and administration rules and regulations. The Debt Policies are reviewed bi-annually and revised, as necessary, with Commission approval.

Revisions to the Debt Policies were most recently adopted by the Commission in 2019. This included revisions to three key areas:

(1) Disclosure – The Disclosure Policies were revised to cover two amendments that were made to Rule 15c2-12, effective February 27, 2019 (the “**Rule 15c2-12 Amendments**”). See the Listed Events 15 and 16 in “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” In addition, pursuant to the Disclosure Policies, the SFPUC developed a Disclosure Practices Working Group (the “**DPWG**”). The DPWG meets at least semiannually to better and more effectively administer the SFPUC’s continuing disclosure requirements, particularly to monitor the SFPUC’s financial obligations and financial difficulties, if any, in light of the Rule 15c2-12 Amendments. The DPWG is comprised of the Chief Financial Officer and Assistant General Manager, Business Services, two Deputy Chief Financial Officers and the Debt Manager of the SFPUC, with legal consultation from the City Attorney’s Office and the SFPUC’s outside disclosure counsel.

(2) Variable Rate Obligations – The Debt Policies, which set forth and describe various types of debt obligations that the SFPUC may issue, were revised to cover new amendments made to the Wastewater bond indenture that will allow the SFPUC to issue variable rate obligations of the Wastewater Enterprise with more market-standard provisions. These amendments do not apply to any variable rate obligations issued by the Water Enterprise.

(3) WIFIA Loans – The Debt Policies were revised to add WIFIA loans as a permitted form of low-cost debt financing instrument, comparable to the low-cost State Revolving Fund loans that the SFPUC has, from time-to-time, executed with the SWRCB. No WIFIA loans have been executed for the Water Enterprise.

Debt Service Coverage Policy. The Commission adopted a debt service coverage policy (the “**Debt Service Coverage Policy**”) in 2017, which applies to all SFPUC enterprises, including the Water Enterprise. Pursuant to the Debt Service Coverage Policy, to ensure that the SFPUC maintains access to low-cost capital and retains financial flexibility for contingencies, the SFPUC will aim to adopt budgets, rates and financial plans that generate revenues such that debt service coverage calculated on an Indenture basis (including certain available fund balances) will be at least 1.35 times and debt service coverage calculated on a current basis (Net Revenues divided by debt service on Bonds and Parity Loans) will be at least 1.10 times.

Separate from the Debt Service Coverage Policy, the Indenture includes a rate covenant that debt service coverage calculated on an Indenture basis (including certain available fund balances) will be at least 1.25 times. See “SECURITY FOR THE BONDS – Rate Covenants – *Debt Service Coverage*” and “HISTORICAL OPERATING RESULTS.”

Capital Financing Policy. The Commission adopted a capital financing policy (the “**Capital Financing Policy**”) in 2017, which applies to all SFPUC enterprises, including the Water Enterprise. The SFPUC relies mainly on current revenue and debt financing to pay for capital assets or improvements. According to the Capital Financing Policy, the appropriate mix of current revenues versus debt financing depends, in part, on the capital investment lifecycle of the Water Enterprise. Accordingly, the SFPUC has determined that over the 10-year financial planning horizon, the SFPUC will aim to pay for a minimum ranging between 15% and 30% of the Water Enterprise’s capital budget from current revenues.

Fund Balance Reserve Policy. The Commission adopted a fund balance reserve policy (the “**Fund Balance Reserve Policy**”) in 2017, which applies to all SFPUC enterprises, including the Water Enterprise. Pursuant to the Fund Balance Reserve Policy, for the time period covered in the 10-year financial plan, the SFPUC will aim to propose operating and capital budgets and rates for adoption such that the Fund Balance Reserve totals a minimum of 90 days or 25% of operations and maintenance expenses (including programmatic projects and excluding debt service and revenue-funded capital) throughout the forecast period. Amounts in excess of such minimum will be considered for contingencies and rate stabilization.

Affordability Policy. The Commission adopted its most recent affordability policy (the “**Affordability Policy**”) in 2023, which applies to the Water Enterprise and the Wastewater Enterprise. Pursuant to the Affordability Policy, the SFPUC will, when adopting rates and approving budgets and financial plans, review the average residential combined water and sewer bill over the next 20 years, and aim to set rates that will result in the average residential combined bill not exceeding 3% of income for a “typical” customer (defined as the 40th percentile San Francisco household income), 7% of income for a “low-income” customer (defined as the 20th percentile San Francisco household income), and 5% of income for a “low-income” customer after accounting for enrollment in applicable low-income discount programs. If such average residential combined bills are projected to exceed the targets within the 20-year period, the SFPUC must provide a rationale and develop strategies to reduce costs, including providing progress reports to the Commission in subsequent budget and financial plan adoptions.

Investment of SFPUC Funds

The SFPUC’s pooled deposits and investments are invested pursuant to State law and the investment policy established from time to time by the City Treasurer and overseen by the Treasury Oversight Committee. The current policy seeks the preservation of capital, liquidity and yield, in that order of priority. Under the City Treasurer’s current investment procedures, the SFPUC’s pooled deposits and investments are invested in the City’s larger pooled investment fund (the “**City Pool**”). Among other purposes, the City Pool serves in effect as a disbursement account

for expenditures from the City’s various segregated and pooled funds. Investments are generally made so that securities can be held to maturity. The City Treasurer calculated the weighted average maturity of these investments as of November 30, 2024, to be 516 days (most recent data available).

The following table sets forth the approximate book values of the investments held in the City Pool reported by the City Treasurer as of November 30, 2024. The Water Enterprise’s pooled deposits and investments accounted for approximately \$390.4 million, or approximately 2.38% of such amounts. The Wastewater Enterprise and the Power Enterprise each have their own pooled deposits and investments that are separate from the Water Enterprise.

TABLE 24
CITY POOLED INVESTMENT FUND
(AS OF NOVEMBER 30, 2024)

Investments	Book Value (millions)
U.S. Treasuries	\$ 4,013.2
Federal Agencies	6,814.0
Public Time Deposits	50.0
Negotiable CDs	1,526.0
Commercial Paper	1,224.0
Medium Term Notes	123.9
Money Market Funds	2,175.4
Supranationals	404.2
Secured Bank Deposit	102.3
Total ⁽¹⁾	\$16,433.1

⁽¹⁾ Total may not add due to rounding.

Source: Office of the Treasurer and Tax Collector of the City and County of San Francisco.

The SFPUC’s non-pooled deposits and investments consist primarily of funds related to the SFPUC’s Outstanding Bonds, which are invested pursuant to policy established by the SFPUC, subject to the restrictions contained in the applicable bond documentation.

Risk Management and Insurance

The SFPUC’s risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the SFPUC Risk Manager through the Office of the City Administrator, Risk Management Division. With certain exceptions, the City and SFPUC’s general approach is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, the SFPUC has determined that mitigating risk through a “self-retention” mechanism is more economical as it manages risks internally and administers, adjusts, settles, defends and pays claims from budgeted resources (*i.e.*, pay-as-you-go). When economically more viable or when required by debt financing covenants, the SFPUC obtains commercial insurance.

At least annually, the City reviews and actuarially determines general liability and workers’ compensation liabilities, which are recorded as “Damages and Claims” and “Accrued Worker’s Compensation” in the financial statements.

The SFPUC does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the Property Insurance program.

The following is a summary of the SFPUC’s coverage approach to risk:

Primary Risks	Typical Coverage Approach
General Liability	Purchased Insurance & Self-Insured
Property	Purchased Insurance & Self-Insured
Electronic Data Processing	Purchased Insurance & Self-Insured
Workers' Compensation	Self-Insured through City-Wide Pool
Other Risks	Typical Coverage Approach
Surety Bonds	Purchased and Contractually Transferred
Professional Liability	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Errors & Omissions	Combination of Self-Insured, Purchased Insurance and Contractual Risk Transfer
Builder's Risk	Purchased Insurance & Contractual Risk Transfer
Public Officials Liability	Purchased Insurance
Employment Practices Liability	Purchased Insurance
Crime	Purchased Insurance
Cyber Liability	Purchased Insurance
Tenants' and Users' Liability	Purchased Insurance
Insurance Policy	
Active Assailant Policy	Purchased Insurance

The SFPUC's property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. The majority of purchased insurance is for revenue-generating facilities, debt-financed facilities and mandated coverage to meet statutory or contractual requirements. The SFPUC's insured coverage is through an insurance policy purchased by the City specifically for the SFPUC, which provides up to \$500 million of coverage against certain losses with respect to scheduled property, including wildfire coverage for certain scheduled assets for Hetch Hetchy Water and Power. The schedule includes properties for the SFPUC's enterprises which have a total value of approximately \$3.0 billion. See also "RISK FACTORS – Risks Related to Water Enterprise Facilities and Operations – *Insurance Coverage*."

Additionally, the SFPUC acknowledges the importance of aligning strategic planning to the risk management process and has implemented an Enterprise Risk Management program to meet this need. The framework provides a strategic approach to managing operational risks. The Enterprise Risk Management program has been implemented thus far for Information Technology Services, the Power Enterprise and CleanPowerSF and plans are in place to continue implementation across the remainder of the SFPUC as needed.

Capital Project Risk Management. For capital construction projects, similar to the City's practice, the SFPUC has utilized traditional contractual risk transfer, contractor-controlled insurance programs or other alternative insurance programs. Under the latter two approaches, the insurance program usually provides coverage for the entire construction project, along with multiple risk coverages, such as general liability and workers compensation. When a contractual risk transfer is used for capital construction risks, the SFPUC requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the SFPUC's risk exposure balanced by that which is commercially available.

Performance bonds are required, and builder's risk insurance must be purchased, in most phases of the 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.

Builder's risk policies of insurance are required to be provided either through an owner-controlled insurance program or the contractor on all construction projects for the full value of the construction.

Professional liability policies are either directly purchased insurance on behalf of the SFPUC, 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. Professional liability policies are typically purchased for services provided by engineers, architects, design professionals and other licensed or certified professional service providers. See also "RISK FACTORS – Risks Related to Water Enterprise Facilities and Operations – *Casualty Losses*."

HISTORICAL OPERATING RESULTS

The historical results of operations reflected in the following table are based on the tables contained in the SFPUC's audited financial statements entitled "Statements of Revenues, Expenses and Changes in Net Position" and "Statements of Cash Flows" for the Fiscal Years listed. This table excludes certain non-operating revenue and expenses included in the "Statements of Revenues, Expenses and Changes in Net Position" table in the audited financial statements. Consequently, "Operating and Investment Income" presented in this table differs from "Change in net position" in the "Statements of Revenues, Expenses and Changes in Net Position" table in the audited financial statements. The calculation of debt service coverage includes net operating income and funds not budgeted to be spent in the next twelve months and legally available to pay debt service, as permitted under the Indenture. The audited financial statements of the Water Enterprise for Fiscal Years 2023-24 and 2022-23, prepared by the SFPUC, are attached as Appendix C to this Official Statement. The audited financial statements were audited by Macias Gini & O'Connell LLP, independent certified public accountants. The following table should be read in conjunction with such financial statements. Macias Gini & O'Connell LLP has not reviewed the following table. See "APPENDIX C – SFPUC WATER ENTERPRISE FINANCIAL STATEMENTS."

In the following discussion, all \$'s are in thousands.

The Water Enterprise's total revenues of \$704,041 in Fiscal Year 2023-24 represented a decrease of \$1,402 or 0.2% from prior year. Increases included \$13,941 from interest and investment income, \$1,926 in other operating revenues, and \$134 in other non-operating revenues. These increases were offset by decreases of \$12,284 in charges for services, and \$4,726 in rents and concessions. Since Fiscal Year 2019-20, revenues have increased \$27,543 or 4.6% per year mainly due to rate increases of 15.9% in Fiscal Year 2022-23 and 9.7% in Fiscal Year 2023-24 for wholesale customers, offset by volume declines in the periods during the COVID-19 pandemic and conservation efforts from recent droughts.

In Fiscal Year 2023-24, charges for services were \$647,622, a decrease of \$12,284 or 1.9% from the prior year mainly due to a higher Balancing Account adjustment for Wholesale Customers in the prior year, offset by adopted rate increases of 9.7% for wholesale customers and 5% for retail customers beginning July 1, 2023.

The Water Enterprise's total operating expenses were \$502,318, an increase of \$63,481 or 14.5%, resulting from increases of \$35,867 in general administrative and other expenses mainly from increased judgement and claims expenses and capital projects spending, \$24,070 in personnel services mainly due to pensions based on actuarial estimates. Since Fiscal Year 2019-20, operating expenditures have increased by an average of 6.5% per year. Operating expense increases throughout the period have mainly been due to increases to supply costs, general and administrative costs including judgement claims and litigation expense, and offsetting changes in personnel costs related to cost of living adjustments, and pensions and OPEB.

The Water Enterprise has maintained a "current basis" debt service coverage ratio exceeding the 1.00x level required by the Indenture, and meeting or exceeding the higher policy target of 1.10x set by the Commission. The Water Enterprise has also maintained a debt service coverage ratio including "Other Available Funds" exceeding 1.25x required by the Indenture as well as the higher policy target of 1.35x set by the Commission.

TABLE 25
HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES
AND DEBT SERVICE COVERAGE
FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS)⁽¹⁾

	2020	2021	2022	2023	2024
OPERATING & INVESTMENT REVENUE					
Charges for Services ⁽²⁾					
Retail Water Sales	\$280,609	\$270,514	\$297,226	\$298,156	\$313,408
Wholesale Water Sales ⁽³⁾	270,144	278,981	240,925	361,750	334,214
Subtotal – Water Sales	\$550,753	\$549,495	\$538,151	\$659,906	\$647,622
Rental Income ⁽⁴⁾	12,124	12,911	13,765	13,282	8,556
Other Revenues ⁽⁵⁾	18,305	17,069	22,134	19,843	21,903
Capacity Fees ⁽⁶⁾	2,169	1,326	2,163	1,256	863
Investing Activities ⁽⁷⁾	10,517	340	(10,896)	11,156	25,097
Total Revenues	\$593,868	\$581,141	\$565,317	\$705,443	\$704,041
OPERATING & MAINTENANCE EXPENSE					
Personnel Services ⁽⁸⁾	\$119,943	\$132,528	\$83,385	\$135,709	\$159,779
Contractual Services ⁽⁹⁾	14,523	15,501	13,457	16,919	20,128
Materials and Supplies ⁽¹⁰⁾	14,050	13,175	15,719	20,046	23,195
Depreciation ⁽¹¹⁾	142,228	144,033	147,904	155,714	155,172
Services of Other Departments ⁽¹²⁾	61,128	70,235	73,307	79,910	77,638
General/Administrative & Other ⁽¹³⁾	46,245	73,218	67,862	30,539	66,406
Total Operating Expenses	\$398,117	\$448,690	\$401,634	\$438,837	\$502,318
OPERATING AND INVESTMENT INCOME	\$195,751	\$132,451	\$163,683	\$266,606	\$201,723
COVERAGE CALCULATION					
Operating and Investment Income	\$195,751	\$132,451	\$163,683	\$266,606	\$201,723
+Adjustment to Investing Activities ⁽¹⁴⁾	(516)	3,846	13,050	(2,015)	(7,956)
+Depreciation & Non-Cash Expenses	148,294	150,257	151,114	164,817	157,335
+Changes in Working Capital ⁽¹⁵⁾	(20,763)	24,707	(42,906)	(124,668)	(22,917)
+Appropriated Fund Balance ⁽¹⁶⁾	17,181	27,785	21,977	67,949	9,800
= “Net Revenue” ⁽¹⁷⁾	\$339,947	\$339,046	\$306,918	\$372,689	\$337,985
+Other Available Funds ⁽¹⁸⁾	241,931	128,692	103,506	194,075	217,600
Funds Available for Debt Service	\$581,878	\$467,738	\$410,424	\$566,764	\$555,585
Bond Debt Service ⁽¹⁷⁾	\$269,210	\$248,427	\$279,352	\$307,062	\$306,369
Debt Service Coverage⁽¹⁹⁾					
Including “Other Available Funds” ⁽¹⁸⁾	2.16x	1.88x	1.47x	1.85x	1.81x
Current Basis ^{(17) (20)}	1.26x	1.36x	1.10x	1.21x	1.10x

⁽¹⁾ Operating and Investment Income presented in this table differs from the Change in Net Assets presented in the Statement of Revenues, Expenses and Changes in Net Assets in the audited financial statements. This table excludes certain elements of non-operating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Position. Examples of excluded elements are Grant Revenue, Interest Expense and Gains from Sale of Assets.

⁽²⁾ Decrease between Fiscal Years 2022-23 and 2023-24 mainly due to a decrease in Balancing Account adjustment for Wholesale Customers in prior year, offset by adopted rates increases of 9.7% for wholesale customers and 5% for retail customers beginning July 1, 2023.

⁽³⁾ Decrease between Fiscal Years 2022-23 and 2023-24 mainly due to Balancing Account adjustment for Wholesale Customers and in-lieu groundwater credits given, offset by an adopted rate increase of 9.7% of wholesale customers beginning July 1, 2023.

⁽⁴⁾ Decrease between Fiscal Years 2022-23 and 2023-24 due to transfer to operating fund for Customer Assistance Program discount program expansion.

⁽⁵⁾ Increase between Fiscal Years 2022-23 and 2023-24 mainly due to increased consumption for certain City departments and a 5% rate increase in Fiscal Year 2023-24. Also, non-operating revenues were added in Fiscal Year 2021-22 per indenture.

⁽⁶⁾ Decrease between Fiscal Years 2022-23 and 2023-24 due to additional allowance for doubtful accounts adjustments and decrease in number of permits issued.

(Footnotes continue on the following page.)

(Footnotes continued from prior page.)

- (7) Increase between Fiscal Years 2022-23 and 2023-24 due to increased interest rates for earnings for cash with Fiscal Agent and City Treasury, and accrual reversal of prior year unrealized loss for investments in City Treasury.
- (8) Increase between Fiscal Years 2022-23 and 2023-24 due to increase in full-time equivalent and average pay, and pension expenses based on actuarial reports.
- (9) Increase between Fiscal Years 2022-23 and 2023-24 due to increased construction contracts.
- (10) Increase between Fiscal Years 2022-23 and 2023-24 mainly due to water treatment supplies.
- (11) Decrease between Fiscal Years 2022-23 and 2023-24 due to pending depreciation schedules.
- (12) Decrease between Fiscal Years 2022-23 and 2023-24 mainly due to decreased water assessment fees paid to Hetchy Water.
- (13) Increase between Fiscal Years 2022-23 and 2023-24 due to accrual reversal of prior year claim, increase in legal fees and litigation expenses.
- (14) Represents adjustment to show investing activities annualized on a cash basis.
- (15) Changes in working capital represents adjustments to reconcile operating income to net cash provided by operating activities from the Statements of Cash Flows in the audited financial statements. Fiscal Year 2022-23 and Fiscal Year 2023-24 adjustments primarily driven by adjustments relating to receivables, accounts payable pension obligations, OPEB, the Balancing Account for Wholesale Customers, damage claims liability and other liabilities.
- (16) Net revenues for the year ended June 30, 2024 include appropriated available funds. Such amount offsets Operating and Maintenance Expenses in Current Basis calculations.
- (17) "Net Revenue" is presented on a cash basis. Refundable Credits actually received by the SFPUC are reflected as reductions in Bond Debt Service and are excluded from Net Revenue. Prior to January 9, 2020, due to federal sequestration, the Indenture required that Refundable Credits not be reflected as reductions in Bond Debt Service but rather permitted an adjustment to Net Revenue; however, an amendment to the Indenture that allows for Refundable Credits actually received by the SFPUC to be reflected as reductions in Bond Debt Service and excluded from Net Revenue went into effect on January 9, 2020.
- (18) Per Indenture, in addition to current year cash flow, coverage calculation includes certain "Other Available Funds," which are not budgeted to be spent in such twelve months and legally available to pay debt service.
- (19) Coverage does not include debt service on subordinate obligations, including the Water Enterprise's share of lease payments associated with the 2009 Golden Gate COPs and debt service on Commercial Paper Notes.
- (20) Unaudited. Calculated as ratio between Net Revenues over debt service on all senior lien obligations; excludes "Other Available Funds."

Source: SFPUC; compiled from the SFPUC's audited financial statements for Fiscal Years 2023-24 and 2022-23.

Note: Totals may not add due to rounding.

PROJECTED OPERATING RESULTS

The following table presents projected operating results for the Water Enterprise. These projections are based on an analysis of historical trends, adjusted where appropriate for known or anticipated changes in operations. The projections are also based on the assumption that all retail water rate increases necessary to finance the Water Enterprise's capital improvement program will be approved and implemented. The projections in the following Table 26 are budget based. Therefore, line items in Table 26 will not correspond to similar line items in Table 25, which is based upon the SFPUC's GAAP financial statements for the Water Enterprise.

THESE PROJECTIONS, ALL OR SOME OF WHICH MAY OR MAY NOT BE REALIZED, ARE BASED ON THE ISSUANCE OF ADDITIONAL SERIES OF BONDS FOR WATER ENTERPRISE CAPITAL PROJECTS AND HETCH HETCHY PROJECTS AS CURRENTLY PROPOSED. CHANGES IN THE CIRCUMSTANCES THAT FORM THE BASES FOR THE ASSUMPTIONS USED IN DEVELOPING THESE PROJECTIONS, AS WELL AS UNANTICIPATED EVENTS, MAY OCCUR SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT. THEREFORE, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE PROJECTIONS SHOWN.

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TABLE 26
PROJECTED REVENUES, OPERATING & MAINTENANCE EXPENSES
AND DEBT SERVICE COVERAGE
FOR FISCAL YEAR ENDING JUNE 30*
(IN THOUSANDS)

	2025	2026	2027	2028	2029
CURRENT REVENUE					
Retail Revenues ⁽¹⁾	\$341,183	\$360,702	\$383,417	\$409,336	\$441,518
Wholesale Revenues ⁽²⁾	357,854	376,865	397,626	412,668	430,606
Other Miscellaneous Income ⁽³⁾	41,267	37,175	35,567	36,214	39,118
Total Current Revenues	\$740,303	\$774,743	\$816,610	\$858,218	\$911,242
OPERATING AND MAINTENANCE EXPENSE⁽⁴⁾	\$359,092	\$356,606	\$365,013	\$376,659	\$389,099
less FUND BALANCES BUDGETED & APPROPRIATED⁽⁵⁾	(24,011)	(39,137)	0	0	0
NET OPERATING REVENUE⁽⁶⁾	\$405,222	\$457,273	\$451,597	\$481,558	\$522,143
plus AVAILABLE FUND BALANCE ⁽⁷⁾	154,244	119,259	123,073	128,544	135,657
FUNDS AVAILABLE FOR DEBT SERVICE	\$559,467	\$576,532	\$574,670	\$610,102	\$657,800
DEBT SERVICE⁽⁸⁾	\$340,367	\$366,856	\$373,288	\$382,492	\$424,664
less BABs Interest Subsidy Payments ⁽⁶⁾	(20,370)	(19,876)	(19,345)	(18,772)	(18,164)
NET DEBT SERVICE	\$319,998	\$346,980	\$353,943	\$363,719	\$406,500
DEBT SERVICE COVERAGE⁽⁹⁾					
Indenture Basis ⁽⁶⁾⁽¹⁰⁾	1.75x	1.66x	1.62x	1.68x	1.62x
Sufficiency of Revenues ⁽⁶⁾⁽¹¹⁾	1.27x	1.32x	1.28x	1.32x	1.28x

* Projections are based on the SFPUC's most recent two-year operating budget for Fiscal Years 2024-25 and 2025-26, adopted by Commission in February 2024 and subsequent changes approved by the Commission in February 2025.

(1) Assumes projected average daily billed retail consumption of 53.6 mgd, 53.9 mgd, 53.5 mgd, 53.2 mgd, and 53.2 mgd for Fiscal Years 2024-25, 2025-26, 2026-27, 2027-28 and 2028-29, respectively. Assumes an average annual retail rate increase of 5.0% for Fiscal Years 2024-25 and 2025-26 and an average rate increase of 7.3% in Fiscal Years 2026-27 through 2028-29. See "FINANCIAL OPERATIONS – Retail Water Sales Revenue."

(2) Assumes projected average daily billed wholesale consumption of 128.2 mgd, 132.3 mgd, 137.2 mgd, 137.6 mgd and 138.7 mgd for Fiscal Years 2024-25, 2025-26, 2026-27, 2027-28 and 2028-29, respectively. Assumes an 8.8% wholesale rate increase for Fiscal Year 2024-25, a wholesale rate increase of 1.9% in Fiscal Year 2025-26, and an average annual rate increase of 2.9% in Fiscal Years 2026-27 through 2028-29. See "FINANCIAL OPERATIONS – Wholesale Water Sales Revenue."

(3) Includes, among other amounts, projected interest income, property rentals, fees, cost recoveries, and service installation charges.

(4) Represents Operating and Maintenance Expense net of depreciation and other non-cash items per Indenture. See "SECURITY FOR THE BONDS" and "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

(5) The SFPUC budgeted and appropriated available fund balances to be used as a source of funds as follows: \$24.011 million in Fiscal Year 2024-25, and \$39.137 million in Fiscal Year 2025-26. Such amounts offset Operating and Maintenance Expenses in sufficiency of Revenues calculations.

(6) Refundable Credits are treated as a reduction in projected Debt Service and are not included in projected Net Revenues. Refundable Credits expected to be received assume a sequestration rate of 5.7%. Sequestration rates are subject to change and may be increased by federal legislation. All or a portion of the Build America Bonds may be refunded by the 2025DEF Bonds anticipated to be issued in May 2025 (preliminary, subject to change). See "INTRODUCTION – General."

(7) Amounts are treated as Revenues under the Indenture. See "SECURITY FOR THE BONDS."

(8) Consists of debt service on Outstanding Bonds (net of capitalized interest), projected debt service for two existing Parity State Loans, and projected debt service for the new money component of the 2025DEF Bonds and anticipated Additional Series of Bonds. See "– Projected Debt Service Assumptions."

(9) Coverage does not include debt service on subordinate obligations, including the Water Enterprise's share of lease payments associated with the 2009 Golden Gate COPs and debt service on Commercial Paper Notes or Revolving Notes.

(10) Calculated as the sum of Net Operating Revenue and certain available fund balances of the Water Enterprise, divided by Annual Debt Service. The Indenture includes a rate covenant of 1.25 times coverage. See "SECURITY FOR THE BONDS – Rate Covenants – Debt Service Coverage."

(11) Calculated as ratio between Net Operating Revenue over debt service on all senior lien obligations; excludes "Available Fund Balance."

Source: SFPUC.

Notes: Amounts set forth in the table are projections. Actual results may differ materially from these projections. See "FORWARD-LOOKING STATEMENTS." Totals may not add due to rounding.

In the preparation of the projections set forth in the table above, the SFPUC has made certain assumptions with respect to conditions that may occur in the future. While the SFPUC believes these assumptions are reasonable for the purpose of the projections, they are dependent on future events, and actual conditions are likely to differ, perhaps materially, from those assumed. To the extent actual future conditions differ from those assumed by the SFPUC or provided to the SFPUC by others, actual results will vary from those projected. This projected information has not been compiled, reviewed or examined by the SFPUC's independent auditors.

The assumptions used in the table above include the following:

Projected Revenue Assumptions. Projections reflect approved retail rate increases of 5.0% in Fiscal Years 2024-25 and 2025-26, as approved by the Commission on May 23, 2023 (see “FINANCIAL OPERATIONS – Retail Water Sales Revenue – *Retail Water Rate Adjustments*”), and assume an average annual retail rate increase of 7.3% in Fiscal Years 2026-27 through 2028-29.

Revenues from sales of water to the Wholesale Customers are calculated in accordance with the WSA. The projections assume a wholesale rate increase of 8.8% in Fiscal Year 2024-25 and an average annual wholesale rate increase of 2.7% in Fiscal Years 2025-26 through 2028-29. See “FINANCIAL OPERATIONS – Wholesale Water Sales Revenue – *Wholesale Water Rate Adjustments*.”

In addition, interest earnings assume average annual yields of 2.0% throughout the projected period.

“Available Fund Balance” amounts are treated as “Revenues” for purposes of “Debt Service Coverage – Indenture Basis.”

“BABs Subsidy Payments” are treated as a reduction in projected Debt Service and are not included in projected Net Revenues. See also “SECURITY FOR THE BONDS – Rate Covenants – *Debt Service Coverage*.”

Projected Operating Expense Assumptions. Operating and Maintenance Expenses of the Water Enterprise are projected to increase at an average annual rate of 2.0% per year from Fiscal Year 2024-25 through Fiscal Year 2028-29.

Projected Debt Service Assumptions. Projected debt service consists of projected, not actual, debt service on the 2010B Bonds, the 2010E Bonds and the 2010G Bonds (net of anticipated Refundable Credits), the 2015A Bonds, the San Francisco Water Revenue Bonds, 2016 Series AB (the “**2016AB Bonds**”), the San Francisco Water Revenue Bonds, 2016 Series C (the “**2016C Bonds**”), the San Francisco Water Revenue Bonds, 2017 Series ABC (the “**2017ABC Bonds**”), the San Francisco Water Revenue Bonds, 2017 Series DEFG (the “**2017DEFG Bonds**”), the San Francisco Water Revenue Bonds, 2019 Series ABC (the “**2019ABC Bonds**”), the San Francisco Water Revenue Bonds, 2020 Series ABCD (the “**2020ABCD Bonds**”), the San Francisco Water Revenue Bonds, 2020 Series EFGH (the “**2020EFGH Bonds**”), the San Francisco Water Revenue Bonds, 2023 Series ABCD Bonds (the “**2023ABCD Bonds**”), the new money component of the 2025DEF Bonds (net of capitalized interest), two existing Parity State Loans (see “OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans”), and anticipated Additional Series of Bonds (net of capitalized interest and debt service reserve fund earnings). Projected debt service does not reflect the anticipated purchase of the Purchased Bonds or the refunding and defeasance of the Current Refunded Bonds and any Advance Refunded Bonds and, therefore, does not include debt service on the 2025ABC Bonds (see “PLAN OF REFUNDING”).

Following the anticipated issuance of the 2025DEF Bonds in May 2025*, the SFPUC anticipates that it will issue approximately \$1.10 billion of Additional Series of Bonds in Fiscal Year 2026-27 to fund Water Enterprise capital projects.

The projected debt service for the new money component of the 2025DEF Bonds and each Additional Series of Bonds assumes a borrowing rate of 6.0%, no Bond Reserve Account and up to two years of capitalized interest.

* Preliminary, subject to change.

The actual issuance dates, borrowing rates and capitalized interest periods may vary from these assumptions. The SFPUC may also issue refunding bonds from time to time in response to market conditions in order to achieve debt service savings. See “FINANCING OF CAPITAL IMPROVEMENTS.”

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2025ABC Bonds. This section is not meant to be a comprehensive or definitive discussion of all of the risks associated with an investment in the 2025ABC Bonds. The order in which this information is presented does not necessarily reflect the relative importance of various risks or the probability of their occurrence.

Potential investors in the 2025ABC Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market price and/or in the marketability of the 2025ABC Bonds or adversely affect the ability of the SFPUC to make timely payments of principal of or interest on the 2025ABC Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future and the SFPUC has not undertaken to update investors about the emergence of the risk factors in the future.

General

The ability of the SFPUC to comply with its covenants under the Indenture and to generate Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the SFPUC and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay fees and charges. Among other matters, drought, general and local economic conditions and changes in law and government regulations could adversely affect the amount of Revenues realized by the SFPUC or significantly raise the cost of operating the Water Enterprise.

In addition, the realization of future Revenues is subject to, among other things, the capabilities of management of the SFPUC, the ability of the SFPUC to provide service to its Retail Customers and the wholesale customers, the ability of the SFPUC to establish, maintain and collect charges from its Retail Customers and the wholesale customers and the ability of the SFPUC to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Costs of the Enterprise, the Bonds and other obligations payable from Revenues. See “FINANCIAL OPERATIONS” and “OBLIGATIONS PAYABLE FROM REVENUES.”

Bond Payment Risks

Limited Obligation. If the SFPUC defaults on its obligations to make debt service payments on the Bonds, the Trustee has the right under the Indenture to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the SFPUC, and correspondingly the Trustee, will have sufficient moneys available for payment of the Bonds.

The SFPUC is not obligated to pay the principal of, or premium, if any, or interest on the 2025ABC Bonds except from Revenues of the Water Enterprise. The SFPUC has no taxing power. The General Fund of the City is not liable for the payment of the principal of, or premium, if any, or interest on the 2025ABC Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, or premium, if any, or interest on the 2025ABC Bonds. The 2025ABC Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any property of the City or of the SFPUC or any of its income or receipts, except Revenues.

No Bond Reserve Account. No Bond Reserve Account has been established for the 2025ABC Bonds. The Bond Reserve Accounts established with respect to other Series of Bonds do not secure the 2025ABC Bonds. Therefore, the only security pledged to the holders of the 2025ABC Bonds are the Revenues pledged under the

Indenture and the covenant of the SFPUC to impose rates and charges necessary to pay debt service on the 2025ABC Bonds.

Limitations on Remedies. The remedies available to the Owners of the 2025ABC Bonds upon the occurrence of an event of default under the Indenture in many respects depend upon judicial actions which are themselves often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the 2025ABC Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against charter cities and counties in California.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the 2025ABC Bonds, that the 2025ABC Bonds constitute valid and binding limited obligations of the SFPUC, and the Indenture constitutes a valid and binding obligation of the SFPUC, will also be subject to such limitations. The various other legal opinions to be delivered concurrently with the issuance of the 2025ABC Bonds will be similarly qualified. See "APPENDIX D – PROPOSED FORM OF OPINION OF BOND COUNSEL."

If the SFPUC fails to comply with its covenants under the Indenture or to pay principal of or interest on the 2025ABC Bonds, there can be no assurance that the available legal remedies will be adequate to protect the interests of the holders of the 2025ABC Bonds.

Risks Related to Water Enterprise Facilities and Operations

The operation of the Water Enterprise, and the physical condition of the Water Enterprise facilities, are subject to a number of risk factors that could adversely affect the reliability of the SFPUC's water supply, or increase the operating expenses of the Water Enterprise. Prolonged damage to the Water Enterprise facilities could interrupt the ability of the SFPUC to realize Revenues sufficient to pay principal of and interest on the Bonds, or require the SFPUC to increase expenditures for repairs significantly enough to adversely impact the SFPUC's ability to pay the principal of or interest on the Bonds. These factors could include, among others, the following.

Failure of Water Facilities. Many of the Water Enterprise's facilities have been in service for an extended period and may be near or have reached the end of their useful lives. See "WATER FACILITIES – Physical Condition of Certain Facilities" and "CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES."

Seismic Hazards. The Water Enterprise's distribution, treatment and transmission systems and some of the facilities of the Hetch Hetchy Project are located in seismically active regions of California, and cross three major known active fault zones (the San Andreas Fault, the Hayward Fault and the Calaveras Fault). See "WATER FACILITIES – Seismic Hazards."

Natural and Man-Made Disasters. Other natural disasters, including without limitation, wildfires, flooding, landslides, or man-made disasters or accidents, including without limitation, water pipeline failures, natural gas pipeline failures or explosions, could interrupt operation of the Hetch Hetchy Project or the Regional Water System, result in liability claims against the Water Enterprise, or otherwise adversely impact the Water Enterprise's ability to provide services or collect Revenues. With respect to wildfires specifically, see "WATER FACILITIES – Wildfire Considerations."

Casualty Losses. The SFPUC's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. Damage attributable to seismic events and environmental pollution, for example, are excluded. In situations where the SFPUC has not purchased commercial coverage, the Water Enterprise has a "self-retention" program that it administers and retains budgeted resources internally to provide coverage for loss liabilities. See also "FINANCIAL OPERATIONS – Risk Management and Insurance." The SFPUC is not required to either insure against or self-insure against every potential risk of loss, and there is a risk that damage or destruction of property and equipment comprising the Water Enterprise

could occur for which no insurance or self-insurance funds will be available. There can be no assurance that insurance providers will pay claims under any policies promptly, or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force the SFPUC to sue to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

The SFPUC is authorized under the WSA to adopt emergency rate increases which helps to mitigate this risk. See “FINANCIAL OPERATIONS – Wholesale Water Sales Revenue – *Wholesale Water Rate Adjustments*.”

Insurance Coverage. The SFPUC believes it maintains a comprehensive risk management program. See “FINANCIAL OPERATIONS – Risk Management and Insurance.” However, like other utilities, the SFPUC is susceptible to fluctuations in the insurance market. Any adverse impacts to the insurance market relating to wildfires or other natural disasters could lead to higher costs or prohibitively expensive coverage, or limited or unavailable coverage for certain types of risk, which may have an adverse effect on the SFPUC’s financial condition.

Drought. California is located in a semi-arid region and is subject to periodic drought. An extended drought could adversely affect the ability of the SFPUC to deliver water sufficient to satisfy all of the demands of its customers. If the SFPUC were to deliver less water to its customers, the SFPUC would need to increase the rates payable by customers or Revenues would decline. The SFPUC may also seek to acquire, and would be obligated to pay the cost of, additional water to deliver to its customers. The SFPUC has adopted a drought planning sequence and associated operating procedures respecting the delivery of water during a drought. The SFPUC is authorized under the WSA to adopt drought surcharges if needed. In addition, retail water rates and charges for the three-year period effective July 1, 2023, include a drought surcharge. See “FINANCIAL OPERATIONS – Retail Water Sales Revenue – *Retail Water Rate Adjustments*.” See also “THE WATER ENTERPRISE – Water Supply Reliability and Drought Planning.”

Wet Years. Precipitation within the Water Enterprise service area varies from year to year. High levels of precipitation generally result in reduced water usage for irrigation, reducing the amount of water delivered by the SFPUC. If the SFPUC were to deliver less water to its customers, the SFPUC would need to increase the rates payable by customers or Revenues would decline. High levels of precipitation may also increase the supply of water available to wholesale customers, also reducing SFPUC water deliveries. See “THE WATER ENTERPRISE – Current Water Conditions.”

Climate Change. Climate change could have a significant impact on State water supplies and on the operations of the Regional Water System and the Water Enterprise. See “THE WATER ENTERPRISE – Climate Change.”

Safety and Security. The occurrence of military conflicts and terrorist activities may adversely impact the operations of the SFPUC, including the Water Enterprise, and/or the finances of the SFPUC. The SFPUC continually plans and prepares for emergency situations. See “WATER FACILITIES – Safety and Security.” However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that military conflicts or terrorist activities are directed against the assets of the Water Enterprise or that costs of security measures will not be greater than presently anticipated.

Cybersecurity. Unauthorized access to the SFPUC’s technology or infrastructure networks could expose information assets and cause significant damage and disruption to the SFPUC’s operations and the provision of SFPUC services. Although the SFPUC has several cybersecurity measures and safeguards in place, there can be no assurance that any existing or additional safety and security measures will prove adequate if military conflicts or terrorist activities, including cyber terrorism, or acts of malfeasance are directed against the assets of the Water Enterprise or the SFPUC’s technology systems. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the SFPUC to litigation and other legal risks, which could cause the SFPUC to incur significant costs related to such legal claims or proceedings. For more information regarding the SFPUC’s cybersecurity measures, see “THE WATER ENTERPRISE – Cybersecurity.”

Statutory and Regulatory Compliance. The operation of the Water Enterprise is subject to a variety of federal and State statutory and regulatory requirements concerning matters such as water quality, dam safety, instream fishery flows and endangered species. The SFPUC’s failure to comply with applicable laws and regulations could result in

significant fines and penalties. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as the Water Enterprise may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders could also impose substantial additional operating expenses on the Water Enterprise. See “REGULATORY MATTERS.”

Endangered Species. Various aquatic species (including native fish) present in the Tuolumne River and Bay Area streams (e.g., Alameda, San Mateo and Pilarcitos Creeks) are either listed or candidates for listing under the State or federal endangered species acts. New listings and future enforcement actions under the acts, or conditions placed in permits to undertake construction for certain projects, could potentially directly affect water flow and/or water supplies available to the Water Enterprise and/or increase costs due to mitigation requirements. See “REGULATORY MATTERS – Endangered Species.”

Labor Actions. A work stoppage or other labor action could limit the SFPUC’s ability to operate the Water facilities and adversely impact Revenues. See “THE PUBLIC UTILITIES COMMISSION – Employee Relations – San Francisco.”

Construction Related Risks. Construction projects in the Water Enterprise’s capital program are subject to ordinary construction risks and delays applicable to projects of their kind, including but not limited to (i) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; (vi) supply chain issues; (vii) errors or omissions in contract documents requiring change orders; (viii) the occurrence of a major seismic event, pandemic, or other natural or man-made disaster; or (ix) unanticipated project site conditions, including the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, and other natural hazards or seismic events encountered during construction. In addition, Water Enterprise construction projects may require scheduling system and facility shutdowns to avoid impacting water deliveries and many shutdown windows are inflexible or need to be modified to meet changing conditions. Increased construction costs or delays for any reason in connection with the Water Enterprise’s capital program could impact the Water Enterprise’s financial condition in general and the implementation of its capital programs in particular.

Proposals to Restore Hetch Hetchy Valley. Some environmental organizations advocate for the removal of Hetch Hetchy Reservoir and the restoration of Hetch Hetchy Valley. For example, an initiative ordinance qualified for the November 2012 City ballot with support from an organization called “Restore Hetch Hetchy” and would have required the City to identify alternative sources of water and, subject to certain additional conditions, end its use of Hetch Hetchy Reservoir. This initiative was rejected by San Francisco voters.

Previous studies have examined proposals to remove Hetch Hetchy Reservoir. For example, a 2006 report by the California Department of Water Resources and the California Department of Parks and Recreation concluded that it is technically feasible to restore Hetch Hetchy Valley but cautioned financial feasibility. The study estimated that the total cost of such a project would range from \$3 billion to \$10 billion in 2006 (approximately \$4 billion to \$13 billion in 2020, adjusted for inflation). The State agencies also concluded that the initial planning effort would take up to 10 years to complete and cost an additional \$65 million.

In 2015, Restore Hetch Hetchy filed a complaint against the City alleging that the SFPUC’s operation of Hetch Hetchy Reservoir is an unreasonable method of diversion of water in violation of the State Constitution because of the O’Shaughnessy Dam’s location within a national park. The case has been fully and finally resolved in the City’s favor. In addition, in 2019, Restore Hetch Hetchy commissioned a report that concluded that restoring Hetch Hetchy Valley and opening it to greater public use had an economic use value between \$2 billion to \$5 billion and an intrinsic passive-use value of over \$100 billion over a 50-year period. No formal federal, State or local policy proposals have been made in response to the report.

In addition to proposals for the removal of Hetch Hetchy Reservoir and the restoration of Hetch Hetchy Valley, there is a proposal to expand access to Hetch Hetchy Reservoir for recreational purposes, which could possibly lead to filtration requirements of water derived from Hetch Hetchy Reservoir.

The SFPUC is unable to predict whether any similar initiatives, or similar federal or State legislation, might be approved by the voters or adopted by legislative bodies in the future, or the potential impact of such efforts on the SFPUC or the Water Enterprise. Any such legislation or litigation, if successful, could impose substantial additional operating and capital expenses on the Water Enterprise.

Risks Relating to Financial Operations

Limitations on Rate Setting. The generation of Revenues sufficient to satisfy the requirements of the Indenture and to pay the principal of and interest on the Bonds will require the SFPUC to raise the water rates payable by its customers. The increase or maintenance of retail water rates is subject to various substantive and procedural requirements and limitations. See “FINANCIAL OPERATIONS – Retail Water Sales Revenue” and “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS.”

Water rates payable by the Wholesale Customers are established under the WSA, which may help reduce the risk that Revenues will be insufficient for the purposes described in this section. Rates established pursuant to the WSA are subject to the substantive requirements and the procedures, including procedures for resolving disputes, of applicable law and as set forth in the WSA. The WSA also provides for rate adjustments for drought and non-drought emergencies if needed. See “FINANCIAL OPERATIONS – Wholesale Water Sales Revenue” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT.”

Increased Operating and Maintenance Expenses. There can be no assurance that the Operating and Maintenance expenses of the SFPUC, such as wages and salaries, pension and other benefits, and purchased power costs, will not increase, perhaps substantially. See “FINANCIAL OPERATIONS – Operating and Maintenance Expenses.”

Interim Funding Program Facilities. The bank credit facilities supporting the Commercial Paper Notes are subject to early termination upon the occurrence of certain events, including the failure of the SFPUC to make certain payments, the occurrence of certain bankruptcy or insolvency-related events, the reduction below specified levels or the withdrawal or suspension of ratings on certain obligations of the SFPUC payable from Revenues or certain other specified events of default. Upon the occurrence of such termination, one or more of the following would likely occur: (a) the SFPUC would be prohibited from issuing additional notes supported by such credit facilities; (b) any outstanding reimbursement obligation of the SFPUC to the bank providing such facility for draws made for the payment of principal of or interest on Commercial Paper Notes could bear interest at rates higher than the rates borne by the Commercial Paper Notes; and (c) any such outstanding reimbursement obligation of the SFPUC could be accelerated and become immediately due and payable. The Commercial Paper Notes and any reimbursement obligations are payable from Revenues on a basis subordinate to the Bonds.

The commitment of the banks to make advances under the revolving credit agreements for interim funding (the repayment obligation of the SFPUC for which are evidenced by the Revolving Notes) may be terminated by the banks upon the occurrence of certain events, including the failure of the SFPUC to make certain payments, the occurrence of certain bankruptcy or insolvency-related events, the reduction below specified levels or the withdrawal or suspension of ratings on certain obligations of the SFPUC payable from Revenues or certain other specified events of defaults. Upon such an event of default, (a) the outstanding repayment obligation of the SFPUC evidenced by the Revolving Notes would bear interest at substantially increased interest rates and (b) the banks could declare all amounts outstanding under the Revolving Notes to be immediately due and payable. The Revolving Notes are secured on a basis subordinate to the payment of debt service on the Bonds.

See “OBLIGATIONS PAYABLE FROM REVENUES – Subordinate Debt and Interim Funding Program.”

Inverse Condemnation. Under the doctrine of inverse condemnation (a legal concept that entitles property owners to just compensation if their private property is damaged by a public use), California courts have imposed liability on public agencies in legal actions brought by private property holders for damages caused by such public agencies’ infrastructure. In *City of Oroville v. Superior Court of Butte County*, 7 Cal. 5th 1091 (2019), however, the California Supreme Court held that damage to private property must be substantially caused by an inherent risk presented by the deliberate design, construction or maintenance of the public improvement. Thus, if the inherent risks associated with the SFPUC’s facilities, including water storage or transportation facilities or electrical distribution and

transmission lines, as deliberately designed, constructed or maintained, are determined to be the substantial cause of damage to private property from flooding, fire or otherwise, and the doctrine of inverse condemnation applies, the SFPUC could be liable for direct and indirect property damage to private parties and such liability, in the aggregate, could be substantial. In addition to such claims for property damage, the SFPUC could also be liable under other theories of liability, including if the SFPUC were found to have acted unreasonably or to have been negligent, which liability, in the aggregate, could be substantial. See “WATER FACILITIES – Wildfire Considerations.”

Bankruptcy Risk

Bankruptcy or Financial Failure of Wholesale Customers. The financial failure or bankruptcy of a Wholesale Customer could adversely affect the ability of such Wholesale Customer to honor its obligation under the WSA (including its obligation to pay the purchase price of water delivered by the SFPUC to such Wholesale Customer).

The SFPUC is not aware of the existing or impending financial failure or bankruptcy of any Wholesale Customer, but there can be no assurance that a financial failure or bankruptcy of a Wholesale Customer will not occur. If a Wholesale Customer were to become bankrupt, the SFPUC may be unable to enforce the terms of the WSA against such Wholesale Customer and the SFPUC’s right to receive payment for water delivered prior to bankruptcy but not invoiced or invoiced but not paid may be limited to the rights of an unsecured creditor of the bankrupt entity. Further, there can be no assurance that the SFPUC will be physically able or legally permitted to cease or interrupt deliveries of water to a non-paying Wholesale Customer.

Although no assurance can be provided, the SFPUC believes that any reduction in Revenues as a result of the inability to collect payment for water delivered to a bankrupt Wholesale Customer or as a result of any temporary interruption or reduction of water deliveries will not be material. The SFPUC further believes that, following such bankruptcy, the amount of water delivered for the service area currently served by such Wholesale Customer will not be reduced and that the SFPUC will be able to obtain payment for such water on terms comparable to the terms of the WSA.

Bankruptcy of the City. The SFPUC, being an enterprise department of the City, likely cannot itself file for bankruptcy. While an involuntary bankruptcy petition cannot be filed against the City, the City is only authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the holders of the 2025ABC Bonds.

To the extent that Revenues are “special revenues” under the United States Bankruptcy Code (the “**Bankruptcy Code**”), the Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. If any or all of the Revenues are determined not to be “special revenues,” then any such amounts collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Indenture. “Special revenues” are defined to include revenues derived from the ownership or operation of projects or systems that are primarily used to provide utility services. No assurance can be given that a court would hold that any or all Revenues are special revenues. In a case arising from the insolvency proceedings of Puerto Rico, the United States Court of Appeals for the First Circuit concluded that while a debtor has the right to voluntarily apply special revenues to the payment of debt service during the pendency of a bankruptcy case, the debtor is not obligated to do so, even though the special revenues are subject to the lien of the bond documents. The holders of the 2025ABC Bonds may not be able to assert a claim against any property of the City other than the Net Revenues, and if any or all of the Revenues are no longer subject to the lien of the Indenture, then there may be limited, if any, funds from which the holders of the 2025ABC Bonds are entitled to be paid.

The Bankruptcy Code provides that “special revenues” can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses, and any definition in the transaction documents may not be applicable.

If the City is in bankruptcy, the parties (including the Trustee and the holders of the 2025ABC Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making

payments to the holders of the 2025ABC Bonds from funds in the Trustee's possession. The rate covenants (see "SECURITY FOR THE BONDS – Rate Covenants") may not be enforceable in bankruptcy by the Trustee or the holders of the 2025ABC Bonds.

Revenues are deposited with and held by the City Treasurer and may be commingled with other City funds. See "SECURITY FOR THE BONDS – Flow of Funds." If the City is in bankruptcy, the City may not be required to turn over to the Trustee any Revenues that are in its possession at the time of the bankruptcy filing or come into its possession after the bankruptcy filing. In addition, if the City has possession of Revenues (whether collected before or after commencement of the bankruptcy) and if the City does not voluntarily turn over such Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the 2025ABC Bonds would have to follow to attempt to obtain possession of such Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. The United States Court of Appeals for the First Circuit, in another case involving the insolvency proceedings of Puerto Rico, concluded that a bankruptcy court does not have the power to order a debtor such as the City to comply with state law.

The City may be able to borrow additional money that is secured by a lien on any of its property (including the Revenues), which lien could have priority over the lien of the Indenture, or to cause some of the Revenues to be released to it, free and clear of the lien of the Indenture, in each case as long as the bankruptcy court determines that the rights of the Trustee and the holders of the 2025ABC Bonds will be adequately protected.

If the City is in bankruptcy, it may be able, without the consent and over the objection of the Trustee and the holders of the 2025ABC Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants and the rate covenant), and other terms or provisions of the Indenture and the 2025ABC Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2025ABC Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the 2025ABC Bonds, or result in losses to the holders of the 2025ABC Bonds. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2025ABC Bonds.

Other Risks

Federal Policy Risks. Federal policies involving taxation, appropriations, borrowing (including the debt ceiling), trade (including tariffs), immigration, climate change, clean energy and other topics can shift, sometimes dramatically, from one presidential administration or Congress to another. From time to time, such shifts can result in reductions to the level of federal funding for a variety of policy priorities, including transportation, housing, healthcare, social services and other federally funded programs. Recently, several such policy shifts, including delays in grants and other appropriations, have been proposed or promulgated through presidential executive orders and other official and unofficial actions at the federal level. The SFPUC cannot predict the outcome of such proposals and other actions, nor the potential impacts of any future such changes in federal policy. However, such changes could in the future have adverse effects on revenues, operation and maintenance costs or capital funding requirements.

The SFPUC depends on the work of various federal agencies to conduct its operations. For example, the SFPUC relies, in part, on the National Oceanic and Atmospheric Administration ("NOAA"), which includes the National Weather Service, for information regarding daily weather forecasts, severe storm warnings, climate monitoring, and long-term climate projections. The SFPUC also relies on the USEPA for regulatory compliance guidance, water quality standards and testing protocols, infrastructure funding through various federal funding programs, and support during environmental emergencies. In addition, the SFPUC relies on the National Park Service to manage Yosemite National Park, where the Hetch Hetchy Reservoir and substantial portions of the SFPUC's Regional Water System infrastructure are located, including watershed protection, facility maintenance access, and security. Recently, the federal government has begun conducting large-scale layoffs across federal agencies, including but not limited to layoffs at NOAA, the USEPA and the National Park Service. The SFPUC cannot predict the potential impacts of such layoffs; however, such actions could have adverse effects on the SFPUC's operations.

Federal Legislation. Legislation is periodically introduced in the U.S. Congress that could affect the finances or operations of the SFPUC. Examples of federal legislative proposals that could have an adverse effect on the SFPUC if they were to be introduced and become law include, but are not limited to limitations on the amount or availability of tax-exempt financing under Section 103 of the Code or elimination of the exclusion of interest on tax-exempt bonds from gross income for all or some taxpayers. Legislative proposals to eliminate or limit the benefit of tax-exempt interest on bonds such as the 2025ABC Bonds have been made in the past, may currently be under consideration, and may be made again in the future. If adopted, any such proposal could alter the federal tax treatment described under the heading “TAX MATTERS” or could adversely affect the market value or marketability of the 2025ABC Bonds. The SFPUC cannot predict whether any such legislation will be introduced or enacted in the current or future sessions of the U.S. Congress.

Economic, Political, Social and Environmental Conditions. Changes in economic political, social, or environmental conditions on a local, State, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business productivity, consumer prices, or financial markets, unemployment rates, availability of skilled labor, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

Pandemics; COVID-19 Pandemic. A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. For example, the COVID-19 pandemic significantly impacted the City and resulted in prolonged stay-at-home orders that impacted each of the SFPUC’s enterprises, including the Water Enterprise. In addition to certain direct impacts on the Water Enterprise, COVID-19 had significant and varied impacts on general economic activity at the local, national and global levels, including supply chain and labor market disruptions that resulted in increases in costs across a wide number of sectors, as well as delays in delivery of projects and equipment. The Water Enterprise experienced, and may in the future experience, increases in certain costs and delays and disruptions to the delivery of capital projects. See also “– Risks Related to Water Enterprise Facilities and Operations – Construction Related Risks.”

Initiative, Referendum, Charter Amendments and Future Legislation. Under the State Constitution, California voters have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. The SFPUC is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the SFPUC or the Water Enterprise. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS.”

Under the Charter, the San Francisco voters can restrict or revise the powers of the SFPUC through the approval of a Charter amendment or other initiative. For example, in June 1998, San Francisco voters approved Proposition H which included a limited exception to raise rates to pay debt service on voter-approved debt, froze the SFPUC’s water and sewer rates through July 1, 2006. The SFPUC can give no assurance that the electorate will not seek in the future to freeze or limit rate increases. See “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – Charter Limitations.”

In addition, the SFPUC is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The SFPUC is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations or financial condition of the SFPUC.

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers. As discussed under “TAX MATTERS,” interest on the 2025ABC Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2025ABC Bonds as a result of future acts or omissions of the SFPUC in violation of its covenants to comply with requirements of the Code. Should such an event of taxability occur, the 2025ABC Bonds are not subject to redemption or any increase in interest rate and could remain outstanding until maturity.

The Internal Revenue Service (the “IRS”) has an expanded program for the auditing of tax-exempt obligations, including both random and targeted audits. It is possible that the 2025ABC Bonds could be selected for

audit by the IRS. It is also possible that the market value of the 2025ABC Bonds might be affected as a result of such an audit of the 2025ABC Bonds (or by an audit of similar securities).

Failure to Maintain Credit Ratings. Certain rating agencies have assigned ratings to the 2025ABC Bonds. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. See “RATINGS.” There is no assurance current ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings could be expected to have an adverse effect on the market price or the marketing of the 2025ABC Bonds. The SFPUC undertakes no obligation to maintain its current credit ratings on the 2025ABC Bonds or to oppose any such downward revision, suspension or withdrawal.

Failure to Maintain “Green Bond” Status. The purpose of labeling the 2025A Bonds as “Green Bonds” is to allow owners of such bonds to invest in bonds that have financed environmentally beneficial projects and the 2025A Bonds have been certified by CBI as “Climate Bonds.” The SFPUC does not make any representation, however, as to the suitability of the 2025A Bonds to fulfill the environmental and sustainability criteria of particular investors. The 2025A Bonds may not be a suitable investment for all investors seeking exposure to green or sustainable assets. There is currently no market consensus on what precise attributes are required for a particular project to be defined as “green” or “sustainable,” and therefore no assurance can be provided to investors that the projects refinanced by proceeds of the 2025A Bonds will continue to meet investor expectations.

Secondary Market. There can be no guarantee that there will be a secondary market for the 2025ABC Bonds or, if a secondary market exists, that the 2025ABC Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Uncertainties of Projections, Forecasts and Assumptions. Certain information contained in this Official Statement is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the SFPUC assumes no responsibility for the accuracy of such projections. See “FORWARD-LOOKING STATEMENTS.”

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REGULATORY MATTERS

General

Public water supply systems in California, such as the Regional Water System and In-City Distribution System operated by the Water Enterprise, are primarily regulated by the SWRCB Division of Drinking Water (“DDW”), formerly under the California Department of Public Health (“CDPH”) and, in some limited instances, by the USEPA and California Regional Water Quality Control Boards (“RWQCBs”).

Drinking water delivered to customers must comply with statutory and regulatory water quality standards designed to protect public health that are now administered by DDW. The CDPH reissued a drinking water supply permit in 2004 prescribing conditions and requirements for the Water Enterprise to specifically operate the Regional Water System. The CDPH also issued drinking water supply permits to the In-City Distribution System, several small water systems owned and operated by the Water Enterprise, and the wholesale customer public water supply systems. The CDPH and the DDW issued several amendments to the Regional Water System and In-City Distribution System permits for various changes over the last 20 years. In accordance with the drinking water standards and permit requirements, the Water Enterprise operates and maintains water storage, treatment and conveyance facilities, implements watershed management and protection activities, performs inspections, monitors drinking water quality, conducts applied research, maintains and implements a comprehensive and effective cross-connection control program, and submits monthly and annual compliance reports. The Water Enterprise is currently operating in compliance with all State and federal drinking water regulations and permit requirements. The drinking water supply permits for both Regional Water System and In-City Distribution System are scheduled to be updated around 2030 to reflect new facilities and operations.

In addition, public water system discharges to State and federal waters are regulated under general National Pollutant Discharge Elimination System (“NPDES”) permits. The SWRCB issues general permits, whereas the two RWQCBs (San Francisco Bay and Central Valley) issue individual region-specific NPDES permits to the SFPUC, which contain numerical effluent limitations, monitoring, reporting and notification requirements for water discharges from the facilities and pipelines of the Regional Water System. The SFPUC is generally operating and maintaining the water treatment and transmission facilities in compliance with the NPDES permit requirements. Coverage under existing NPDES permits will remain since the permits issued by the SWRCB or RWQCBs are either reissued on a specific timeline or administratively extended. The SFPUC will ensure continuous coverage and re-enroll under NPDES permits as necessary.

A number of water resource management and regulatory initiatives may affect the availability of water to the Regional Water System in the future. Also, alternate water supplies currently used by wholesale customers of the Water Enterprise may be reduced in the future, increasing the customers’ reliance on the Regional Water System. In addition to those raised below, these initiatives include the Sacramento-San Joaquin Delta Reform Act of 2009, the federal or California Endangered Species Acts, the SWRCB Bay-Delta Water Quality Control Plan amendment proceedings, the Federal Energy Regulatory Commission (“FERC”) proceeding to relicense the Irrigation Districts’ Don Pedro Hydropower Project sited on its New Don Pedro Dam and Reservoir and others. The effects of any of these activities, or of these activities cumulatively, are unknown.

Drinking Water Requirements

Regulatory Agency. The USEPA and the DDW have picked up their pace updating existing and adopting new drinking water regulations. These new developments will impact the current operations of the SFPUC’s drinking water systems as new resources may be needed to comply with these new and/or updated regulatory requirements.

Recent Adoption of Drinking Water Regulations. The DDW has adopted many new drinking water regulations at the State level in the last five years. These include a primary maximum contaminant level (“MCL”) for hexavalent chromium; direct potable reuse regulations; cross-connection control policy; a much lower detection limit, from 6 to 1 microgram per liter (“µg/L”), for reporting of perchlorate level in drinking water; the Total Coliform Rule Revision; a policy handbook for monitoring of microplastics in drinking water; and notification and response level for per- and poly-fluorinated alkyl substances (“PFAS”). In the last five years, the USEPA adopted two drinking water regulations consisting of MCLs and Hazard Index for six PFAS contaminants (including PFOS, PFOA, PFBS, PFHxS

and two others), the Lead and Copper Rule Revision (“LCRR”) and the Lead and Copper Rule Improvements (“LCRI”), and Consumer Confidence Report Revision regulations. The USEPA also anticipates proposing revisions to microbial and disinfection byproduct rules in summer 2025.

Near-Term Regulatory Development. Several regulatory developments at the State level are anticipated in the near future, including but not limited to the following: revision of the existing Lead and Copper Rule (“LCR”) in line with the corresponding federal LCRR and LCRI; increase in publication frequency of a Consumer Confidence Report from annual to semiannual to conform to the recently adopted federal Consumer Confidence Report Revision regulations; adoption of new MCLs for PFOS and PFAS; adoption of notification levels and response levels related to harmful algal bloom, PFAS, and manganese, and lowering detection limits for reporting purposes for eight metals including lead, nickel and arsenic. At the federal level, the USEPA has committed to issuing a drinking water regulation for setting perchlorate MCL by May 2027, and is in the process of developing the stage 3 microbial/disinfection byproduct regulation.

Regulatory Review by USEPA and DDW. Under the Safe Drinking Water Act (“SDWA”), the USEPA must review all existing regulations every six years and determine which regulations may need to be revised. The fourth Six-Year Review of existing National Primary Drinking Water Regulations was completed in July 2024, and the USEPA determined that there are no additional candidates identified for regulatory revision. However, the Six-Year Review is not a final regulatory decision to revise or not revise a drinking water regulation; rather, it is part of a pre-planning process to determine if a rulemaking effort to revise the regulation should be considered.

Similarly, California Health and Safety Code §116365(g) requires the DDW to review its MCLs at least once every five years. These quinquennial MCL reviews are to ensure that the drinking water standards cannot be less stringent than the corresponding federal values and must be as close as is technically and economically feasible to the public health goals established by the California Environmental Protection Agency’s Office of Environmental Health and Hazard Assessment (“OEHHA”). The latest review was conducted between 2015 and 2017 and concluded by the SWRCB in 2018 that no MCL revisions were needed. Nevertheless, regulatory changes resulting in the need for new infrastructure and operations may incur in future MCL reviews by USEPA and DDW with respect to the following existing drinking water regulations:

Surface Water Treatment. Several related regulations addressing surface water treatment requirements for drinking water were adopted by the USEPA and the DDW between 1990 and 2010. These regulations, including the Surface Water Treatment Rule, Interim Enhanced Surface Water Treatment, Filter Backwash Recycling Rule, Long-Term 1 and Long-Term 2 Enhanced Surface Water Treatment Rules, require filtration of all surface water supplies unless the water supply can meet certain stringent requirements. These regulations also impose microbial disinfection/inactivation performance with which community water systems including those operated by the SFPUC have to comply.

As discussed under “WATER FACILITIES – Water Treatment,” the high quality of water stored at Hetch Hetchy Reservoir has been determined to be sufficient to meet filtration avoidance requirements without installation and operation of filtration facilities. However, new treatment (disinfection or filtration) facilities could be required in the future if the filtration avoidance criteria are not consistently met or due to changes in these regulations. See “– *Regulatory Review by USEPA and DDW.*”

Local water from the Alameda and Peninsula watersheds and upcountry non-Hetch Hetchy sources requires filtration to meet applicable drinking water quality requirements. The filtered and treated water from these non-Hetch Hetchy sources are typically blended with the disinfected Hetch Hetchy water. Most customers receive water from blended sources. The SFPUC’s Tesla Treatment Facility uses ultraviolet light technology to inactivate target organisms (*Giardia* and *Cryptosporidium*) in the Hetch Hetchy water supply; it has been performing well since its operations began in 2012. See “WATER FACILITIES – Water Treatment.”

System water quality, including both raw water and treated water, is continuously monitored and tested year-round to assure that water delivered to customers meets or exceeds federal and State drinking water/public health requirements. Nevertheless, more rigorous water quality monitoring efforts may be required as a result of new or updated drinking water regulations that are adopted by USEPA and/or DDW.

Stage 2 Disinfectants and Disinfection Byproduct Rule. The USEPA promulgated the Stage 2 Disinfectants and Disinfection Byproducts Rule (“**Stage 2 DBPR**”) in 2006 and the State adopted its version of the same rule in 2012. This rule is to reduce public health risk associated with disinfection byproducts (“**DBPs**”) in drinking water. Since then, the SFPUC has demonstrated compliance with the Stage 2 DBPR by the continued use of the chloramination treatment process.

Under the SDWA Six-Year Review Rule, USEPA decided to review existing disinfectant and disinfection byproduct rules. The USEPA anticipates proposing revisions to microbial and disinfection byproduct rules in summer 2025.

Groundwater Rule. The USEPA promulgated the Groundwater Rule (“**GWR**”) to address waterborne disease and microbial contamination related to groundwater. The DDW adopted its own version of the GWR in 2011 by reference to the USEPA’s regulations. The GWR requires that a system putting new groundwater sources in service must conduct assessment source-water monitoring if directed by the State. The GWR also requires a groundwater system to conduct triggered source-water monitoring if it does not provide 4-log virus treatment and the results of bacteriological monitoring are fecal-coliform positive. The SFPUC presently has a groundwater program consisting of two projects: San Francisco Groundwater Supply for the In-City Distribution, and Groundwater Storage and Recovery for the Regional Water System. The groundwater wells of these two projects will serve as the additional and emergency water supplies to the In-City Distribution System and the Regional Water System. The requirements of this rule are applicable to these two groundwater systems, and the extent of impacts depends on the operational management and water quality of these new alternate groundwater sources. Additional treatment facilities may be required to meet the disinfection requirements and to reduce certain mineral content of the groundwater to comply with the corresponding drinking water standards, if water quality monitoring results indicated such a need and the approved blending treatment with the surface water sources is insufficient to meet the existing and/or future drinking water standards.

Revised Total Coliform Rule. The USEPA adopted the Revised Total Coliform Rule (“**RTCR**”) in 2013 and the DDW adopted its own version of the RTCR that has been effective since July 1, 2021. Both the Regional Water System and the In-City Distribution System are in compliance with these regulatory requirements. The USEPA is in the process of developing a new rule regulating the operations of distribution systems and storage facilities of all community water system in the nearest future. It is too early at this time to identify what new treatment facilities or operational changes will be required to meet this future rule.

Lead and Copper Rule. The SFPUC proactively addressed the issue of lead in water well before the USEPA published its Lead and Copper Rule in 1991 and the State’s adoption of similar regulations in the 1990s. The federal LCR was subsequently updated with several regulatory actions that resulted in the promulgation of 2000 LCR Minor Revisions, 2007 LCR Short-Term Revisions, 2021 LCRR, and 2024 LCRI.

In the 1980s, the SFPUC removed all known lead service lines and fittings from the In-City Distribution System. In the late 1990s, the SFPUC started distributing non-lead faucets to daycare centers and schools. The distribution program for non-lead faucets was then expanded to the general public served by the In-City Distribution System. In the 2000s, the SFPUC initiated a program to replace service meters with a non-lead type in the In-City Distribution System and eliminated large, leaded, compound meters. At the present time, approximately 99% of the service meters have been replaced.

In 2006, the SFPUC submitted a report to the State documenting that its existing corrosion control treatment using pH adjustment was optimized. The SFPUC also piloted use of other non-lead plumbing components and sponsored the lead-free law known as Assembly Bill 1953 (“**AB 1953**”) that was enacted by the California Legislature in 2006. AB 1953, which requires new lead-free plumbing components containing no more than 0.25% lead, has been in effect since January 1, 2010. In January 2014, the USEPA began enforcing its lead-free mandate known as the Reduction of Lead in Drinking Water Act, which was enacted by Congress on January 4, 2011. The USEPA’s definition of “lead free” is the same as that in AB 1953.

In 2024, the SFPUC completed its last triennial LCR monitoring for the In-City Distribution and the Regional Water System in accordance with the 1991 LCR. The monitoring results demonstrate continued compliance with the existing LCR. Nevertheless, the SFPUC may have to conduct a new optimized corrosion control treatment

study if, in the future, the SFPUC decides to blend new groundwater sources into the Regional Water System and the In-City Distribution System. The next round of LCR monitoring must be performed in accordance with the new LCRI requirements. Two rounds of full monitoring must be completed in 2028 before reduced triennial monitoring can be requested with the DDW and USEPA. If lead levels exceed the new lower threshold, the SFPUC must notify the public and may need to modify its corrosion control treatment.

In 2016, Section 116885 of the California Health and Safety Code was amended by Senate Bill 1398 and Senate Bill 427 requiring a community water system, such as those overseen by the SFPUC, to complete the following: (i) compile an inventory of known Lead User Service Lines (“LUSLs”), which are utility-owned service lines that have components made of lead material, by July 1, 2018; (ii) identify areas that may have LUSLs, including service lines made of unknown materials, by July 1, 2018; (iii) identify unknown user service line material by July 1, 2020; and (iv) develop a replacement timeline for LUSLs and still unknown material user service lines by July 1, 2020. The approved SFPUC replacement timeline is 10 years. The 2026 Capital Plan includes the As-Needed Water Service Line Replacement Project (also known as the Lead Component Services Program), estimated to cost \$38.5 million, and funding to complete this work. The SFPUC has also applied for an additional State Revolving Fund loan to finance the project. See “OBLIGATIONS PAYABLE FROM REVENUES – Parity State Loans.” This project is 73% complete and expected to be completed by June 2026, years ahead of the compliance deadline.

In January 2021, the LCRR went into effect. As part of the Biden administration’s review of all new regulations, the USEPA reviewed the LCRR and decided in 2021 to keep the lead service line inventory requirements of the LCRR in place to ensure the initial customer water service line material inventory was completed by October 2024. The LCRI revised several facets of the LCRR, including lowering the 90th percentile lead action level from 15 µg/L to 10 µg/L, revising tap sampling procedures, deferring free lead sampling at schools and licensed childcare centers to 2027, and imposing a 10-year deadline for water systems to conduct replacements for all lead-containing service lines within the SFPUC’s control. The DDW is also in the process of updating its own version of the LCR so that its regulatory requirements will be at least consistent with the LCRR. The SFPUC has performed inspections and used statistical methods to prepare the initial lead service line inventory, identifying 653 customer-owned galvanized service lines that were previously downstream of a utility-owned lead service line, and 407 service lines with unknown lead status. No lead service lines were found. The SFPUC expects to be able to identify the material composition of service lines with unknown lead status before 2027; otherwise, these customer-owned services lines will need to be replaced within a 10-year period. The replacement cost is currently unknown.

PFAS. The USEPA adopted primary MCLs for six PFAS on April 10, 2024. On April 5, 2024, the OEHHA adopted public health goals for PFOA and PFOS at 0.007 ng/L and 1 ng/L, respectively, for California. The State law requires a MCL established by the DDW to be as close to its public health goals as is technologically and economically feasible.

The In-City Distribution System and the Regional Water System also completed four rounds of quarterly sampling of 29 PFAS components and lithium in early 2024. This monitoring was required under USEPA’s fifth Unregulated Contaminant Monitoring Rule (“UCMR5”). The sampling results gathered throughout the United States under UCMR5 will be used by USEPA in its future determination of rulemaking needs regarding these 30 contaminants. The SFPUC’s PFAS and lithium monitoring results confirmed no detection of these 30 contaminants in the drinking water. The only SFPUC location with detection below regulatory limits has been the small Pleasanton Well Field Water System, which is a standalone water system independent of the Regional Water System and the In-City Distribution System.

The City Attorney’s Office has repeatedly opted out of settlement agreements to preserve its rights to seek better compensation if an issue related to PFAS contamination in the SFPUC water sources were to develop in the future. In addition, on March 3, 2025, the San Francisco City Attorney filed a lawsuit on behalf of the People of the State of California in San Francisco Superior Court against certain PFAS manufacturers seeking to recover abatement and damages for contamination of San Francisco’s resources. The lawsuit alleges that at least two drinking water wells operated by the SFPUC as part of the Pleasanton Well Field Water System have detectable levels of PFAS. The lawsuit also alleges PFAS contamination in the City’s other resources, including the City’s combined sewer collection system. While the City believes that the claims in this lawsuit are meritorious, it can give no assurance regarding whether the lawsuit will be successful and obtain the requested relief from the courts, or contributions to the abatement fund from the defendant PFAS manufacturers.

Fluoridation. The 1995 State Assembly Bill 733 requires large water systems to fluoridate their public water supply and directs the appropriate State agency to seek funding for fluoridation. The State adopted its fluoridation regulation in 1998. The requirements of this regulation, as codified in Section 64433 through 64434 of Title 22, California Code of Regulations, apply to large water systems with at least 10,000 service connections.

The SFPUC has been fluoridating its water supply since the early 1950s, and meets all the requirements of fluoridation regulation. In 2015, the United States Department of Health and Human Services Agency recommended that water systems practicing fluoridation adjust their fluoride content to 0.7 mg/L, as opposed to the previous temperature-dependent optimal levels ranging from 0.7 mg/L to 1.2 mg/L. The Centers for Disease Control and Prevention (the “CDC”) also provided detailed information on the basis for this change. To reflect the CDC’s recommendation, the DDW consulted with public water systems practicing fluoridation regarding amendments to their individual public water supply permits to reference the CDC’s recommended optimal level of 0.7 mg/L. The DDW confirmed in 2016 that the fluoride control range for the Regional Water System is 0.6 mg/L to 1.2 mg/L in addition to the recommended optimal level. The SFPUC is in compliance with the prescribed levels and the operational and monitoring requirements of the State fluoridation regulation.

Cross-Connection Control. On December 19, 2023, the DDW adopted a policy handbook that replaces the regulations in Title 17 of California Code of Regulations for cross-connection control. Effective starting on July 1, 2024, the policy handbook establishes enforceable standards and provides guiding principles to California public water systems for public health protection through backflow prevention and control of cross-connection. On December 10, 2024, the SFPUC amended Section G, Cross-Connection Control, of its Rules and Regulations Governing Water Service to Customers, to be consistent with the handbook’s new standards. While the handbook has established requirements with which the SFPUC is in compliance through its cross-connection control program, its financial impacts to the Water Enterprise’s operations are uncertain since these requirements were recently put into effect. Ongoing review of the program implementation will need to be conducted. The SFPUC will submit a Cross Connection Control Plan to DDW by July 1, 2025, as required by the handbook.

Direct Potable Reuse. On August 6, 2024, the Office of Administrative Law approved the DDW’s regulations on direct potable reuse, which establishes enforceable requirements of water recycling through raw water augmentation for drinking water supply. The SFPUC will not develop new direct potable reuse supplies for some time. Operational costs and impacts will be identified during project design.

Hexavalent Chromium MCL. The DDW adopted an updated hexavalent chromium MCL of 10 µg/L with a much lower detection limit for reporting purposes at 0.1 µg/L. The new MCL regulation was approved by Office of Administrative Law in July 2024 and went into effect on October 1, 2024. With the State’s new reporting limit, there were occasions in 2024 when the treated water from the two local treatment plants had low detections of this contaminant. While treatment of the SFPUC’s surface water is not anticipated as the detections are far below the MCL, the groundwater sources, which have substantially higher hexavalent chromium levels, will continue to be treated using the DDW-approved blending method to meet the MCL.

Regulations/Other Contaminants. The DDW has also initiated the rulemaking process for the following MCLs on its priority agenda: N-nitroso-dimethylamine (“NDMA”), perfluorooctanoic acid (“PFOA”), and perfluorooctane sulfonic acid (“PFOS”), as well as the review process for possible revisions to a suite of contaminants that have existing primary MCLs. Among these contaminants, arsenic is a primary candidate to be reviewed. DDW is expected to continue increasing its efforts with the ultimate goal of establishing applicable drinking water standards, either new or more stringent, to enhance public health protection. These DDW regulations may have unknown impacts to the SFPUC’s water operations, dependent on the values of these future MCLs and the improvements in water quality analytical technology.

The DDW is also considering the following: acute and short-term notification and response levels for four cyanotoxins (microcystins, cylindrospermopsin, anatoxin-α, and saxitoxin) recommended by the OEHHHA; and lower notification and response levels for manganese at 20 µg/L and 200 µg/L, respectively (existing levels are 500 µg/L and 5,000 µg/L, respectively).

Environmental Laboratory Accreditation Program Regulations. In 2020, the SWRCB adopted new Environmental Laboratory Accreditation Program (“ELAP”) regulations, which are applicable to five laboratories

within the Water Enterprise's Water Quality Division. While most regulations took effect January 1, 2021, full compliance was required by January 1, 2024. All ELAP-accredited laboratories have successfully completed third-party assessments and demonstrated compliance with the new regulations, which incorporate TNI Standards based on ISO 17025. The SFPUC is currently designing a new laboratory facility in Millbrae to replace the existing 50-year-old facility. The SFPUC continues to maintain and operate its laboratories in accordance with all regulatory standards and plans for future laboratory improvements as needed.

Public Water System Discharges

As part of routine operations and maintenance activities, the SFPUC transfers treated water between storage facilities and discharges water to the environment. These transfers and discharges are regulated under the federal Clean Water Act through general NPDES permits issued by the SWRCB or RWQCB, as appropriate.

The SFPUC currently has several NPDES permits that cover discharges from the Regional Water System and SFPUC drinking water facilities. These permits generally impose discharge limitations, monitoring, reporting, and notification requirements. These permits require the SFPUC to control various water quality parameters (such as pH, chlorine residual, turbidity, etc.) and implement best management practices to minimize any adverse environmental effects caused by the discharges from the Regional Water System.

On March 4, 2025, the City prevailed in its action against the USEPA regarding an NPDES discharge permit issued under the Clean Water Act for the Wastewater Enterprise's Oceanside Water Pollution Control Plant. The dispute centered on "end-result" provisions – permit terms that made the City responsible for water quality in the Pacific Ocean – well beyond the quality of the City's discharges. In *City and County of San Francisco v. Environmental Protection Agency*, 604 U.S. ____ (2025), the Supreme Court of the United States held that the Clean Water Act does not authorize the USEPA to impose "end-result" provisions in its discharge permits. The Supreme Court's decision requires the USEPA to follow the Clean Water Act by establishing clear permit requirements that prevent pollution by restricting discharges before those discharges reach receiving waters. The decision does not relieve the SFPUC of its Clean Water Act responsibilities, but the USEPA's "end-result" requirements could have resulted in the SFPUC having to incur significant, unknowable capital costs, adversely impacting the SFPUC's ability to achieve its affordability goals. See also "FINANCIAL OPERATIONS – Retail Water Sales Revenue – *Affordability*."

Bay Delta Water Quality Standards

The Water Enterprise obtains the majority of its Bay Area water supply from Hetch Hetchy Reservoir, located on the main branch of the Tuolumne River, which is an upstream tributary to the Lower San Joaquin River and the San Francisco Bay/Sacramento San Joaquin Delta Estuary (the "**Bay Delta**").

In 2009, the SWRCB noticed its intent to update water quality objectives of the 2006 Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary and the program of implementation, which had the potential to result in impacts to water rights and the issuance of water quality regulations consistent with the program of implementation. Following a several years-long process, in 2018, the SWRCB adopted the "Phase 1" Amendment to the Water Quality Control Plan ("**2018 Plan Amendment**") and the accompanying final Substitute Environmental Document. The adopted 2018 Plan Amendment was developed with the stated goal of increasing salmonid populations in three San Joaquin River tributaries (the Stanislaus, Merced, and Tuolumne Rivers) and the Bay-Delta. The 2018 Plan Amendment requires the release of 40% (by default, but may be variable between 30% and 50%) of the "unimpaired flow" on the three San Joaquin River tributaries from February through June in every water year type, whether wet, above normal, dry, or critically dry. If the 2018 Plan Amendment were to be implemented, it would result in significant water supply shortages for the Hetch Hetchy Regional Water System during single dry and multiple dry years.

The SWRCB has three primary means of implementing the 40% unimpaired flow requirement: (1) in a separate water rights proceeding that would consider any necessary changes to upstream water rights; (2) by adopting a regulation and issuing orders on targeted water rights; or (3) through Clean Water Act section 401 certification actions in FERC hydroelectric licensing processes, such as the FERC relicensing proceeding underway for the Don Pedro Project on the Tuolumne River (see "– FERC Proceeding to Increase Flows in the Lower Tuolumne River" below).

In 2019, the City joined in filing a lawsuit with the San Joaquin Tributaries Authority challenging the SWRCB's adoption of the 2018 Plan Amendment on multiple legal grounds including the California Environmental Quality Act and the Porter Cologne Act. Over a dozen other lawsuits have been filed in State and federal court challenging the 2018 Plan Amendment. Through 2021 and 2022, the Sacramento County Superior Court has issued a series of rulings in favor of the State against a number of petitioners, which has led to the dismissal without leave to amend of several causes of action, and upholding other causes of action. On March 15, 2024, the Superior Court issued a final order on the merits, denying all claims raised by all petitioners and ruling in favor of the SWRCB on all issues raised. On May 15, 2024, the San Joaquin Tributaries Authority and nine other petitioners appealed the decision of the Superior Court; these appeals were consolidated. These consolidated appeals remain pending and have not yet reached the briefing stage.

The 2018 Plan Amendment further directed the SWRCB to develop biological goals, or targets, to explain the expected outcomes of the implementation of the 2018 Plan Amendment and to inform the SWRCB's exercise of the adaptive management provisions of the 2018 Plan Amendment. In July 2023, the SWRCB issued a draft Biological Goals document. Commenters, including the San Joaquin Tributaries Authority, raised concerns that the biological goals the SWRCB developed were unrelated to, and would not be attainable through, the implementation of the 2018 Plan Amendments. In September 6, 2023, the SWRCB adopted the Biological Goals without resolving many of the concerns that the San Joaquin Tributaries Authority and other parties raised. On February 6, 2024, the SWRCB re-adopted the Biological Goals without substantive change but with the addition of new CEQA findings. On October 6, 2023 and March 5, 2024, respectively, the San Joaquin Tributaries Authority filed suit challenging the SWRCB's two actions adopting the Biological Goals, alleging violations of the California Environmental Quality Act and the California Administrative Procedure Act, among others. These lawsuits remain pending and have not reached the merits stage.

When the SWRCB approved the 2018 Plan Amendment, it also directed staff to compile a Delta watershed-wide agreement, including potential flow measures for the Tuolumne River, and to incorporate such agreements as an alternative for a future amendment to the Bay-Delta Water Quality Control Plan to be presented to the SWRCB as early as possible after December 1, 2019. On March 1, 2019, in accordance with the SWRCB's instruction, the SFPUC, in partnership with the Modesto Irrigation District and Turlock Irrigation District (collectively, the **"Tuolumne Parties"**), submitted to the State a proposed voluntary agreement (**"Tuolumne Voluntary Agreement"**). A memorandum of understanding to advance the Tuolumne Voluntary Agreement was signed by the Tuolumne Parties in November 2022. In spring 2023, the Tuolumne Parties and other public water agencies completed necessary draft terms and agreements and submitted them to the SWRCB for review. The public water agencies also renamed the "Voluntary Agreements" to the "Healthy Rivers and Landscapes" (**"HR&L"**) program. The SWRCB conducted a series of workshops in 2023 and 2024 to publicly review the Sacramento portion of the HRL&L program. The SWRCB expects to consider the Tuolumne portion of the HR&L program for adoption in 2026. The SWRCB process will include (1) scientific peer review of the Tuolumne HR&L program, and (2) release of a draft CEQA document for public comment and a final CEQA document. After a final CEQA document is issued, the SWRCB would then be able to consider adoption of the Tuolumne HR&L program. If successful, this process may allow the SFPUC to offset some of the flow requirement of the 2018 Plan Amendments by agreeing to instead implement certain "non-flow" measures designed to improve the viability of targeted fish species. These negotiations remain ongoing.

In addition, in 2019 and 2020, the State and other parties filed multiple lawsuits against the federal government for its adoption of biological opinions that altered how the U.S. Bureau of Reclamation would operate the Central Valley Project. In December 2024, the Bureau of Reclamation issued a record of decision reversing the record of decision issued in 2020. In 2020, several other lawsuits were filed against the State for its issuance and adoption of an incidental take permit governing how the California Department of Water Resources would operate the State Water Project. While the City is not participating in these lawsuits, this litigation may continue to impact negotiations for a Delta watershed-wide agreement.

FERC Proceeding to Increase Flows in the Lower Tuolumne River

FERC licenses the Don Pedro Hydropower Project (**"Don Pedro Project"**), owned and operated by the Irrigation Districts. The City helped fund the original construction of Don Pedro Project in exchange for a 570,000 acre-foot "water bank" account allowing the SFPUC to receive water credits for advanced releases from the Hetch

Hetchy Project to the New Don Pedro Reservoir, and to debit from this water bank by diverting water otherwise allocated to the Irrigation Districts.

The current FERC license for the Don Pedro Project expired in 2016, and the Irrigation Districts are now operating under an annual license that incorporates the conditions of their prior license. The Irrigation Districts initiated the process to relicense the Don Pedro Project using FERC's Integrated Licensing Process in 2010. Relicensing is a lengthy process, stretching over several years and open to public participation. It is estimated the process may cost up to \$50 million to complete, which costs are split for certain studies between the Irrigation Districts and the SFPUC pursuant to an existing agreement. The Irrigation Districts submitted an Amended Final License Application ("**AFLA**") for the Don Pedro Project on October 11, 2017.

The Irrigation Districts are also working through an initial licensing proceeding for the La Grange Diversion Dam (the "**La Grange Project**"), which is located on the Tuolumne River, two miles downstream of the Don Pedro Project. The Irrigation Districts also submitted their Final License Application ("**FLA**") for the La Grange Project on October 11, 2017. The City has no legal or contractual responsibilities regarding the ownership or operation of the La Grange Project and is not subject to the licensing conditions for the La Grange Project.

NEPA and CEQA environmental review must be completed before licenses can be issued. On July 7, 2020, FERC released the Final Environmental Impact Statement ("**FEIS**") for both the AFLA for the Don Pedro Project and the FLA for the La Grange Project. The Irrigation Districts are in the process of conducting CEQA review. The FEIS presents a "staff recommendation" that is mostly aligned with the Irrigation Districts' AFLA.

As described in the "Bay Delta Water Quality Standards" section above, under section 401 of the federal Clean Water Act, FERC cannot issue a new license for a hydroelectric project until a state's water quality agency issues a certification stating that the new license will comply with the applicable water quality requirements (the "**401 Certification**") or, alternatively, FERC determines that the state has waived its authority to issue a 401 Certification. The ongoing WQCP voluntary agreement process is designed, in part, to draft the terms of the 401 Certification that would be included as part of the FERC license in lieu of the 40% unimpaired flow requirement set forth in the 2018 Plan Amendment. However, in January 2021, the SWRCB issued a final 401 Certification that sets a flow schedule more onerous than the 2018 Plan Amendment. The SFPUC and the Irrigation Districts filed petitions for reconsideration at the SWRCB in February 2021. The SWRCB did not timely respond to these petitions and the City and the Irrigation Districts consequently filed related lawsuits challenging the 401 Certification. On May 7, 2024, the SWRCB unilaterally set aside the 401 Certification, and, on August 13, 2024, the court entered the stipulated dismissal-without-prejudice of the City's and the Irrigation Districts' lawsuits. In addition, the Irrigation Districts challenged FERC to find that the SWRCB has waived its authority to issue a 401 Certification. The United States Court of Appeals for the District of Columbia Circuit decided the Irrigation Districts' waiver lawsuit unfavorably to the Irrigation Districts, and, in April 2023, the United States Supreme Court denied the Irrigation Districts' petition for certiorari, fully resolving this case. On December 15, 2024, the Irrigation Districts re-applied for a section 401 Certification, and that process remains ongoing.

A 1995 Don Pedro Project Settlement Agreement ("**Settlement Agreement**") and a 1996 Order by FERC ("**1996 Order**") established increased water flows on the Tuolumne River to protect fisheries and riparian resources. A restoration plan ("**Restoration Plan**") adopted in 2000 guides planning, funding and implementation efforts. The Restoration Plan calls for a series of projects with a combined estimated cost of \$25 million to improve river channel, riparian, and fisheries conditions within a 27-mile stretch of the Tuolumne River corridor below the La Grange Diversion Dam. Four of the ten priority projects were completed with available State and federal funding. More recently, the City and the Irrigation Districts as well as other non-governmental organizations have been working on implementing additional habitat restoration projects related to the Restoration Plan.

Pursuant to a 1966 agreement between the City and the Irrigation Districts, the City might have been liable to provide a portion of the increased flows mandated under the 1995 Settlement Agreement. Instead, the City and the Irrigation Districts entered into a new agreement (the "**Side Agreement**") whereby the Irrigation Districts agreed to provide all flows ordered by FERC to implement the Settlement Agreement until FERC issues a new license for the Don Pedro Project in exchange for which the City pays the Irrigation Districts \$3.5 million per year, subject to an escalation clause applied to keep pace with inflation. Pursuant to the terms of its agreement with the Irrigation Districts, the City may withdraw from the agreement upon one year's notice.

The term of the Side Agreement runs until FERC issues a new license for the Don Pedro Project. License conditions, such as water-release requirements, could change under a new license. Changed release requirements could adversely affect the availability of Tuolumne River water to the SFPUC and hydroelectric generation. To prevent these potentially adverse effects to its operations on the Tuolumne River, the SFPUC is seeking to extend the existing Side Agreement so that it would remain in effect after the Don Pedro Project FERC license is renewed.

FERC has not yet provided a schedule for relicensing. However, it is expected that the National Marine Fisheries Service will first exercise its Endangered Species Act section 7 consultation authority before FERC moves forward with license approval. The National Marine Fisheries Service has not indicated when it will commence this consultation process.

Dam Licensing and Safety Issues

In 1929, the California Legislature enacted legislation providing for supervision over non-federal dams in the State. The statutes place the supervision of the safety of non-federal dams and reservoirs under the jurisdiction of the DSOD. Dams under DSOD jurisdiction are artificial barriers, together with appurtenant work, including outlet towers, which are 25 feet or more in height or have an impounding capacity of 50 acre-feet or more. Any artificial barrier not in excess of six feet in height, regardless of storage, or that has a capacity not in excess of 15 acre-feet, regardless of height, is not considered within DSOD's jurisdiction.

The DSOD reviews plans and specifications for the construction of new dams or for the enlargement, alteration, repair or removal of existing dams, under applications, and must grant written approval before the owner can proceed with construction. The DSOD routinely inspects operating dams to ensure that they are adequately maintained. The DSOD also conducts investigations of selected dams and directs the owners to additional investigations and detailed safety evaluations when necessary. In 2017, Oroville Dam, which is owned and operated by the State, suffered significant spillway structural problems and a major downstream area was temporarily evacuated. As a result of the Oroville Dam spillway problems, the State Legislature enacted legislation to enhance the DSOD's authority; pursuant to such authority, the DSOD has requested additional evaluations of certain spillways, including spillways at the following four dams: Cherry Valley, O'Shaughnessy, Turner, and San Andreas.

SFPUC Dam and Safety Resiliency Program. The SFPUC has 18 dams under the jurisdiction of the DSOD. In 2019, the SFPUC performed a comprehensive overview of evaluations and potential capital improvements that may be needed for these dams in the following 15 years. The SFPUC created a proposed schedule for improvement projects for 15 of the dams and submitted the schedule to the DSOD in 2020. Several new projects were added to the Capital Plan over time to address these needs. In 2024, an updated letter was sent to DSOD sharing progress on the evaluations and capital projects for 15 of the dams. In most cases, additional evaluations are being conducted to further determine capital needs as part of each project's planning phase. Thus, while estimated funding has been included in the 2026 Capital Plan for these facility improvements, the scopes, budgets and schedules may be adjusted in future years as more information becomes available.

In December 2023, the SFPUC submitted a pre-application to the U.S. Army Corps of Engineers for a CWIFP loan to finance a collection of eight Water Enterprise projects supporting dam safety and resilience. In September 2024, the U.S. Army Corps of Engineers notified the SFPUC that its pre-application was selected to submit a full application for CWIFP financing consideration for a loan up to \$614,811,376. The SFPUC plans to submit the full application prior to the deadline of September 9, 2025. For more information regarding the CWIFP loan, see "OBLIGATIONS PAYABLE FROM REVENUES – Corps Water Infrastructure Financing Program."

Capital improvement projects for SFPUC's dams that are currently funded under the 2026 Capital Plan are described below:

O'Shaughnessy Dam. O'Shaughnessy Dam was completed in 1923 and raised in 1938. Most of the outlet facilities were installed when the dam was first built in 1923. These outlet facilities have exceeded their design life and need rehabilitation or replacement to maintain their reliability and functionality. The O'Shaughnessy Dam Outlet Works Project will extend the service life and reliable operation of the 100-year-old outlet system. The rehabilitation work is divided into two phases. The scope of Phase 1 includes replacing the access platforms in ladder wells, clearing critical drainage systems within the dam, building a new bulkhead system as a safe isolation for upcoming

rehabilitation of gates and valves, replacing the instream flow release valves, and pre-construction planning of drum gates and slide gates replacement. The value of construction work for Phase 1 is estimated to be over \$30 million dollars. Phase 1 construction has started with anticipated construction completion in 2026. The objective of Phase 2 is to rehabilitate slide gates, drum gates, large valves such as the 60-inch and 72-inch diameter needle valves, diversion tunnel and diversion pipeline, and associated control systems. The value of construction work for Phase 2 is estimated to be over \$90 million dollars. The planning of Phase 2 will start in 2025, with staggered construction starting in 2030 and anticipated construction completion in 2041. The current estimated total project cost (which includes planning, bid and award, and close out costs, as well as construction costs) is \$44 million for Phase 1 and \$184 million for Phase 2.

Lake Eleanor Dam. Lake Eleanor Dam is a multiple arch reinforced concrete dam with roadway bridge at the crest that was constructed in 1918. Due to the age of the dam, some of the structural elements including the bridge and concrete barrels exhibit various degrees of deterioration including cracking and spalling of concrete, exposed rebar, leakage through the arch barrels, and cracks and erosion of the spillway concrete. The bridge is at the top of the dam and is an integral structure of the dam, providing the only vehicle and personnel access to the spillway structure and the other side of the dam for maintenance purposes. In addition, the dam's spillway is inadequate to pass the updated inflow design flood. The Lake Eleanor Dam Rehabilitation Project will address concerns with concrete deterioration and spill capacity of the existing dam concrete structure, and first, rehabilitate the bridge, then subsequently replace the bridge deck when overall dam improvements are constructed. The project's first phase, the bridge rehabilitation project, is in the final design phase with anticipated construction completion in 2027 and an estimated construction cost of about \$4 million. The second phase of the project will address dam improvements including concrete deficiencies, increased capacity for releases, and increased downstream erosion protection. Planning for this second phase is funded to start in 2025, with anticipated construction completion in 2037. The estimated total project cost for both phases of improvements to the bridge and dam is \$114 million.

Priest Dam. The Priest Dam Condition Assessment and Monitoring Project includes a geotechnical exploration of the dam, a stability analysis, and a complete Condition Assessment Report. Additionally, the project will install new instrumentation to monitor the dam's performance. Pre-construction work (review of files, records, and site visits) started in 2022 with the geotechnical investigation commencing in 2024 due to the need to coordinate with the Mountain Tunnel Project shutdowns. Construction work has been completed and the Condition Assessment Report is currently in progress. The estimated project cost is \$1.5-2.5 million. Pending the results from the Priest Dam Condition Assessment in 2025-2026, it is expected that a Priest Dam rehabilitation project may be developed in the future to correct potential deficiencies.

Cherry Valley Dam. Cherry Valley Dam was built in 1955. The spillway includes a 334-foot wide ogee-type concrete weir that discharges into an unlined adjacent channel. Engineering studies showed that remedial measures and erosion protection for the spill channel are needed to ensure that spill flows from Cherry Valley Dam spillway can be contained without erosion damage to the existing embankment dam and downstream area. Studies also found that long-term improvement to the spillway is needed to increase the hydraulic capacity of the spillway to safely pass the updated inflow design flood. The 2026 Capital Plan includes Cherry Dam Spillway Short-Term Improvements project as a short-term interim solution until a project for long-term spillway improvements can be implemented. The dam's original design documents indicate that the spillway is rated for 52,000 cubic feet per second ("cfs"). However, significant erosion damage occurred below the dam in 2010 when corresponding spillway releases were less than 1,800 cfs. The Cherry Dam Spillway Short-Term Improvements project will minimize the potential spill damage by improving the portion of the spillway that is unlined with erosion protection measures and re-establishing containment for the breached spill channel section from the 2010 spill, improving the flood protection for the dam and downstream area under a normal spill event. The value of construction work is estimated to be \$8 million with anticipated construction completion in 2027; the total project cost is \$15 million. The SFPUC also plans to include a long-term project in the future capital plan to increase the spillway capacity and retrofit the intake tower for seismic reliability.

Early Intake Dam. Early Intake Dam is a single-curvature concrete arch structure. It was constructed between 1923 and 1924 to divert Hetch Hetchy water from the Tuolumne River into the Mountain Tunnel. Within a few years of the dam's completion, significant cracking was observed at several locations, most likely due to the alkali-aggregate reactivity in the concrete. The structure has continued to deteriorate since then. Widely distributed and progressively worsening cracking has been observed throughout the dam and spillway structure over the years. The dam is reaching the end of its design life. The SFPUC has initiated a project to replace the dam. The Early Intake Dam Long-term

Improvement Project will remove the existing concrete structure and construct a new facility to allow diversion of flows into Mountain Tunnel for water delivery under emergency and drought conditions. The SFPUC is considering a wide variety of alternatives, including, but not limited to, using pumps, low head weirs, tunnels, pipelines, and other water sources to supplement water supply to the Bay Area assuming the dam is removed. It is expected to take six years, from 2024 to 2029, to resolve complex environmental issues, water supply reliability issues, and obtain necessary approvals. The cost of construction work is estimated to be over \$50 million dollars. The planning phase of the project has started, with anticipated construction completion in 2034.

Moccasin Lower Dam. In 2018, the town of Moccasin experienced more than 5.0 inches of precipitation over a 24-hour period, of which 3.1 inches fell within a four-hour period. The torrent of rain caused severe flood damage to the facilities in Moccasin and almost overtopped Moccasin Dam. After the event, the SFPUC issued emergency contracts to remove debris and perform emergency interim repairs. All of the emergency repairs were completed in 2020. To ensure dam safety and minimize potential flood damage in the future, the SFPUC re-evaluated the required flood protection for the dam and downstream facilities. The scope of work for the Moccasin Dam Long-Term Improvements project includes re-constructing the auxiliary spillway to handle the updated inflow design flood and building additional measures to protect the major facilities. The project will consist of constructing a new ungated side channel spillway at the right abutment along the alignment of the existing auxiliary spill channel. Additional erosion protection will also be considered for both upstream and downstream of the reservoir. Planning began in 2020 to define the scope of the spillway improvements; construction is anticipated to occur in 2030-2033 to allow sufficient time for planning, engineering design, and environmental agency approvals. The value of construction work is estimated to be over \$100 million dollars with an estimated total project cost of \$142 million, and anticipated construction completion in 2033.

Pilarcitos Dam. Pilarcitos Dam is a 95-foot-high earth fill embankment dam originally constructed in 1866 by the Spring Valley Water Company, with a reservoir capacity of approximately 3,100 acre-feet. An overall condition and needs assessment of the facility was completed in 2021. The study identified that the embankment and the appurtenant structures have operational and dam safety (seismic and hydraulic) improvement needs. The scope of work for Pilarcitos Dam includes upgrades to the embankment, outlet structure, and spillway to meet seismic safety standards and to pass the updated inflow design flood. Conceptual engineering design for two alternatives, representing the highest and lowest capital costs, is currently underway. Pre-construction is scheduled to complete in 2031 with construction scheduled for completion in 2034. The estimated project budget is \$64 million.

San Andreas Dam. San Andreas Dam is a 105-foot-high earth fill embankment dam built in 1870 and modified in 1875. The dam impounds a 19,000-acre-foot reservoir in San Mateo County. An overall condition and needs assessment for the dam was completed in 2021, identifying the need to improve and upgrade the embankment and emergency outlet release facilities along with the spillway, where improvement needs were previously identified in 2019. Preliminary scope of work at San Andreas Dam includes the construction of a new spillway, a seismic stability study of the embankment, and a feasibility study of an emergency release outlet structure. Based on the condition assessment results, seismic safety standards, and the need to pass the updated inflow design flood, the dam's embankment, spillway, and emergency release outlet structure would all require retrofit and/or replacement under one construction contract. Alternatives analysis is currently underway. Once completed, scope of work, schedule and budget will be updated. Pre-construction for the entire project is scheduled to be complete in 2031 with construction scheduled for completion in 2033. The current estimated project budget is \$32 million, but this may be increased after project needs are further determined.

Turner Dam. Turner Dam is a 195-foot-high earth fill embankment dam constructed in 1965. The dam impounds the 50,500-acre-foot San Antonio Reservoir in Alameda County. An overall condition and needs assessment for the facility, including the embankment, spillway and outlet works, began in 2020 and is part of a project to perform necessary upgrades anticipated to be completed by 2034. Results from the latest condition assessment, including an analysis performed in 2023, indicate that the dam embankment, spillway, and outlet works would all need to be retrofitted and/or replaced to meet the seismic safety standard and to pass the updated inflow design flood. Since this project is still in the early planning phase, the schedule and budget for the upgrade project will be updated when the scope is better defined for the selected alternative. The project is preliminarily scheduled to complete pre-construction in 2031, with construction from 2032 to 2034.

Calaveras Reservoir Expansion. Completed in 2019, the Calaveras Dam has a reservoir capacity of 96,800 acre-feet and was designed to accommodate a potential future enlargement. This project was intended to add up to an additional 289,000 acre-feet of additional water storage to the Calaveras Dam that could be available in all water year types. This project included raising the dam, expanding the capacity of the outlet structures and spillway, and adding necessary transmission and pumping infrastructure to convey water to the Calaveras Reservoir. This project has been deferred due to, among other reasons, high capital cost requirements, and may be reevaluated in the future. See “CAPITAL IMPROVEMENT PROGRAM AND OTHER WATER SUPPLY INITIATIVES – Water Supply Initiatives – AWS Program – AWS Projects – Calaveras Reservoir Expansion (Deferred).”

Merced Manor Reservoir. The Merced Manor Reservoir project will seismically strengthen and repair the roof of the reservoir. Scope of the project includes structural evaluation of the existing roof structure per current seismic code, design for seismic strengthening and repair, and construction of improvements. Pre-construction is underway with construction completion anticipated by 2031. The total project budget in the 2026 Capital Plan is \$12 million.

Summit Reservoir. Summit Reservoir is a 14 million-gallon (43 acre-feet) capacity potable water storage reservoir on Twin Peaks in San Francisco that was built during the 1950s. Based on the as-built drawings, the original inlet/outlet structure appeared to be backfilled with compacted fill, whereas the majority of the reservoir is constructed on bedrock. Following the WSIP-funded seismic improvements, roof strengthening, and installation of new inlet/outlet structure that was completed in 2012, the DSOD reviewed the reservoir improvements and concluded that the reservoir met the criteria to be under their jurisdiction as a “dam” due to the original outlet structure embankment. In 2017, at the request of the DSOD, an engineering evaluation was performed in order to analyze the subsurface conditions and confirm that the seismic improvements performed under the WSIP were adequate, particularly in the area of embankment fill where the original inlet-outlet facilities were constructed. In 2019, a geotechnical investigation report was submitted to the DSOD that provided additional test results and information about the subsurface materials and conditions and concluded that the ground and the embankment appear to be stable. In 2021, an inspection of the concrete floor and walls in the West basin showed degradation of the sealant joints as well as some cracking and spalling along the floor and walls. Pre-construction of the repairs will be completed in 2025 and the repair of the cracks will be performed in 2026-2027, with similar repairs to any potential cracks in the East basin thereafter. Total project cost is less than \$2 million; additional budget will be requested in the future if needed.

Stanford Heights Reservoir. Stanford Heights Reservoir, a potable water storage reservoir located within San Francisco, is impounded by a 31-foot-high earth fill dam constructed in 1928. The SFPUC performed a stability analysis in 1993, and an updated seismic stability and deformation analysis check of the embankment in 1997. Further geotechnical and seismic stability investigations are needed to determine if improvements may be necessary. Further investigations and pre-construction activities are planned for 2026 to 2027, with potential construction, if needed, in 2028 to 2030.

Sunset Reservoir South Basin. In a 1996 study, the SFPUC recommended seismic strengthening of the roof structure and other associated reservoir structural elements at the Sunset Reservoir South Basin which is formed with a 34-foot-high earth fill dam within San Francisco. However, due to budgetary prioritization decisions made by the SFPUC, and because the North Basin was seismically retrofitted, those recommendations were deferred. In 2018, a structural and seismic performance review of the Sunset South Basin recommended updating the seismic evaluation of the roof structure and structural elements prior to performing a structural improvement project. A project to strengthen the reservoir roof structure and other structural components if needed is scheduled for pre-construction in 2026 to 2030 with construction completion in 2033.

University Mound South Basin. In a 1996 study, the SFPUC recommended seismic strengthening of the roof structure and other associated reservoir structural elements at the University Mound South Basin which is formed with a 17-foot-high earth fill dam within San Francisco. However, due to budgetary prioritization decisions, and because the North Basin was seismically retrofitted, those recommendations were deferred. A seismic stability and deformation analysis of the embankment conducted by DSOD in 2006 showed acceptable seismic performance of the embankment. Thus, it is anticipated that the improvement project will only be needed to seismically strengthen the roof structure and structural components of the reservoir. Pre-construction including planning is scheduled for 2026 to 2030, with improvements constructed by 2033.

Hazardous Material Management

The handling of hazardous materials is subject to a variety of federal and State regulations. The SFPUC currently complies with regulations regarding hazardous material safety with respect to hazardous material disposal and employee safety.

Endangered Species

Various species (including native fishes) present in and near the Tuolumne River and Bay Area streams (e.g., Alameda, San Mateo and Pilarcitos Creeks) are either listed or candidates for listing under the State or federal endangered species acts. New listings and future regulatory actions under the acts, or conditions placed in permits to undertake construction for certain capital projects, could potentially directly affect water supplies available to the Regional Water System. When necessary, the SFPUC works with the responsible State and federal agencies to obtain permits under the acts.

Required Instream Flow Schedules from Regional Water System Dams

In order to comply with federal and State permit requirements in connection with dam and reservoir improvements to be carried out as part of the WSIP, the SFPUC has implemented schedules of instream flow releases from Lower Crystal Springs Reservoir to San Mateo Creek, from Calaveras Reservoir to Calaveras Creek/Alameda Creek, and from the Upper Alameda Creek Diversion Dam to Alameda Creek to enhance habitat for native species. The SFPUC is constructing the Alameda Creek Recapture Project to recover a portion of the loss of water supply associated with Calaveras Dam releases and bypasses.

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CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS

The activities of the SFPUC and the Water Enterprise, including, without limitation, the establishment of rates for water service and the issuance of Bonds, are subject to several limitations under both State and local law. Certain of such limitations are summarized below. Additionally, such limitations may be revised, enhanced, expanded, or otherwise altered as provided under State and local law, including in certain instances by legislation adopted by State, regional or local authorities, including the State Legislature or the Board of Supervisors, or by California or San Francisco voters themselves through the power of initiative or referendum, by voting in favor of amendments to the Charter, or in any other lawful manner.

State Law Limitations

Tax and Spending Limitations. The taxing powers of public agencies in the State are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to 1% of “full cash value,” which is defined as “the County Assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the debt service on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and up to 2% annual value growth) is allocated among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the existence of certain successor agencies to former redevelopment agencies that, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

Under State law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a “special tax” that must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the SFPUC’s water user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the SFPUC might not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the SFPUC were unable to obtain such a two-thirds majority vote and were unable to reduce costs, such failure could adversely affect the SFPUC’s ability to pay the debt service on the 2025ABC Bonds. However, the reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, State courts have determined that fees such as capacity charges will not be special taxes if they approximate the reasonable cost of constructing the water system improvements contemplated by the local agency imposing the fee.

The United States Supreme Court has upheld Article XIII A against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Proposition 218. Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by California voters on November 5, 1996. The initiative added Articles XIII C and XIII D to the California

Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Articles XIIC and XIID became effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997, and certain of the provisions purport to apply to any tax imposed for general governmental purposes (i.e., “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIID imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIID includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required not less than 45 days following the public hearing on any such proposed new or increased fee or charge. In the view of the SFPUC, rates for water usage charged by the SFPUC to the wholesale customers are not fees or charges under Article XIID, although no assurance may be given by the SFPUC that a court would not determine otherwise.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) (“**Richmond**”), and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006) (“**Bighorn**”) have clarified uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water connection fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

On July 15, 2024, the California Court of Appeal issued a decision in *Coziahr v. Otay Water District*, 103 Cal. App. 5th 785 (2024), upholding the judgment of the lower court that Otay Water District’s tiered water rates were not compliant with Proposition 218. The court affirmed that water service rates subject to Proposition 218, including tiered water structures, must adhere to the proportionality requirement in Proposition 218 and that promoting water use conservation through water rates did not provide a basis for setting rates that exceed the proportional cost of service. The court also noted the principle established in *City of Palmdale v. Palmdale Water District*, 198 Cal. App. 4th 926 (2011), that rate differentials between groups, whether customers or tiers, support an inference of disproportionality and, to be constitutional, must be supported by evidence of costs justifying the differences. Similar water rate challenges under Proposition 218 have been filed against other public agencies in California and are currently pending. The SFPUC is unable to predict the outcome of any such ongoing litigation or any future litigation under Proposition 218 that may follow. The SFPUC’s rate structure has not been challenged in a similar manner at this time.

The SFPUC provides public notice of proposed water rate increases in accordance with the requirements of Article XIID through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the SFPUC’s Rate Fairness Board and by the SFPUC itself. The SFPUC also develops and adopts retail utility user rates and fees in accordance with the requirements of Article XIID(6)(b) that limit property-related fees and charges.

Article XIIC extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was

not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

Two class action cases have been filed and consolidated in the Superior Court of the State of California for County of San Francisco, challenging the compliance of the SFPUC's water rates with Proposition 218: *Toy v. City and County of San Francisco*, No. CPF-22-517764 (Cal. Super. Ct.), and *Aquilina v. City and County of San Francisco*, No. CPF-23-518342 (Cal. Super. Ct.) (collectively, the "**Complaints**"). The principal claim of the Complaints is that the SFPUC has violated Proposition 218 by imposing rates that exceed the costs of service by including the costs of hydrants and associated water flows in water rates. The SFPUC believes the claims in the Complaints are inconsistent with California Government Code section 53750.5, which addresses the treatment of hydrant costs in water rates. The SFPUC cannot predict the outcome of the cases, however the SFPUC believes that its rate structure has been developed in compliance with all applicable laws in all material respects.

The courts have not fully interpreted the provisions of Proposition 218. The SFPUC is unable to predict how courts will further interpret Article XIIC and Article XIID, and what, if any, further implementing legislation will be enacted. Under the Bighorn case, San Francisco voters could adopt an initiative measure that reduces or repeals the SFPUC's water rates and charges, though it is not clear whether (and courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonded indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of the SFPUC to impose, levy, charge and collect increased fees and charges for the Water Enterprise, or to call into question water rate increases previously adopted by the SFPUC. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Revenues.

Proposition 26. Proposition 26, which amended Article XIII A and XIIC of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. According to its supporters, Proposition 26 was designed to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, Proposition 218, and other measures through the use of non-tax fees and charges.

Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the governmental entity of providing the service or product to the payor" and "assessments and property-related fees imposed in accordance with the provisions of Article XIID." The California Supreme Court has held that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIID. See "*Proposition 218*." The SFPUC believes that the initiative is not intended to, and would not, apply to fees for water deliveries and services charged by the SFPUC. The SFPUC, however, is unable to predict how Proposition 26 will be interpreted by the courts to apply to the provision of water services by local governments such as the SFPUC.

Initiative and Referendum

Article XIII A and Articles XIIC and XIID of the California Constitution were adopted pursuant to the State's constitutional initiative process. From time to time other initiative measures could be adopted by California or San Francisco voters, placing additional limitations on, the SFPUC's revenues or ability to increase revenues.

Charter Limitations

The Charter requires that bonds (such as the Bonds) secured by revenues, other than refunding bonds, may be issued only with the assent of a majority of voters. However, under the Charter amendments enacted by the voters in November 2002 (Proposition E), the SFPUC may issue revenue bonds, including notes, commercial paper or other

forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the SFPUC (and subject to the further conditions contained in Proposition E). See “OBLIGATIONS PAYABLE FROM REVENUES – Authority for Issuance of Revenue Bonds and Other Obligations Payable from Revenues – *Proposition E*.”

In June 1998, the electorate of the City approved Proposition H which, subject to certain exceptions, including a limited exception to raise rates to pay debt service on voter-approved debt, froze the SFPUC’s water rates through July 1, 2006. The SFPUC can give no assurance that the electorate will not seek in the future to freeze or limit rate increases.

Future Charter Amendments

San Francisco voters could adopt additional Charter amendments in the future which would limit the ability of the SFPUC to issue debt or to enact rate increases, affect the financial condition or operation of the Water Enterprise or implement other changes affecting the financial condition or operations of the SFPUC and the Water Enterprise. See “RISK FACTORS – Other Risks – *Initiative, Referendum, Charter Amendments and Future Legislation*.”

LITIGATION

The SFPUC is not aware of any litigation pending or threatened questioning the political existence of the City or the SFPUC or contesting the SFPUC’s power to fix Water Enterprise rates and charges, or in any way questioning or affecting:

- (i) the proceedings under which the 2025ABC Bonds are to be issued,
- (ii) the validity of any provision of the 2025ABC Bonds or the Indenture,
- (iii) the pledge of Revenues by the SFPUC under the Indenture, or
- (iv) the titles to office of the present members of the Board of Supervisors and the Commission.

There are several suits and claims pending against the City and the SFPUC impacting the Water Enterprise, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City and the SFPUC which may result from such suits and claims will not, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of or interest on the 2025ABC Bonds as they become due. Other than as disclosed elsewhere in this Official Statement, there is no litigation pending, with service of process having been accomplished, against the City or the SFPUC which if determined adversely to the City or the SFPUC would, in the opinion of the City Attorney, materially impair the ability of the SFPUC to pay principal of and interest on the 2025ABC Bonds as they become due. See also “CONSTITUTIONAL, STATUTORY AND CHARTER LIMITATIONS – State Law Limitations – *Proposition 218*.”

TAX MATTERS

Federal Tax Exemption. In the opinion of Bond Counsel to the SFPUC, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the Commission with certain covenants in the applicable resolution, the Tax Certificate and other documents pertaining to the 2025ABC Bonds and requirements of the Internal Revenue Code of 1986 (the “**Code**”) regarding the use, expenditure and investment of proceeds of the 2025ABC Bonds and the timely payment of certain investment earnings to the United States, interest on the 2025ABC Bonds is not included in the gross income of the owners of the 2025ABC Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2025ABC Bonds to be included in gross income retroactive to the date of issuance of the 2025ABC Bonds.

In the further opinion of Bond Counsel, interest on the 2025ABC Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. Bond Counsel expresses no opinion

regarding the applicability of the federal corporate alternative minimum tax to the adjusted financial statement income of certain corporations.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2025ABC Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the applicable resolution, the Tax Certificate or other documents pertaining to the 2025ABC Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the 2025ABC Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel with respect to the exclusion from gross income of the interest on the 2025ABC Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and judicial decisions and the representations and covenants of the Commission described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the 2025ABC Bonds is commenced, under current procedures the IRS is likely to treat the Commission as the "taxpayer," and the owners of the 2025ABC Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the 2025ABC Bonds, the Commission may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the 2025ABC Bonds could adversely affect the value and liquidity of the 2025ABC Bonds during the pendency of the examination, regardless of its ultimate outcome.

Tax Accounting Treatment of Bond Premium. To the extent a purchaser acquires a 2025ABC Bond at a price in excess of the amount payable at its maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations). The amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes, though such amortized premium is not deductible for federal income tax purposes. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. Bond Counsel is not opining on the accounting for bond premium or the consequence to a 2025ABC Bond purchaser of purchasing a 2025ABC Bond with bond premium. Accordingly, persons considering the purchase of 2025ABC Bonds with bond premium should consult their own tax advisors with respect to the determination of bond premium on such 2025ABC Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2025ABC Bonds.

Tax Accounting Treatment of Original Issue Discount. The excess, if any, of the stated redemption price at maturity of 2025ABC Bonds of a particular maturity over the initial offering price to the public of the 2025ABC Bonds of that maturity at which a substantial amount of the 2025ABC Bonds of that maturity is sold to the public is "original issue discount." Original issue discount accruing on a 2025ABC Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes under the same conditions and limitations as are applicable to interest payable on such 2025ABC Bond. Original issue discount on a 2025ABC Bond of a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the 2025ABC Bonds of that maturity is sold to the public accrues on a semiannual basis over the term of the 2025ABC Bond on the basis of a constant yield; and within each semiannual period accrues on a ratable daily

basis. The amount of original issue discount on a 2025ABC Bond accruing during each period is added to the adjusted basis of such 2025ABC Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2025ABC Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase 2025ABC Bonds other than at the initial offering price. Bond Counsel is not opining on the accounting for or consequence to a 2025ABC Bond purchaser of purchasing a 2025ABC Bond with original issue discount. Accordingly, persons considering the purchase of 2025ABC Bonds with original issue discount should consult their own tax advisors with respect to the determination of original issue discount on such 2025ABC Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2025ABC Bonds.

Information Reporting and Backup Withholding. Interest paid on the 2025ABC Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the 2025ABC Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption. In the further opinion of Bond Counsel, interest on the 2025ABC Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments. Existing law may change to reduce or eliminate the benefit to owners of the 2025ABC Bonds of the exclusion of the interest on the 2025ABC Bonds from gross income for federal income tax purposes or of the exemption of interest on the 2025ABC Bonds from State of California personal income taxation. Any proposed legislation, whether or not enacted, or administrative action, whether or not taken, could also affect the value and marketability of the 2025ABC Bonds. Prospective purchasers of the 2025ABC Bonds should consult their own tax advisors with respect to any proposed or future change in tax law.

Proposed Form of Opinion. The proposed form of opinion of Bond Counsel regarding the 2025ABC Bonds is attached in APPENDIX D.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale and delivery of the 2025ABC Bonds are subject to the approval of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the SFPUC. Certain legal matters are being passed upon for the SFPUC by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, San Francisco, California (“**Disclosure Counsel**”). Certain legal matters are being passed upon for the Underwriters by Hawkins Delafield & Wood LLP, San Francisco, California. Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the sale and delivery of the 2025ABC Bonds.

The form of approving opinion of Bond Counsel is set forth in Appendix D and will be available at the time of delivery of the 2025ABC Bonds. Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

Orrick, Herrington & Sutcliffe LLP has served as Disclosure Counsel to the SFPUC and in such capacity has advised the SFPUC with respect to the requirements of applicable securities laws and participated with responsible SFPUC officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the information presented in this Official Statement and has not undertaken to independently verify any of such information. Rather, the SFPUC is solely responsible for the accuracy and completeness of the information contained in this Official Statement. Upon the issuance of the 2025ABC Bonds, Orrick, Herrington & Sutcliffe LLP will deliver a letter to the SFPUC concerning certain matters with respect to the Official Statement. No purchaser or holder of the

2025ABC Bonds, or other person or party other than the SFPUC, will be entitled to rely on such letter or on the fact that Orrick, Herrington & Sutcliffe LLP has acted as Disclosure Counsel to the SFPUC.

RATINGS

Moody's Investors Service ("**Moody's**") has assigned its municipal bond rating of "Aa2" to the 2025ABC Bonds, and S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), has assigned its municipal bond rating of "AA-" to the 2025ABC Bonds.

The ratings assigned by Moody's and S&P express only the views of the respective rating agencies. The explanation of the significance of these ratings, and any outlook associated with these ratings, may be obtained from Moody's and S&P, respectively. Each rating agency generally bases its rating on its own investigations, studies, and assumptions. The SFPUC has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2025ABC Bonds. The SFPUC undertakes no responsibility to maintain its current ratings on the 2025ABC Bonds or to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The 2025ABC Bonds are being purchased by Jefferies LLC, as representative on behalf of itself and Wells Fargo Bank, National Association, Barclays Capital Inc., RBC Capital Markets LLC, Siebert Williams Shank & Co., LLC, and TD Securities (USA) LLC (collectively, the "**Underwriters**").

The Underwriters have agreed to purchase from the SFPUC the 2025A Bonds at a purchase price of \$_____ (consisting of \$_____ aggregate principal amount of the 2025A Bonds, [plus/less] original issue [premium/discount], less an underwriter's discount of \$_____), the 2025B Bonds at a purchase price of \$_____ (consisting of \$_____ aggregate principal amount of the 2025B Bonds, [plus/less] original issue [premium/discount], less an underwriters' discount of \$_____), and the 2025C Bonds at a purchase price of \$_____ (consisting of \$_____ aggregate principal amount of the 2025C Bonds, [plus/less] original issue [premium/discount] less an underwriter's discount of \$_____). Under the bond purchase contract to be entered into in connection with the purchase of the 2025ABC Bonds, the Underwriters will be obligated to purchase all of the 2025ABC Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the SFPUC.

The Underwriters have certified the reoffering yields with respect to the 2025ABC Bonds set forth on the inside cover pages of this Official Statement. The SFPUC takes no responsibility for the accuracy of these yields. The Underwriters may offer and sell the 2025A Bonds, 2025B Bonds or 2025C Bonds to certain dealers and others yields higher than the offering yields stated on the inside cover page. The offering yields may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the SFPUC for which they received or will receive customary fees.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for

the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the SFPUC.

The Underwriters and/or their affiliates may own or hold the Target Bonds subject to the SFPUC's tender offer for its own account or the account of its customers. To the extent the Underwriters and/or their affiliates own or hold any of the Target Bonds subject to the SFPUC's tender offer, they would be engaged like any other investor or holder of the Target Bonds subject to the SFPUC's tender offer. See "PLAN OF REFUNDING."

Jefferies LLC, the senior underwriter of the 2025ABC Bonds, is also acting as the Dealer Manager in connection with the tender offer described under "PLAN OF REFUNDING." The SFPUC has agreed to pay to the Dealer Manager a customary fee for its services and to reimburse the Dealer Manager for its reasonable expenses relating to such tender offer from proceeds of the 2025ABC Bonds.

In addition, Jefferies LLC has entered into a buy-side advisory engagement with the City concerning the City's proposed acquisition of certain assets of PG&E and may have received or will receive customary fees in connection with such engagement. See "THE PUBLIC UTILITIES COMMISSION – Organization, Purposes and Powers – *Hetch Hetchy – Water and Power Operations.*"

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"), which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, N.A. Municipal Finance Group, a separately identifiable department of WFBNA, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

WFBNA, acting through its Municipal Finance Group, the co-senior underwriter of the 2025ABC Bonds, has entered into an agreement (the "**WFA Distribution Agreement**") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("**WFA**"), for the distribution of certain municipal securities offerings, including the 2025ABC Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2025ABC Bonds with WFA. WFBNA has also entered into an agreement (the "**WFSLLC Distribution Agreement**") with its affiliate Wells Fargo Securities, LLC ("**WFSLLC**"), for the distribution of municipal securities offerings, including the 2025ABC Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

TD Securities (USA) LLC ("**TD Securities**"), an underwriter of the 2025ABC Bonds, has entered into two negotiated dealer agreements (the "**TD Dealer Agreements**") with Charles Schwab & Co., Inc. ("**CS&Co.**") and InvestorLink Capital Markets, LLC ("**ICM**"). These agreements allow CS&Co. and ICM to provide for the retail distribution of certain securities offerings, including the offered 2025ABC Bonds at the original issue prices. Pursuant to the TD Dealer Agreements, CS&Co. and ICM may purchase offered 2025ABC Bonds from TD Securities at the original issue prices less a negotiated portion of the selling concession applicable to any of the offered 2025ABC Bonds ICM or CS&Co. sells.

FINANCIAL STATEMENTS

Attached as Appendix C are the audited financial statements of the Water Enterprise for Fiscal Years 2023-24 and 2022-23, prepared by the SFPUC. The audited financial statements were audited by Macias Gini & O'Connell LLP, independent certified public accountants. The audited financial statements are included for convenience.

The audited financial statements of the SFPUC are public documents and the SFPUC has not requested nor did the SFPUC obtain permission from the auditors to include the audited financial statements as an Appendix to this Official Statement. Accordingly, the auditor have made no representation in connection with inclusion of the audit financial statements herein that there has been no material change in the financial condition of the SFPUC since the most recent audit was concluded. The auditors have not been engaged to perform and have not performed, since the

date of the report included herein, any procedures on the financial statements addressed in that report. The auditors also have not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The SFPUC will covenant for the benefit of the Owners and Beneficial Owners of the 2025ABC Bonds, under a continuing disclosure certificate dated as of the date of delivery (the “**Disclosure Certificate**”), to provide certain financial information and operating data regarding the Water Enterprise (the “**Annual Report**”) not later than March 31 following the end of its Fiscal Year (presently June 30), beginning on March 31, 2026, with the report for Fiscal Year 2024-25, and to promptly provide notices of the occurrence of certain enumerated events set forth in the Disclosure Certificate (“**Listed Events**”).

The SFPUC will agree to file the Annual Report and any notice of Listed Events as described in the Disclosure Certificate. The specific nature of the information to be contained in the Annual Report or the notices of Listed Events is set forth in the Disclosure Certificate. These covenants have been made to assist the Underwriters in complying with the Rule. The form of the Disclosure Certificate is attached to this Official Statement as Appendix E.

In 2017, the SFPUC and U.S. Bank National Association (“**U.S. Bank**”) entered into revolving credit agreements providing for the extension of credit to the SFPUC in the amount of \$100,000,000 for the Water Enterprise and \$75,000,000 for the Wastewater Enterprise. The SFPUC has not drawn on either credit facility and has no outstanding obligations thereunder. On January 7, 2022, the SFPUC and U.S. Bank entered into amendments to such credit facilities extending the respective commitment expiration dates to July 18, 2024. The SFPUC filed listed event notices regarding such extensions on February 3, 2022.

CO-MUNICIPAL ADVISORS

Montague DeRose and Associates, LLC, Walnut Creek, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California (the “**Co-Municipal Advisors**”), are acting as co-municipal advisors to the SFPUC with respect to the 2025ABC Bonds. The Co-Municipal Advisors have assisted the SFPUC in the preparation of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the 2025ABC Bonds. The Co-Municipal Advisors have not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the SFPUC to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Co-Municipal Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Municipal Advisors will not purchase or make a market in any of the 2025ABC Bonds.

The compensation to be received by the Co-Municipal Advisors from the SFPUC for services provided in connection with the planning, structuring, execution and delivery of the 2025ABC Bonds is contingent upon the sale and delivery of the 2025ABC Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

Upon delivery of the 2025ABC Bonds, AW Smith LLC, Rockford, Minnesota, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the SFPUC, relating to (a) the sufficiency of the anticipated receipts from securities and/or cash deposits in the Escrow Fund to redeem the Current Refunded Bonds and any Advance Refunded Bonds and (b) the “yield” on the investments deposited in the Escrow Fund for the Current Refunded Bonds, any Advance Refunded Bonds and on the 2025ABC Bonds considered by Bond Counsel in connection with the opinion rendered by such firm that the 2025ABC Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Tax Code, as amended. See “PLAN OF REFUNDING.”

INDEPENDENT PRICING CONSULTANT

PFM California Advisors LLC, San Francisco, California, is acting as an independent pricing consultant to the SFPUC with respect to the 2025ABC Bonds (the “**Pricing Consultant**”). As required by the SFPUC’s Debt Policies, the Pricing Consultant will monitor the pricing process and provide an independent pricing report to the SFPUC certifying whether the pricing results were fair and reasonable to the SFPUC in light of prevailing market conditions. The Pricing Consultant has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the SFPUC to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Pricing Consultant assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Pricing Consultant will not purchase or make a market in any of the 2025ABC Bonds.

The compensation to be received by the Pricing Consultant from the SFPUC for services provided in connection with the planning, structuring, execution and delivery of the 2025ABC Bonds is contingent upon the sale and delivery of the 2025ABC Bonds.

MISCELLANEOUS

References made in this Official Statement to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

The appendices to this Official Statement are integral parts of this Official Statement. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

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APPROVAL AND DELIVERY

This Official Statement has been duly approved, executed and delivered by the SFPUC.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This Appendix contains summaries of certain provisions of the Indenture, which are in addition and complementary to the summaries found in the Official Statement under the captions “INTRODUCTION” “THE 2025 ABC BONDS” and “SECURITY FOR THE BONDS.” The following summaries are qualified in their entirety by reference to the complete Indenture, a copy of which can be obtained from the Commission.

The Commission has approved amendments to the Indenture set forth in a Forty-Third Supplemental Indenture, which amendments will take effect when the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding have been filed with the Trustee and certain other requirements under the Indenture have been satisfied. The proposed amendments of the Forty-Third Supplemental Indenture are summarized under the caption “FORTY-THIRD SUPPLEMENTAL INDENTURE” below.

DEFINITIONS

Accreted Value

The term “Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its date, compounded at the approximate interest rate thereof on each May 1 and November 1. The Accreted Values at any date to which reference is made will be the amounts set forth in the Accreted Value Table.

Accreted Value Table

The term “Accreted Value Table” means, with respect to any Capital Appreciation Bonds, the corresponding table attached as an Exhibit to the Indenture or to a Supplemental Indenture pursuant to which Additional Bonds constituting Capital Appreciation Bonds are issued.

Additional Bonds

The term “Additional Bonds” means bonds, notes or other obligations of the Commission payable from Revenues and ranking on a parity with the Bonds and authorized to be issued under and pursuant to the Indenture.

Balloon Indebtedness

The term “Balloon Indebtedness” means a Series of Bonds 25% or more of the principal of which matures on the same date and which amount is not required by the documents governing such Bonds to be amortized by payment or redemption prior to such date. For purposes of this definition, an optional or mandatory tender of Bonds for purchase as described within the definition of Tender Indebtedness will not be treated as a maturity. If any Series of Bonds consists partially of Variable Rate Indebtedness and partially of indebtedness bearing interest at a fixed rate, the portion constituting Variable Rate Indebtedness and the portion bearing interest at a fixed rate will be treated as separate issues for purposes of determining whether any such indebtedness constitutes Balloon Indebtedness.

Board of Supervisors

The term “Board of Supervisors” means the Board of Supervisors of the City from time to time or any other governing board of the City hereafter provided for pursuant to law.

Bond Obligation

The term “Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the May 1 or November 1 next preceding such date of calculation (unless such date of calculation is a May 1 or November 1 in which case as of such date), and (3) with respect to any outstanding Parity State Loan, the unpaid principal amount of the Parity State Loan.

Bondowner, Owner

The term “Bondowner” or “Owner” means any person who is the registered owner of any Outstanding Bond, or, if such Outstanding Bond has a maturity of one year or less and is issued in bearer form, means the bearer of such Bond, or, with respect to any Parity State Loan, means the State of California (or any board, department or agency thereof).

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the definition of “Bondowner” or “Owner” above will be amended as described under the caption “FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Definitions” below.

Bond Reserve Fund

The term “Bond Reserve Fund” means the fund by that name established under the Indenture.

Bond Reserve Fund Policy

The term “Bond Reserve Fund Policy” means a policy of insurance or surety bond issued by a Municipal Bond Insurer, obligations insured by which have a rating by Moody’s and S&P which is the highest rating then issued by said rating agency, or a Letter of Credit issued by a Qualified Bank, to satisfy all or a portion of the Required Reserve.

Bonds, Capital Appreciation Bonds, Current Interest Bonds, Serial Bonds, Term Bonds

The term “Bonds” means the San Francisco Water Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture or any Supplemental Indenture, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, the Indenture and any Supplemental Indenture, and includes bonds, notes or other evidences of indebtedness (other evidence of indebtedness includes Parity State Loans, but only for purposes of (i) the calculation of “Maximum Annual Debt Service”, “Annual Debt Service”, “Debt Service” and “Average Annual Debt Service” and (ii) the provisions of the Indenture described in “REVENUES AND FUNDS— Pledge and Assignment of Revenues; Revenue Fund,” “EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS-- Events of Default; Acceleration,” “—Bondholder Suits” and “--Application of Funds Upon Acceleration,” and in the forepart as “SECURITY FOR THE BONDS—Rate Covenants”) payable from Revenues on a parity with the Outstanding Bonds.

The term “Current Interest Bonds” means all or any portion of a Series of Bonds designated as Current Interest Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

The term “Capital Appreciation Bonds” means all or any portion of a Series of Bonds designated as Capital Appreciation Bonds and on which interest is compounded and paid at maturity or on prior redemption.

The term “Serial Bonds” means all or any portion of a Series of Bonds designated as Serial Bonds and for which no Minimum Sinking Fund Account Payments are provided.

The term “Term Bonds” means all or any portion of a Series of Bonds designated as Term Bonds and which are payable at or before their specified maturity date or dates from Minimum Sinking Fund Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Build America Bonds

The term “Build America Bonds” means any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provisions of the Code that creates, in the determination of the Commission, a substantially similar direct-pay subsidy program that provides comparable security for the Owners of the Bonds.

Business Day

The term “Business Day” means any day other than (1) a Saturday, Sunday or day upon which commercial banks in San Francisco, California, or New York, New York are authorized or required to be closed and (2) for purposes of payments and other actions relating to Bonds secured by a Letter of Credit, a day upon which commercial banks in the city in which is located the office of the Qualified Bank at which demands for payment under the Letter of Credit are to be presented are authorized to be closed.

Certificate of the Commission

The term “Certificate of the Commission” means an instrument in writing signed by the President or by the General Manager or by any other officer of the Commission or of the City duly authorized by the Commission for that purpose, and by the Secretary. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the provisions of the Indenture, each Certificate of the Commission will include the statements provided for in the Indenture.

Charter

The term “Charter” means with respect to the Outstanding Bonds and any Additional Bonds, the Charter of the City as it now exists or as it may hereafter be amended, and any new or successor Charter.

City

The term “City” means the existing political subdivision known as the City and County of San Francisco, in the State of California, as the same is organized and existing under and by virtue of the Constitution and laws of the State of California and the Charter and any public body hereafter created which will be a successor thereto.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended.

Commission

The term “Commission” means the Public Utilities Commission of the City duly constituted under the Charter, and all commissions, agencies or public bodies hereafter created which succeed to or take over the powers and duties of the Commission with respect to the Enterprise.

Consulting Engineers

The term “Consulting Engineers” means any engineer or firm of engineers retained by the Commission having a wide and favorable reputation for skill and experience in evaluating the construction and operation of public utilities, including public water supply, storage and distribution systems, or in other revenue producing publicly owned enterprises, to perform the acts and carry out the duties provided for such consulting engineers in the Indenture.

Controller

The term “Controller” means the Controller of the City from time to time and includes any deputy acting for the Controller.

Credit Provider

The term “Credit Provider” refers to a Municipal Bond Insurer that has issued an outstanding policy of municipal bond insurance or a Qualified Bank that is the issuer of an outstanding Letter of Credit which, in each case, secures payment of principal of, and interest on, or tender price of, all or a portion of a Series of Bonds; provided that this term will not refer to a Reserve Provider.

Effective Date

The term “Effective Date” means each date on which one or more of the respective provisions of the Fifth Supplemental Indenture becomes effective, being such time as the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding and of each Credit Provider have been filed with the Trustee, and the other requirements contained in the Section entitled “Modification or Amendment of the Indenture” of the Indenture have been satisfied. The Effective Date of the provisions of the Fifth Supplemental Indenture occurred on or about April 16, 2015.

Enterprise or Water Enterprise

The term “Enterprise” or “Water Enterprise” means the whole and each and every part of the municipal water supply, storage and distribution system of the Commission, as located partially within and partially without the City, including all of said presently existing municipal water system of the City and all additions, betterments, and extensions to said water system or any part thereof thereafter made, but excluding any water supply, storage or distribution facilities under the jurisdiction of the Hetch Hetchy Project, a department of the City under the jurisdiction of the Commission.

Event of Default

The term “Event of Default” means an event of that name described in the Indenture.

Federal Securities

The term “Federal Securities” means United States treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form and securities which represent an undivided interest in such direct obligations), and also any securities now or hereafter authorized, both the principal of and interest on which is guaranteed directly by the full faith and credit of the United States of America, and including interest strips held in book-entry form by the Federal Reserve Bank of New York of bonds issued by the Resolution Funding Corporation. For all Additional Bonds issued subsequent to the date of the amendment and restatement of the Indenture in 2002, the term “Federal Securities” also includes bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Rural Economic Community Development Administration (formerly the Farmers Home Administration); (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed Title XI financings of the U.S. Maritime Administration; and (vii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development.

Fifth Supplemental Indenture

The term “Fifth Supplemental Indenture” means the Fifth Supplemental Indenture, dated as of June 1, 2010, by and between the Commission and the Trustee.

Financial Newspaper or Journal

The term “Financial Newspaper or Journal” means *The Wall Street Journal* or *The Bond Buyer*, or any other newspaper or journal publishing financial news and selected by the Trustee, whose decision will be final and conclusive, printed in the English language, customarily published on each business day and circulated in San Francisco, California.

Fiscal Year

The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or such other fiscal year as may be adopted by the Commission for its general accounting purposes or the then current accounting period of the City if the Commission has no separate accounting period.

Forty-Third Supplemental Indenture

The term “Forty-Third Supplemental Indenture” means the Forty-Third Supplemental Indenture, dated as of July 1, 2023, by and between the Commission and the Trustee.

Forty-Seventh Supplemental Indenture

The term “Forty-Seventh Supplemental Indenture” means the Forty-Seventh Supplemental Indenture, dated as of April 1, 2025, by and between the Commission and the Trustee.

Forty-Eighth Supplemental Indenture

The term “Forty-Eighth Supplemental Indenture” means the Forty-Eighth Supplemental Indenture, dated as of April 1, 2025, by and between the Commission and the Trustee.

Forty-Ninth Supplemental Indenture

The term “Forty-Ninth Supplemental Indenture” means the Forty-Ninth Supplemental Indenture, dated as of April 1, 2025, by and between the Commission and the Trustee.

General Manager

The term “General Manager” means the manager of utilities appointed by the Commission from time to time pursuant to the Charter or any other applicable provision of law.

Improvement Fund

The term “Improvement Fund” means the fund by that name established pursuant to the Indenture.

Indenture

The term “Indenture” means the Amended and Restated Indenture, dated as of August 1, 2002, by and between the Commission and the Trustee, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

Independent Certified Public Accountant

The term “Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City or the Commission, and who, or each of whom –

- (i) is in fact independent and not under domination of the City or the Commission;
 - (ii) does not have any substantial interest, direct or indirect, with the City or the Commission;
- and
- (iii) is not connected with the City or the Commission as an officer or employee of the City or the Commission, but who may be regularly retained to make annual or other audits of the books of or reports to the City or the Commission.

Law

The term “Law” means the Charter, the San Francisco Administrative Code, and all laws of the State of California supplemental thereto, including the Revenue Bond Law of 1941 to the extent made applicable by the Charter or by the San Francisco Administrative Code. Whenever reference is made in the Indenture to the Law, reference is made to the Law as in force on the date of the Indenture or any Supplemental Indenture, unless the context otherwise requires.

Legal Investments

The term “Legal Investments” means bonds, notes, certificates of indebtedness, bills, acceptances or other securities in which funds of the Commission may now or hereafter be legally invested as provided by the law in effect at the time of such investment.

Letter of Credit

The term “Letter of Credit” means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit or other similar credit arrangement issued by a Qualified Bank to secure payment of Balloon Indebtedness, Variable Rate Indebtedness, Tender Indebtedness or a Series of Bonds or to satisfy all or a portion of the Required Reserve.

Letter of Credit Agreement

The term “Letter of Credit Agreement” means an agreement between the Commission and a Qualified Bank pursuant to which the Qualified Bank agrees to issue a Letter of Credit and which sets forth the repayment obligation of the Commission to the Qualified Bank on account of any payment under the Letter of Credit.

Letter of Representations

The term “Letter of Representations” means the letter or letters of representation of the Commission delivered to and accepted by The Depository Trust Company setting forth the basis on which The Depository Trust Company serves as depository for the Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

Maximum Annual Debt Service, Annual Debt Service, Debt Service, Average Annual Debt Service

The term “Maximum Annual Debt Service” means, at any point in time, with respect to Bonds then Outstanding, the maximum amount of principal and interest becoming due in the then current or any future Fiscal Year, calculated by the Commission as provided in this definition. For purposes of calculating Maximum Annual Debt

Service, the following assumptions are to be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Minimum Sinking Fund Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(ii) if any of the Outstanding Series of Bonds constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then, for purposes of determining Maximum Annual Debt Service, such amounts as constitute Balloon Indebtedness will be treated as if the principal amount of such Bonds were to be amortized from the date of their original issuance in substantially equal annual installments of principal and interest over a term of 25 years; the interest rate used for such computation will be the rate quoted in *The Bond Buyer –25 Revenue Bond Index* for the last week of the month preceding the date of calculation, as published in *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Commission, or if the Commission fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Bonds on the date of issuance, or if there are no such Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets;

(iii) if any Outstanding Bonds constitute Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities will be treated as a principal maturity occurring on the first date on which owners of such Bonds may or are required to tender such Bonds except that any such option or obligation to tender Bonds will be ignored and not treated as a principal maturity, if (1) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as “plus” or “minus”) by Moody’s and by S&P or such Bonds are rated in the highest short-term, note or commercial paper rating categories by Moody’s and by S&P and (2) the obligation, if any, the Commission may have under a Letter of Credit Agreement with respect to such Bonds, other than its obligations on such Bonds, will either be subordinated to the obligation of the Commission on the Bonds or be incurred under the conditions and meeting the tests for the issuance of Additional Bonds set forth in the Indenture;

(iv) if any Outstanding Bonds constitute Variable Rate Indebtedness, the interest rate on such Bonds will be assumed to be 110% of the greater of (a) the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds have been Outstanding, or (b) the rate of interest on such Bonds on the date of calculation;

(v) if Bonds proposed to be issued will be Variable Rate Indebtedness, then such Bonds will be assumed to bear interest at the rate quoted in *The Bond Buyer –25 Revenue Bond Index* for the last week of the month preceding the date of sale of such additional Bonds, as published in *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Commission, or if the Commission fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the additional Bonds proposed to be issued, or if there are no such Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of the five largest commercial banks in the United States ranked by assets:

(vi) if moneys or Federal Securities or general obligation bonds of the State of California have been deposited with and are held by the Trustee or another fiduciary to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys or Federal Securities or

general obligation bonds of the State of California or from the earnings thereon will be disregarded and not included in calculating Maximum Annual Debt Service.

The term “Annual Debt Service” means the sum of such principal and interest as computed for the twelve-month period ending June 30 to which reference is made.

The term “Debt Service” means the sum of all such principal and interest.

The term “Average Annual Debt Service” means total Debt Service, divided by the number of twelve-month periods ending on June 30 (including any fractional periods) remaining until the last maturity date of any Outstanding Bond.

For the purpose of calculating Maximum Annual Debt Service, Annual Debt Service, Debt Service, and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, such amount will be reduced by an amount equal to the Refundable Credits the Commission is scheduled to receive during each such twelve-month period ending June 30. If the amount of Refundable Credits scheduled to be received by the Commission for any Series of Bonds that were issued as Build America Bonds is reduced or otherwise not received during any twelve-month period ending June 30, the Commission will calculate the amount of interest due on such Series of Bonds for the subsequent twelve month period ending June 30 by offsetting against the gross amount of interest payable on such Series only the amount of the Refundable Credits scheduled to be received under Federal legislation (or other Federal regulation, pronouncement or action) authorizing the reduction of Refundable Credits.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the definitions of “Maximum Annual Debt Service,” “Annual Debt Service,” and “Average Annual Debt Service” above will be amended as described under the caption “FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Definitions” below.

Mayor

The term “Mayor” means the Mayor of the City from time to time.

Minimum Sinking Fund Account Payments

The term “Minimum Sinking Fund Account Payments” means the aggregate amounts required by the Indenture and any subsequent Supplemental Indenture or Supplemental Indentures to be deposited in Sinking Fund Accounts for the payment of Term Bonds.

Moody’s

The term “Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Commission and approved by the Trustee.

Municipal Bond Insurer

The term “Municipal Bond Insurer” means any insurance company or companies which has or have issued a policy of municipal bond insurance insuring payment of the principal of and interest on any of the Bonds of any Series or a Bond Reserve Fund Policy and are so designated as such in the Indenture or a Supplemental Indenture.

Net Revenues

The term “Net Revenues” means all of the Revenues (but not including interest on investment of funds required to be deposited in said funds or investment earnings required to be deposited in the Improvement Fund) less all Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs as are scheduled to be paid by the Commission from moneys other than Revenues, such moneys to be clearly available for such purpose).

Operation and Maintenance Costs of the Enterprise

The term “Operation and Maintenance Costs of the Enterprise” means the reasonable and necessary costs of operating and maintaining the Enterprise, calculated on sound accounting principles, including (among other things) salaries and wages, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, legal fees, accounting fees, repairs and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), other similar costs, and the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission, as provided in the Charter, but excluding in all cases (i) depreciation and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (iv) charges for the payment of principal and interest on any general obligation bonds, revenue bonds or other indebtedness heretofore or hereafter issued for Enterprise purposes.

Opinion of Counsel

The term “Opinion of Counsel” means a written opinion of counsel (who may be counsel for the City or the Commission) retained by the Commission and who is acceptable to the Trustee. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

Outstanding

The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, issued and delivered by the Commission under the Indenture except –

- (1) Bonds cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds for the payment or redemption of which funds or securities in the necessary amount (as set forth in the Indenture) will have theretofore been deposited with a fiduciary (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice; and
- (3) Bonds in lieu of or in substitution for which other Bonds have been executed, issued and delivered by the Commission pursuant to the Indenture.

For purposes of this definition and within the meaning of the Indenture, Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer will not be deemed paid by or on behalf of the Commission, will not be defeased and will remain Outstanding under the Indenture until paid by the Commission.

Parity State Loans

The term “Parity State Loans” means those loan agreements or installment sale agreements entered into between the Commission and the State of California (or any board, department or agency thereof) to finance additions,

betterments, extensions, repairs, renewals or replacements to the Enterprise, which, by their terms, are payable from Revenues on a parity basis with debt service on the Bonds.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, all references to the term “Parity State Loans” in the Indenture shall be deemed to refer to “Parity Loans,” such term having the definition described under the caption “FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Definitions” below.

Payment Date

The term “Payment Date” means any interest, or interest and principal, payment date on which payment of the principal of or interest on the Bonds is due or on which any Term Bonds are required to be redeemed from any Minimum Sinking Fund Account Payments.

Permitted Investments

The term “Permitted Investments” means any of the following:

(1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and securities which represent an undivided interest in such direct obligations), and also any securities now or hereafter authorized, both the principal of and interest on which is guaranteed directly by the full faith and credit of the United States of America;

(2) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act and bonds of any federal home loan bank established under said act; bonds, debentures, participation certificates or other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act, as amended; and also any securities now or hereafter authorized, both the principal of and interest on which is guaranteed indirectly by the full faith and credit of the United States of America;

(3) Time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, including the Trustee, or a state or federal savings and loan association, provided that such certificates of deposit will be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (ii) issued by any bank or trust company organized under the laws of any state of the United States, or any national banking association (including the Trustee), having a combined capital and surplus of at least \$100,000,000, and such certificates will have maturities of six months or less, or (iii) continuously and fully secured by such securities as are described in clauses (1) or (2) above, which securities will have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit;

(4) Bankers’ acceptances which are issued by a bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) rated “A” or higher by Moody’s and S&P; provided, that such banker’s acceptances may not exceed 270 days’ maturity;

(5) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (1) or (2) above, provided the underlying securities are required by the repurchase agreement to be held by any such bank,

trust company or primary dealer having a combined capital and surplus of at least \$100,000,000 and being independent of the issuer of such repurchase agreement, and provided the securities are continuously maintained at a market value of not less than the amount so invested;

(6) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by Moody’s and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million (\$500,000,000) and that have an “A” or higher rating for the issuer’s debentures, other than commercial paper, as provided by Moody’s and S&P; provided that purchases of eligible commercial paper may not exceed one hundred eighty (180) days’ maturity nor represent more than ten percent (10%) of the outstanding commercial paper of an issuer corporation;

(7) Bonds, notes, warrants or other evidence of indebtedness of any of the states of the United States or of any political subdivision or public agency thereof which are rated in one of the two highest short-term or long-term rating categories by Moody’s and S&P;

(8) Any investment agreement with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, having a combined capital and surplus of at least \$100,000,000, or (ii) any corporation, limited liability company or other entity that is organized and operating within the United States of America and that has total assets in excess of five hundred million dollars (\$500,000,000) and (A) at the time the investment agreement is entered into, has an “A” or higher rating for its debt, other than commercial paper, as provided by Moody’s and S&P, or (B) at the time the investment agreement is entered into, the investment agreement or the provider’s obligations under the investment agreement are guaranteed by any entity with an “A” or higher rating for its debt, other than commercial paper, or for its financial strength, as provided by Moody’s and S&P; and

(9) Government money market portfolios or money market funds restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, which portfolios, unless held by the Trustee for 5 business days or less, have a rating at least equal to the lowest then existing rating on the Bonds given by S&P and Moody’s.

Policy Costs

The term “Policy Costs” means the amounts owing to a Reserve Provider, including the principal amount of any draw on a Bond Reserve Fund Policy, interest thereon and reasonable expenses incurred by the Reserve Provider in enforcing payment of Policy Costs, as more fully set forth in the agreement pursuant to which such Bond Reserve Fund Policy is issued.

President

The term “President” means the President of the Commission from time to time.

Project

The term “Project” means any additions, enlargements, betterments, extensions and other improvements to or benefiting, and the equipping of, the Enterprise, including, without limitation, the acquisition of land therefor.

Project Fund

The term “Project Fund” means each fund by the name established within the Improvement Fund.

Proportionate Basis

The term “Proportionate Basis” when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed will be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of \$5,000 principal amount or Accreted Value payable at maturity, such amount will be applied to the redemption of the highest possible integral multiple (if any) of \$5,000 principal amount or Accreted Value payable at maturity. For purposes of the foregoing, Term Bonds will be deemed to mature in the years and in the amounts of the Minimum Sinking Fund Account Payments and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Minimum Sinking Fund Account Payments in the same year will be treated as separate maturities. When used with respect to the payment or purchase of Bonds, “Proportionate Basis” will have the same meaning set forth above except that “pay” or “purchase” will be substituted for “redeem” or “redemption” and “paid” or “purchased” will be substituted for “redeemed.”

Proposition A of 2002, Proposition A

The term “Proposition A of 2002” or “Proposition A” means a measure approved by a majority of voters voting thereon at a duly called and held revenue bond election on November 5, 2002, authorizing the issuance by the Commission of its revenue bonds or other forms of revenue financing in a principal amount not to exceed \$1,628,000,000 to finance the acquisition and construction of improvements to the Enterprise.

Proposition E of 2002, Proposition E

The term “Proposition E of 2002” or “Proposition E” means a measure approved by a majority of voters voting thereon at a duly called and held revenue bond election on November 5, 2002 authorizing the issuance by the Commission of its revenue bonds or other forms of revenue financing for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of the Commission

Qualified Bank

The term “Qualified Bank” means a state or national bank or trust company or savings and loan association or a foreign bank with a domestic branch or agency which is organized and in good standing under the laws of the United States or any state thereof or any foreign country, which has a capital and surplus of \$25,000,000 or more and which has a short term debt rating of the highest ranking or of the highest letter and numerical rating as provided by Moody’s or by S&P.

Qualified Independent Consultant

The term “Qualified Independent Consultant” means a person or a firm who or which engages in the business of advising the management of public agencies concerning the operation and financing of public utilities, including public water supply, storage and distribution systems, and also including advice and consultation generally concerning the use and operation of public utilities, including public water supply, storage and distribution systems, and which person or firm, by reason of his or its knowledge and experience, has acquired a reputation as a recognized consultant. Such Qualified Independent Consultant may include a person or firm rendering professional engineering or accounting services in addition to his or its occupation as a public utility consultant and may include any person or firm regularly employed by the City or the Commission as a consultant to the City or the Commission.

Rebate Certificate

The term “Rebate Certificate” means the Rebate Certificate or similar tax certificate delivered or to be delivered by the Commission at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Rebate Fund

The term “Rebate Fund” means the fund established and so designated for a Series of Bonds.

Refundable Credits

The term “Refundable Credits” means (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the Commission has elected to receive under Section 54AA(g)(1) of the Code, and (b) with respect to a Series of Bonds issued as Build America Bonds under any other provisions of the Code that creates, in the determination of the Commission, a substantially similar direct-pay subsidy program, the amounts which are payable by the Federal government under the applicable provisions of the Code, which the Commission has elected to receive under the applicable provisions of the Code.

Required Reserve

The term “Required Reserve” means,

(1) with respect to a Series of Bonds issued prior to the Effective Date, the aggregate amount which is equal to the sum of fifty percent (50%) of the Maximum Annual Debt Service on such Series of Bonds then Outstanding; provided, however, that such Required Reserve or a portion thereof may be provided by one or more Bond Reserve Fund Policies; provided further that in no event will the Commission, in connection with issuance of a Series of Additional Bonds, be obligated to deposit an amount in the Bond Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit.

(2) with respect to a Series of Bonds issued on or after the Effective Date, as of any date of calculation, the amount, if any, required to be deposited into a Reserve Account for that Series of Bonds, as defined in and provided by the Supplemental Indenture pursuant to which such Series of Bonds is issued; provided, however, that in no event will the Commission, in connection with issuance of a Series of Additional Bonds, be obligated to deposit an amount in the Bond Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit.

Reserve Account

The term “Reserve Account” means each account established in the Bond Reserve Fund with respect to each Series of Bonds issued under the Indenture.

Reserve Provider

The term “Reserve Provider” means the issuer of a Bond Reserve Fund Policy.

Revenue Fund

The term “Revenue Fund” means the fund by that name established pursuant to the Indenture.

Revenues

The term “Revenues” means all gross revenues of the Enterprise, including all charges received for and all other income and receipts derived by the Commission or the City from the operation of the Enterprise, or arising from the Enterprise, including connection and installation charges, but excluding –

- (1) any money received by or for the account of the City or the Commission from the levy or collection of taxes,
- (2) moneys received from the State of California and the United States of America and required to be deposited in restricted funds,
- (3) refundable deposits made to establish credit,
- (4) advances and contributions made to the Commission or the City to be applied to construction,
- (5) moneys required to be paid to the State of California and the United States of America pursuant to agreements with the City or the Commission,
- (6) moneys received from insurance proceeds or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Enterprise (which moneys will be received and disposed of pursuant to the Indenture),
- (7) proceeds from Bonds issued by the Commission or proceeds from loans obtained by the Commission,
- (8) moneys or securities received by the City or the Commission as gifts or grants, the use of which is restricted by the donor or grantor,
- (9) sewer service fees or charges, and
- (10) any surcharge imposed by or upon the direction of any joint powers agency or other governmental entity, other than the Commission, the City or any department or agency of the City, whether or not collected by the Commission, the City or any department or agency of the City, for the purpose of financing improvements to the facilities comprising the Enterprise.

The term “Revenues” also includes (i) all interest, profits or other income derived from the deposit or investment of any moneys in any fund or account established under the Indenture (excluding any Rebate Fund and any escrow fund pledged for the payment of defeased bonds) or in any fund or account of the Enterprise and legally available to pay Debt Service on the Bonds, and (ii) any other moneys, proceeds and other amounts that the Commission determines should be “Revenues” under the Indenture.

Secretary

The term “Secretary” means the Secretary of the Commission from time to time.

Series

The term “Series” means any series of Bonds executed, authenticated and delivered pursuant to the Indenture and identified as a separate Series of Bonds, including any Additional Bonds issued pursuant to a Supplemental Indenture and the Indenture.

Sinking Fund Accounts

The term “Sinking Fund Accounts” means any special account or accounts established by the Indenture or any Supplemental Indenture or Indentures in the Principal Fund for the payment of Term Bonds.

S&P

The term “S&P” means Standard & Poor’s Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation is dissolved or liquidated or will no longer performs the functions of a securities rating agency, then the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Commission and approved by the Trustee.

Supplemental Indenture

The term “Supplemental Indenture” means any indenture or resolution amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tender Indebtedness

The term “Tender Indebtedness” means any Bonds or portions of Bonds a feature of which is an option, on the part of the Bondowners, or an obligation, under the terms of such Bonds, to tender all or a portion of such Bonds to the Commission, the Trustee or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented.

Treasurer

The term “Treasurer” means the Treasurer of the City and includes any deputy acting for the Treasurer.

Trustee

The term “Trustee” means U. S. Bank Trust Company, National Association, acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

2025 Series ABC Bonds

The term “2025 Series ABC Bonds” means the Commission’s San Francisco Water Revenue Bonds, 2025 Series ABC issued pursuant to the Forty-Seventh Supplemental Indenture, the Forty-Eighth Supplemental Indenture and Forty-Ninth Supplemental Indenture, amending and supplementing the Indenture.

Variable Rate Indebtedness

The term “Variable Rate Indebtedness” means any portion of indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

Written Request of the Commission, Written Requisition of the Commission, Written Statement of the Commission

The terms “Written Request of the Commission,” “Written Requisition of the Commission” and “Written Statement of the Commission” mean, respectively, a written request, requisition or statement signed by or on behalf of the Commission by the President or the General Manager or the Secretary or by any person (whether or not an officer of the Commission) who is specifically authorized by resolution of the Commission (which resolution will be provided to the Trustee) to sign or execute such a document on its behalf.

USE OF DEPOSITORY

(a) The 2025 Series ABC Bonds will be initially registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York (the “Depository Trust Company”). Registered ownership of the 2025 Series ABC Bonds, or any portions thereof, may not thereafter be transferred except:

(i) to any successor of The Depository Trust Company or its nominee, or of any substitute depository designated pursuant to clause (ii) of this subsection (a) (a “Substitute Depository”); provided that any successor of The Depository Trust Company or Substitute Depository will be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) to any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission that The Depository Trust Company (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Commission to remove The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) above, upon receipt of all Outstanding 2025 Series ABC Bonds by the Trustee, together with a Written Request of the Commission to the Trustee designating the Substitute Depository, one new bond for each 2025 Series ABC Bond (as the case may be), which the Commission will prepare or cause to be prepared, will be executed and delivered for each maturity of 2025 Series ABC Bonds then Outstanding, registered in the name of such successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such Written Request of the Commission. In the case of any transfer pursuant to clause (iii) of subsection (a) above, upon receipt of all Outstanding 2025 Series ABC Bonds by the Trustee, together with a Written Request of the Commission to the Trustee, new bonds for 2025 Series ABC Bonds, which the Commission will prepare or cause to be prepared in definitive form, will be executed and delivered in such denominations and registered in the names of such persons as are requested in such Written Request of the Commission, subject to the limitations of the Indenture, provided that the Trustee will not be required to deliver such new bonds for 2025 Series ABC Bonds within a period less than 60 days from the date of receipt of such Written Request from the Commission.

(c) In the case of a partial redemption or an advance refunding of any 2025 Series ABC Bonds evidencing a portion of the principal maturing in a particular year, The Depository Trust Company or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2025 Series ABC Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee. The Trustee will not be liable for such depository’s failure to make such notations or errors in making such notations.

(d) The Commission and the Trustee will be entitled to treat the person in whose name any 2025 Series ABC Bonds is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Commission; and the Commission and the Trustee will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2025 Series ABC Bonds. Neither the Commission nor the Trustee will have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any 2025 Series ABC Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2025 Series ABC Bonds.

(e) Notwithstanding any other provisions of the Indenture and so long as all Outstanding 2025 Series ABC Bonds are registered in the name of Cede & Co. or its registered assigns, the Commission and the Trustee will

cooperate with Cede & Co., as sole registered Bondowner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the 2025 Series ABC Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made available on the date they are due all in accordance with the Letter of Representations delivered by the Commission and the Trustee to The Depository Trust Company with respect to the 2025 Series ABC Bonds, the provisions of which the Trustee may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions set out in the Indenture.

BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS

Improvement Fund. The Commission has covenanted and agreed to maintain under the Indenture the separate fund known as the Improvement Fund. The Treasurer holds the amounts on deposit in the Improvement Fund. The Improvement Fund will be maintained and accounted for by the Controller so long as any moneys are on deposit in such Improvement Fund. The Commission may direct the Trustee to establish, within the Improvement Fund, separate Project Funds relating to separate Series of Bonds. Upon completion of the acquisition and construction of the Project, the Commission may direct the transfer of any remaining balance in the Improvement Fund to any other fund or account of the Commission.

The moneys in the Improvement Fund will be held by the Treasurer in trust and applied to the costs of acquisition, construction, expansion, improvement, financing and refinancing of the Project and the expenses incident thereto or connected therewith including, if necessary, interest to the extent permitted by law, reimbursement to the Commission for expenses incurred in connection with the Enterprise, architectural, engineering and inspection fees and expenses, apparatus, equipment and furnishings for the Enterprise, testing and inspection, surveys, insurance premiums, losses during construction not insured against because of deductible amounts, the fees and expenses of the Trustee, expenses in connection with the preparation, issuance, sale and delivery of the Bonds, legal, accounting and consultant fees and expenses, and similar expenses.

The Treasurer will pay out moneys from the Improvement Fund only upon warrants drawn by the Controller in the manner provided by law. No withdrawals will be made from the Improvement Fund for any purpose not authorized by law.

2025 Series ABC Costs of Issuance Fund. The Trustee will deposit a portion of the proceeds of the 2025 Series ABC Bonds in a separate fund to be known as the “2025 Series ABC Costs of Issuance Fund” which the Trustee agrees to establish and maintain. The money in the 2025 Series ABC Costs of Issuance Fund will be used and disbursed in the manner provided in the Indenture for the purpose of paying all costs of issuance incidental to or connected with the issuance of the 2025 Series ABC Bonds (or for making reimbursements to the Commission or any other person, firm or corporation for such costs theretofore paid by such person or it). Any balance of money remaining in the 2025 Series ABC Costs of Issuance Fund after the payment of all costs incidental to or connected with the issuance of the 2025 Series ABC Bonds or on the date six months after the date of issuance of the 2025 Series ABC Bonds, whichever is earlier, will be transferred by the Trustee to the Commission, and the 2025 Series ABC Costs of Issuance Fund will be closed.

Issuance of Additional Series of Bonds; General. In addition to the Outstanding Bonds, the Commission may, subject to the requirements of the Law, by Supplemental Indenture establish one or more other Series of Bonds payable from Revenues on a parity with the Bonds and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Bonds, and the Commission may issue and the Trustee may authenticate and deliver Bonds of any Series so established, in such principal amount and for such lawful purpose or purposes (including refunding of any Bonds issued under the Indenture and then Outstanding) as will be determined by the Commission in said Supplemental Indenture, but only upon compliance by the Commission with the provisions of the Indenture and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

- (a) The Commission will not be in default under the Indenture or any Supplemental Indenture.
- (b) The Supplemental Indenture providing for the issuance of such additional Series of Bonds will require that the Bond Reserve Fund to be established pursuant to the Indenture be increased, if and to the extent necessary, forthwith upon the receipt of the proceeds of the sale of such additional Series of Bonds

to an amount at least equal to the Required Reserve. Said deposit may be made from such proceeds or any other source, as provided in the Supplemental Indenture.

(c) The Bonds of such additional Series will be payable as to principal either semiannually on May 1 and November 1 of each year in which principal falls due or annually on November 1 of each year in which principal falls due, provided that Term Bonds of any Series will have a principal maturity date of November 1. The Bonds of such additional Series that are Current Interest Bonds will be payable as to interest semiannually on May 1 and November 1 of each year excepting the first year, provided that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and that the interest will be payable thereafter semiannually on May 1 and November 1, and further provided that interest on any Bonds constituting Parity State Loans, Variable Rate Indebtedness or Tender Indebtedness may be payable on such Payment Dates as will be specified in the loan agreement, installment sale agreement or Supplemental Indenture providing for the issuance of such Bonds.

(d) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, will be established in amounts sufficient to provide for the retirement of all of the Bonds of such additional Series on or before their respective maturity dates, unless such Bonds are Balloon Indebtedness.

(e) The aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or by any Supplemental Indenture.

(f) The representations and estimates set forth in the certificates and written reports required by the Indenture can be made by the parties required to give such certificates and written reports.

(g) If then required by law, the issuance of such additional Series of Bonds must be approved by the qualified voters voting on a proposition to authorize the issuance of said Series of Bonds.

Issuance of Additional Series of Bonds for Refunding. In addition to the Outstanding Bonds, the Commission may, subject to the requirements of the Law (including the provisions of any resolution or ordinance of the Board of Supervisors), by Supplemental Indenture establish one or more other Series of Bonds payable from Revenues on a parity with the Outstanding Bonds and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Outstanding Bonds, and the Commission may issue, and the Trustee may authenticate and deliver Bonds of any Series so established, for the purpose of refunding any Bonds issued under the Indenture and then Outstanding, but only upon compliance by the Commission with the provisions of the Indenture, and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

(a) The Supplemental Indenture providing for the issuance of such additional Series of Bonds will require that the Bond Reserve Fund to be established pursuant to the Indenture be increased, if necessary, forthwith upon the receipt of the proceeds of the sale of such additional Series of Bonds to an amount at least equal to the Required Reserve. Said deposit may be made from such proceeds or any other source, as provided in said Supplemental Indenture.

(b) The Bonds of such additional Series will be payable as to principal either semiannually on May 1 and November 1 of each year in which principal falls due or annually on November 1 of each year in which principal falls due, provided that Term Bonds of any Series will have a principal maturity date of November 1. The Bonds of such additional Series that are Current Interest Bonds will be payable as to interest semiannually on May 1 and November 1 of each year excepting the first year, provided that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and that the interest will be payable thereafter semiannually on May 1 and November 1, and further provided that interest on any Bonds constituting Variable Rate Indebtedness or Tender Indebtedness may be payable on such Payment Dates as will be specified in the Supplemental Indenture providing for the issuance of such Bonds.

(c) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, will be established in amounts sufficient to provide for the retirement of all of the Bonds of such additional Series on or before their respective maturity dates, unless such Bonds are Balloon Indebtedness.

(d) The aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or by any Supplemental Indenture.

(e) The proceeds of the Bonds of such additional Series will be used, together with any other available moneys, to refund (by defeasance, current refunding or crossover refunding) all or a portion of the Bonds then Outstanding, and the Average Annual Debt Service for the Bonds of such additional Series (during the period from their issuance to their last maturity date) will be equal to or less than the Average Annual Debt Service on the Bonds to be refunded (during the period from the issuance of the additional Series to the last maturity date of the Bonds to be refunded.)

(f) The statements set forth in the certificate required by the Indenture can be made by the party required to give such certificate.

(g) If then required by law, the issuance of such additional Series of Bonds will have been approved by the qualified voters voting on a proposition to authorize the issuance of said Series of Bonds.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the provisions of the Indenture described in paragraphs (c) and (e) above will be amended and restated in their entirety as described under the caption “FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Issuance of Additional Series of Bonds for Refunding” below.

Proceedings for the Issuance of Additional Series of Bonds. Whenever the Commission will determine to issue an additional Series of Bonds pursuant to the Indenture, the Commission will execute or adopt a Supplemental Indenture providing for the issuance of such additional Series of Bonds, specifying the maximum principal amount of Bonds of such Series and prescribing the terms and conditions of such additional Series of Bonds, including the terms and conditions of any Letter of Credit Agreement with respect to the Letter of Credit securing such additional Series of Bonds, if any.

Such Supplemental Indenture will prescribe the form or forms of Bonds of such additional Series and, subject to the provisions of the Indenture, will provide for the distinctive designation, denominations, methods of execution and numbering, dating, maturity dates, interest rates, interest payment dates, provisions for redemption prior to maturity and methods and places of payment of principal and interest.

The Commission may by such Supplemental Indenture prescribe any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture, including registration, transfer and exchange provisions, provisions for the payment of principal and interest and sinking fund provisions.

Before such additional Series of Bonds will be issued and delivered, the Commission will file the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such counsel has examined the Supplemental Indenture and found it to be in compliance with the requirements of the Indenture; (2) that the execution and delivery of the additional Series of Bonds have been sufficiently and duly authorized by the Commission; and (3) that said additional Series of Bonds, when duly executed by the Commission and, if required, authenticated and delivered by the Trustee, will be valid and binding special obligations of the Commission, payable from Revenues as provided in the Indenture.

(b) If such additional Series of Bonds are being issued pursuant to the Indenture, a Certificate of the Commission that the requirement of (a) under “Issuance of Additional Series of Bonds; General” has been met.

(c) The required certificates and reports under subparagraph (1) or (2) below:

(1) If the additional Series of Bonds are being issued pursuant to the requirements set forth under “Issuance of Additional Series of Bonds; General” (see above), the following certificates:

(A) A Certificate of the Commission setting forth (i) for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the authentication and delivery of such Series of Bonds, the Net Revenues for such 12-month period, and (ii) the Debt Service for such 12-month period, and demonstrating that for such 12-month period Net Revenues equaled at least 1.25 times Debt Service;

(B) If any portion of the proceeds of such Series of Bonds is to be used to finance construction, a certificate of the Consulting Engineers setting forth (i) the estimated date of completion for the portion of the Project for which such Series of Bonds is being issued and for any other uncompleted portion of the Project, and (ii) an estimate of the cost of construction of such portion of the Project and of any other uncompleted portion of the Project;

(C) A written report of a Qualified Independent Consultant setting forth for each of the next three Fiscal Years, or if any portion of the proceeds of such Series of Bonds is to be used to finance construction, the three Fiscal Years following the Fiscal Year in which the Consulting Engineers estimate such portion of the Project will be completed, estimates of (i) Revenues, (ii) Operation and Maintenance Costs of the Enterprise and (iii) Net Revenues; and

(D) A Certificate of the Commission setting forth (i) the estimates of Net Revenues, as set forth in the written report of the Qualified Independent Consultant pursuant to paragraph (C) above, for each of such three Fiscal Years, (ii) the Annual Debt Service for each of such three Fiscal Years, including Annual Debt Service as estimated in such Certificate of the Commission with respect to future Series of Bonds, if any, which such Certificate of the Commission will estimate (based on the estimate of the Consulting Engineers of the cost of construction of such portion of the Project and other uncompleted portions of the Project) will be required to complete payment of the cost of construction of such portion of the Project and any other uncompleted portion of the Project, and demonstrating that the estimated Net Revenues in each of the Fiscal Years set forth in (i) above is at least equal to 1.25 times the Annual Debt Service for the corresponding Fiscal Year as set forth in (ii) above.

Said certificate or certificates or written report will be filed after the sale of the additional Series of Bonds proposed to be issued (but prior to the delivery thereof and receipt of payment therefor), and will, with respect to such additional Series of Bonds, be based upon the actual interest rate or rates determined at the time of sale thereof.

(2) If the additional Series of Bonds are being issued pursuant to the requirements set forth under “Issuance of Additional Series of Bonds for Refunding” (see above), a certificate of an Independent Certified Public Accountant that the requirements stated under (e) under such caption have been met. Said certificate will be filed after the sale of the additional Series of Bonds proposed to be issued (but prior to the delivery thereof and receipt of payment therefor), and will, with respect to such additional Series of Bonds, be based upon the actual interest rate or rates determined at the time of sale thereof.

(d) The Supplemental Indenture, duly executed or certified and approved by the Trustee.

Upon the delivery to the Trustee of the foregoing instruments, the Trustee will authenticate and deliver the additional Series of Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Written Request of the Commission, when such additional Series of Bonds will have been presented to it for that purpose.

None of the limitations or restrictions on the issuance of additional Series of Bonds described under this caption "Proceedings for the Issuance of Additional Series of Bonds" will be applicable to any additional Series of Bonds which are to be issued solely for the purpose of refunding and retiring all of the Bonds issued pursuant to the Indenture and then Outstanding, and nothing contained in the Indenture will limit the issuance of any additional Series of Bonds if, after the issuance and delivery of such additional Series of Bonds, none of the Bonds theretofore authorized pursuant to the Indenture will be Outstanding or the Commission will have discharged the entire indebtedness on all Bonds Outstanding pursuant to the defeasance provisions of the Indenture.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the provision of the Indenture described in paragraph (c)(1) above will be amended and restated in its entirety as described under the caption "FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Proceedings for the Issuance of Additional Series of Bonds" below.

Consent Required for Other Issuances of Additional Bonds. So long as any of the Bonds remain Outstanding, the Commission will not issue any Additional Bonds or obligations payable from Revenues on a parity with the Bonds except pursuant to the provisions of the Indenture described above under the captions "Issuance of Additional Series of Bonds; General," "Issuance of Additional Series of Bonds for Refunding," or "Proceedings for the Issuance of Additional Series of Bonds," *except* under any of the following conditions, in which case none of the limitations or restrictions on the issuance of additional Series of Bonds described under the foregoing captions shall be applicable, except as set forth below:

- (a) if the Owners of a majority in aggregate amount of the Bond Obligation and any Credit Provider consent in writing to the issuance of such Additional Bonds or obligations; or
- (b) the obligation constitutes debt of the Commission (including without limitation loan agreements and installment sale agreements entered into between the Commission and the State of California (or any board, department or agency thereof) to finance or refinance additions, betterments, extensions, repairs, renewals or replacements to the Enterprise) payable by its terms from Revenues on a subordinate basis to the payment of Debt Service on the Bonds.

In addition, the Commission may enter into Parity State Loans if (i) no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under the Indenture or any Supplemental Indenture); (ii) the payment of Parity State Loan principal and interest shall meet the requirements of the provisions of the Indenture described in paragraph (c) under the heading "BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS--Issuance of Additional Series of Bonds; General"; and (iii) in connection with the execution and delivery of such Parity State Loans, the Commission delivers the certificates set forth in the provisions of the Indenture described in paragraph (c)(1) under the heading "BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS-- Issuance of Additional Series of Bonds; General," taking into account that for purposes of such provisions the reference to "Series of Bonds" includes Parity State Loans.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the provision of the Indenture described in the paragraph immediately above will be amended and restated in its entirety as described under the caption "FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Consent Required for Other Issuances of Additional Bonds" below.

REVENUES AND FUNDS

Pledge and Assignment of Revenues; Revenue Fund. (a) In accordance with the Charter, but subject to the budget and fiscal provisions of the Charter, whenever revenue bonds issued by the Commission pursuant to the Charter or refunding bonds of such revenue bonds are Outstanding, the entire gross revenue of the Enterprise will be set aside and deposited into a fund in the City treasury heretofore established and known as the “Enterprise Revenue Fund” (the “Revenue Fund”). All amounts paid into such fund will be maintained by the Treasurer separate and apart from all other City funds and will be secured by the Treasurer’s official bond or bonds.

(b) Moneys in the Revenue Fund, including earnings thereon, will be appropriated, transferred, expended or used for the following purposes pertaining to the financing, maintenance and operation of the Enterprise and related facilities owned, operated or controlled by the Commission and only in accordance with the following priority:

- (1) the payment of operation and maintenance expenses for such utility and related facilities;
- (2) the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission;
- (3) the payment of principal, interest, reserve, sinking fund, and other mandatory funds created to secure revenue bonds or other evidences of indebtedness (including, Parity State Loans), hereafter issued by the Commission for the acquisition, construction or extension of the Enterprise or related facilities owned, operated or controlled by the Commission as provided in the Indenture;
- (4) the payment of principal and interest on general obligation bonds issued by the City for Enterprise purposes;
- (5) reconstruction and replacement as determined by the Commission or as required by any Enterprise revenue bond ordinance duly adopted and approved;
- (6) the acquisition of land, real property or interest in real property for, and the acquisition, construction, enlargement and improvement of, new and existing buildings, structures, facilities, equipment, appliances and other property necessary or convenient to the development or improvement of such utility owned, controlled or operated by the Commission; and for any other lawful purpose of the Commission including the transfer of surplus funds pursuant to the Charter.

(c) Subject to the provisions of subsection (a) and (b) above, all of the Revenues (except amounts on deposit in the Rebate Fund) are irrevocably pledged to the punctual payment of the principal of and interest and redemption premium, if any, on the Bonds and the Policy Costs, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding or Policy Costs remain unpaid; except that the Revenues may be used for such purposes as are expressly permitted in the Charter and in the Indenture. Pursuant to Section 5451 of the California Government Code, such pledge will constitute a lien on and security interest in the Revenues for the payment of the Bonds and the Policy Costs in accordance with the terms thereof and of the Indenture, and will immediately attach to the collateral and be effective, binding, and enforceable against the Commission, its successors, purchasers of the Revenues, creditors and all others asserting any rights thereto, irrespective of whether such parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

(d) The Commission covenants and confirms that the Revenues in the Revenue Fund shall be appropriated, transferred, expended and used as set forth above in paragraph (b) under this caption “Pledge and Assignment of Revenues; Revenue Fund” and in the order of priority set forth subparagraphs (1), (2), and (3) of such paragraph, notwithstanding any amendment to the Charter. The Commission further confirms that all Revenues (except amounts on deposit in the various Rebate Funds) are irrevocably pledged to the punctual payment of the principal of and interest and redemption premium, if any, on the Bonds and the Policy Costs, and the Revenues shall not be used for any other purpose while any of the Bonds remain outstanding or Policy Costs remain unpaid; except

that the Revenues may be used for such purposes as are expressly set forth above in paragraph (b) under this caption “Pledge and Assignment of Revenues; Revenue Fund” and, as long as the Commission is in compliance with its rate covenant under the Indenture and the deposits required as described below under the caption “Establishment and Maintenance of Funds for Revenues; Use and Withdrawal of Revenues,” as otherwise set forth in the Charter and in the Indenture. Amendments to the Charter shall not alter the pledge of Revenues or the order of priority of payment of the Revenues used for the payment of principal of and interest on the Bonds.

Establishment and Maintenance of Funds for Revenues; Use and Withdrawal of Revenues. All moneys in the Revenue Fund, after the making of the payments described in subsections (b)(1) and (2) in “Pledge and Assignment of Revenues; Revenue Fund” above, shall, on a parity basis be (i) paid over to the Trustee to the extent necessary and deposited in one or more of the following respective special funds at the times therein specified, and (ii) used as needed for the payment of Parity State Loans. The Trustee shall establish and maintain, in trust, for the benefit of and so long as any Bonds, other than Parity State Loans, are Outstanding the Interest Fund, Principal Fund, and Bond Reserve Fund.

All Revenues in each of said funds shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Indenture. Such amounts shall be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Fund, Refundable Credits. On or before the fifth Business Day prior to each Interest Payment Date, the Treasurer will pay to the Trustee for deposit in the Interest Fund in an amount equal to the sum of the following: (i) the amount of interest becoming due and payable on the Outstanding Bonds of such Series that are Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) on such Interest Payment Date (less any amounts on deposit in such Fund, including, but not limited to, Refundable Credits available to pay such interest, but excluding amounts on deposit which are reserved as capitalized interest to pay interest during any subsequent period), and (ii) one hundred ten percent (110%) of the estimated aggregate amount of interest due on such Interest Payment Date on the Outstanding Bonds of such Series that are Variable Rate Indebtedness (provided, however, that (A) the amount of such deposit into the Interest Fund for any period may be reduced by the amount by which the deposit in the prior period for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that period on said Outstanding Variable Rate Indebtedness, (B) the amount of such deposit into the Interest Fund for any period will be increased by the amount by which the deposit in the prior period for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accruing during that period on said Outstanding Variable Rate Indebtedness, and (C) the amount of such deposit will be reduced by any Refundable Credits on deposit in the Interest Fund and available to pay interest for such period). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the next Interest Payment Date upon all of the Bonds issued under the Indenture and then Outstanding (but excluding any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following said next Interest Payment Date). Moneys in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

All of the Refundable Credits received by the Commission will be deposited promptly upon receipt in the Interest Fund, and such Refundable Credits are irrevocably pledged to the punctual payment of principal of, interest and redemption premium, if any, on the related Series of Bonds, and, unless an Event of Default shall occur under the Indenture and the provisions of the Indenture relating to the application of funds upon acceleration shall apply, the Refundable Credits will not be used for any other purpose while any of such Series of Bonds issued as Build America Bonds remain Outstanding. Pursuant to Section 5451 of the California Government Code, the pledge of the Indenture constitutes a lien on and security interest in the Refundable Credits for the payment of interest on the related Series of Bonds in accordance with the terms thereof and the terms of the Indenture, and will immediately attach and be effective, binding, and enforceable against the Commission, its successors, purchasers of the Refundable Credits, creditors and all others asserting any rights thereto, irrespective of whether such parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

Notwithstanding the foregoing deposit and pledge, (a) the Refundable Credits shall not be included in the calculation of Revenues if the Refundable Credits have been used in any calculation as a reduction (or credit) against the interest payable under the Indenture (or in any other calculation that would double-count a Refundable Credit), and (b) if the Federal Government is paying less than the amount scheduled to be paid by the Federal Government pursuant to Section 6431 of the Code or pursuant to any similar direct-pay subsidy program (due to sequestration or otherwise), then Refundable Credits may be included in the calculation of Revenues but only to the extent such Refundable Credits are required or permitted to be made pursuant to Federal law. Additionally, in calculating the amount that the Treasurer pays to the Trustee for deposit in the Interest Fund, the Treasurer may reduce the payment by the amount of any Refundable Credits on deposit with the Trustee as provided in the paragraph above.

(b) Principal Fund; Sinking Fund Accounts. On or before the fifth Business Day prior to each Principal Payment Date, the Treasurer will pay to the Trustee for deposit in the Principal Fund in an amount equal to the sum of the following: (i) the aggregate amount of Bond Obligation of such Series (less any amounts on deposit in such Fund) becoming due and payable on such Principal Payment Date, plus (ii) the Minimum Sinking Fund Account Payments required to be made with respect to any Term Bonds of such Series on such Principal Payment Date, plus (iii) if any Letter of Credit Agreement has been entered into on a parity with the Bonds, sufficient amounts to pay the obligations of the Commission under such Letter of Credit Agreement due on such Principal Payment Date. If the amounts on deposit in the Principal Fund will be insufficient to make all deposits which are required to be made with respect to any Principal Payment Date, such amounts shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds, said Minimum Sinking Fund Payments for Term Bonds, and said Letter of Credit Agreement obligations shall bear to each other.

(c) Bond Reserve Fund; Reserve Accounts.

(1) In the event of a withdrawal from any Reserve Account, the Treasurer will pay to the Trustee for deposit in such Reserve Account, on a *pari passu* basis with transfers to any other Reserve Account, on or before the fifth Business Day prior to each Interest Payment Date following such withdrawal, (i) if such Reserve Account is established with respect to fixed rate Bonds only, an amount which if made in two semi-annual installments, and (ii) if such Reserve Account is established with respect to any Variable Rate Bonds, an amount which if made in equal installments over a 12-month period, is sufficient to replenish any prior withdrawal from such Reserve Account so that the balance in such Reserve Account is equal to the Required Reserve with respect to the applicable Series of Bonds (or such larger balance as may be required by any Supplemental Indenture) at the end of such 12-month period.

(2) No deposit need be made into any Reserve Account so long as there will be in such Reserve Account an amount equal to the Required Reserve with respect to such Series of Bonds, or when and if the sum of the amounts contained (excluding all Bond Reserve Fund Policies) therein and in the Interest Fund and in the Principal Fund is at least equal to the sum of the aggregate principal amount of all of the Bonds then Outstanding and all of the interest then due or thereafter to become due on all such Bonds.

(3) Except as otherwise provided as described below, the Trustee will establish and hold within the Bond Reserve Fund a Reserve Account for each Series of Bonds issued under the Indenture. With respect to the Series of Bonds (the "Prior Series of Bonds") issued prior to the Effective Date of the Fifth Supplemental Indenture, each Reserve Account will be funded in an amount equal to fifty percent (50%) of the Maximum Annual Debt Service on the Outstanding Bonds of the Series to which it relates. With respect to the Series of Bonds issued on or after the Effective Date of the Fifth Supplemental Indenture, the Trustee will establish and hold a Reserve Account for each Series of Additional Bonds issued under the Indenture, if and to the extent required by the Supplemental Indenture pursuant to which that Series of Bonds is issued. Upon the issuance of a Series of Additional Bonds, there will be deposited into the Reserve Account for that Series an amount equal to the Required Reserve, if any, established for that Series of Bonds under the Supplemental Indenture pursuant to which that Series of Bonds is issued. Upon the issuance of a Series of Additional Bonds, the Commission will advise the Trustee of the Required Reserve to be maintained in the Reserve Account for that Series. Unless otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds is issued, the Reserve Account established with respect to a Series of Bonds will be

available only to pay Debt Service on such Series of Bonds, and will not be available to pay Debt Service on any other Series of Bonds.

(4) Subject to paragraph (12) below, moneys in the respective Reserve Accounts within the Bond Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal of, Minimum Sinking Fund Account Payments with respect to, and interest on the corresponding Series of Bonds to which such Reserve Account relates (unless otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds was issued) in the event that no other moneys are available therefor, or for payment or redemption of all of the Bonds of such Series then Outstanding.

(5) Following application of all other funds held in any Reserve Account relating to a Series of Bonds, the Trustee will draw under any Bond Reserve Fund Policy issued with respect to such Series of Bonds, in a timely manner and pursuant to the terms of such Bond Reserve Fund Policy, to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Minimum Sinking Fund Account Payments with respect to, and interest on such Series of Bonds when due.

(6) If a Bond Reserve Fund Policy satisfies all or a portion of the Required Reserve for any Series of Bonds and a drawing is made on the Bond Reserve Fund Policy, on or before the fifth Business Day prior to each Interest Payment Date following such drawing, the Treasurer will pay to the Trustee or to the Reserve Provider, with notice to the Trustee, (i) if such Bond Reserve Fund Policy is established with respect to fixed rate Bonds only, an amount which if made in two semi-annual installments, and (ii) if such Bond Reserve Fund Policy is established with respect to any Variable Rate Bonds, an amount which if made in equal installments over a 12-month period, is sufficient to repay the aggregate amount of Policy Costs owing with respect to such drawing by the end of such 12-month period. If the Trustee receives such payment, it shall immediately remit the same to the Reserve Provider.

(7) In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from its Bondowner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of the Bond Reserve Fund Policy, if any, securing the Series of Bonds of which such Bond is a part, will so notify the Reserve Provider and draw on such policy to the lesser of the extent required or the maximum amount of such policy in order to pay to such Bondowners the principal of and interest so recovered.

(8) If and to the extent that more than one Bond Reserve Fund Policy satisfies the portion of the Required Reserve relating to a Series of Bonds, drawings under such Bond Reserve Fund Policies and payment of Policy Costs with respect to such Bond Reserve Fund Policies shall be made on a pro rata basis (calculated by reference to the maximum amounts of such Bond Reserve Fund Policies).

(9) If a Bond Reserve Fund Policy is deposited in a Reserve Account in which cash has been previously deposited in satisfaction of the Required Reserve for the applicable Series of Bonds, the trustee shall release cash from that Reserve Account in an amount equal to the Bond Reserve Fund Policy being deposited, and shall transfer the cash so released to the Commission to be used for any lawful purpose, provided, however, that the Commission shall ensure that the use of any cash so released will not adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code (if applicable).

(10) If deposits are insufficient to fully satisfy the requirements of subparagraph (5) above, deposits to the Bond Reserve Fund shall be applied on a pro rata basis to the respective Reserve Accounts, calculated by reference to the amounts required to be maintained in each Reserve Account, and within any Reserve Account first to the pro rata payment of Policy Costs and upon satisfaction of such Policy Costs to satisfying any portion of the Required Reserve to be maintained within such Reserve Account not covered by a Bond Reserve Fund Policy.

(11) So long as the Commission is not in default under the Indenture, and in each Reserve Account there is a balance equal to the Required Reserve for the Series of Bonds for which such Reserve Account was established, any amount in the Bond Reserve Fund in excess of the Required Reserve will be withdrawn semiannually, on May 1 and November 1 of each year, by the Trustee from the Bond Reserve Fund and transferred to the Treasurer for deposit in the Revenue Fund or, during the period of construction of the Project or any portion thereof, the Improvement Fund. Notwithstanding the foregoing, the Commission will have the right to withdraw excess amounts on deposit in the Bond Reserve Fund at any time upon request to the Trustee.

(12) On and after the Effective Date, any Reserve Requirement established with respect to any Series of Bonds which are issued as Build America Bonds prior to such date may, at the option of the Commission, be recalculated in accordance with the provisions of the Fifth Supplemental Indenture.

(13) Nothing under the Indenture shall preclude the creation of a Reserve Account to secure one or more Series of Bonds issued subsequent to the Effective Date.

All moneys remaining in the Revenue Fund on the tenth day of each month (or on such earlier day of each month as the transfers required to the Interest Fund, Principal Fund, Sinking Fund Accounts and the Bond Reserve Fund will have been completed) and attributable to the preceding calendar month, after the setting aside and transferring of all of the amounts required to be set aside or transferred by the Treasurer by the provisions in the Indenture as required to the Interest Fund, Principal Fund, Sinking Fund Accounts and the Bond Reserve Fund, will be deposited by the Treasurer in accordance with the Charter. The inability of the Treasurer to make any deposit for any of the purposes described above in subparagraphs (4), (5), or (6) of paragraph (b) under the caption "Pledge and Assignment of Revenues; Revenue Fund" by reason of a lack of Revenues available therefor will not constitute an Event of Default under the Indenture. If at any time any moneys so deposited are needed to pay the interest on or principal of the Bonds, or to pay Operation and Maintenance Costs of the Enterprise for the then current Fiscal Year for which no adequate budgeted amount was provided by the Commission, the Treasurer may transfer such moneys for such purpose. Any such transfer will be replenished from Revenues when moneys are available for deposit in the particular fund from which the transfer was made, after all required transfers to funds having a higher priority have been made.

The Treasurer shall not expend any moneys for any of the purposes specified in subparagraphs (4), (5), or (6) of paragraph (b) under the caption "Pledge and Assignment of Revenues; Revenue Fund" if and when the Commission is in default in making any payment or deposit under the Indenture.

Deposit and Investment of Moneys in Funds; Interest Rate Swaps. All moneys held by the Treasurer in the Revenue Fund or the Improvement Fund, or for the purposes described above in subparagraphs (4), (5), or (6) of paragraph (b) under the caption "Pledge and Assignment of Revenues; Revenue Fund" may be invested in Legal Investments maturing not later than the date on which such moneys are required for payment by the Treasurer. All moneys held by the Trustee and allocated to any of the funds held by it, subject to the restrictions set forth in the Rebate Certificate, will be held in time or demand deposits (including certificates of deposit) in any bank or trust company (including the Trustee) authorized to accept deposits of public funds, and will be secured at all times by such obligations, and to the fullest extent, as is required by law, and may be invested in Permitted Investments, maturing not later than the date on which such moneys are required for payment by the Trustee, except that moneys in the Bond Reserve Fund may be deposited or invested in deposits or Permitted Investments which mature not more than seven years from the date of investment or the final date of maturity of the Outstanding Bonds, whichever is earlier. If at any time any of the investments stated to be Permitted Investments under the Indenture cease to be a legal investment for funds held under the Indenture, the Commission will so advise the Trustee by a Written Statement of the Commission. The Trustee will not be responsible for making any investment which is not a legal investment if the Commission will not have previously delivered a Written Request or Written Statement of the Commission correctly advising the Trustee that such investment was no longer a legal investment. For the purpose of determining the amount of money in the Bond Reserve Fund, all investments of moneys therein will be valued annually on October 31 at the market value of such investments. All interest received on any moneys so invested by the Treasurer or the Trustee will be deposited in and for the purpose of the Revenue Fund, except that all interest received on any moneys so invested in the Principal Fund or Interest Fund will remain in such fund, and further except that prior to receipt by the Trustee of notice of completion of construction of the Project or any portion thereof all interest received on any moneys

so invested in the Improvement Fund or in the Bond Reserve Fund will remain in, or be transferred to and deposited in, the Improvement Fund held by the Treasurer. Upon completion of construction of the Project or any such portion thereof, the Commission will file with the Trustee a Certificate or Written Statement of the Commission stating the fact and date of such completion of construction.

The Trustee may sell or present for redemption any obligations so purchased by it whenever it is necessary in order to provide moneys to meet any payment, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee may act as principal or agent in the acquisition or disposition of any investment.

The Trustee may commingle any of the moneys held by it pursuant to the Indenture for investment purposes only; provided, however, that the Trustee will account separately for the moneys belonging to each fund or account established pursuant to the Indenture and held by it.

The Commission may and the Trustee will, upon the Written Request or Written Statement of the Commission, and provided that the Trustee is supplied with an Opinion of Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the Commission or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required under the Indenture. The entity with which the Commission or the Trustee may contract for an interest rate swap is limited to entities that are rated in one of the two highest short-term or long-term debt rating categories by Moody's and S&P. If the Commission so designates, amounts payable under the interest rate swap agreement will be made on a parity basis with payments on the Bonds and, in such event, the Commission will pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap relates.

SELECTED COVENANTS OF THE COMMISSION

Payment of Principal and Interest. The Commission will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but solely from Revenues as provided in the Indenture.

Against Encumbrances. Subject to any rights of the United States of America or the State of California, the Commission will not mortgage or otherwise encumber, pledge or place any charge upon the Enterprise or any part thereof, or upon any of the Revenues, prior to or on a parity with the Bonds, provided that Letter of Credit Agreements entered into in connection with Balloon Indebtedness, Variable Rate Indebtedness or Tender Indebtedness may be payable on a parity with the Bonds.

So long as any Bonds are Outstanding, the Commission will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, other than the Bonds, provided that Letter of Credit Agreements entered into in connection with Balloon Indebtedness, Variable Rate Indebtedness or Tender Indebtedness may be payable on a parity with the Bonds.

Nothing in the Indenture, and particularly nothing in the preceding two paragraphs, will prevent the Commission from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, or (2) are payable from moneys which are not Revenues as such term is defined in the Indenture.

Sale or Other Disposition of Property. The Commission will not sell or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of the Revenues except as expressly permitted in the Indenture. The Commission will not enter into any lease or agreement which impairs the operation of the Enterprise or impedes the rights of the Owners of the Bonds with respect to the Revenues or the

operation of the Enterprise, but the Commission may enter into any lease or agreement concerning all or any part of the Enterprise if such lease or agreement will not impair the operation of the Enterprise or impede the rights of the Owners of the Bonds with respect to the Revenues or the operation of the Enterprise.

Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has worn out, may be sold if all of the net proceeds of such sale (less any amounts payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) are deposited in the Revenue Fund.

The Commission reserves the right to sell all or a portion of the Enterprise, and to enter into and execute agreements for and to complete such sale, but subject to the following specific conditions, which are made conditions precedent to such sale:

(1) The Commission will be in compliance with all covenants set forth in the Indenture, and in all Supplemental Indentures theretofore adopted by the Commission, and a Certificate of the Commission to that effect will have been filed with the Trustee.

(2) The Commission will have determined by resolution whether the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds or for the making of additions or improvements to or extensions of the Enterprise.

(3) If the Commission will have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds, such proceeds of the sale will be deposited with the Trustee, and the following conditions will have been satisfied:

(i) The Commission will have adopted a resolution providing for the redemption of the maximum principal amount of Bonds which can be redeemed from such proceeds of such sale, or, in the event that no Bonds are subject to redemption on the next succeeding interest payment date, directing the Trustee (A) to hold such proceeds in trust, (B) to invest such proceeds in the investments permitted by the Indenture until any Bonds become redeemable, subject to any restrictions imposed by the Indenture, (C) to deposit the interest and income on such proceeds in the Revenue Fund as such interest and income is received, and (D) to use such proceeds to redeem Bonds in the amount and manner specified in the Indenture and any Supplemental Indenture on the first interest payment date on which the Bonds can be redeemed; and a certified copy of such resolution will have been filed with the Trustee, along with a Written Request or Certificate of the Commission containing such direction.

(ii) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until Bonds become redeemable, the Commission will have filed with the Trustee a written report of an Independent Certified Public Accountant stating (A) the amount of proceeds to be deposited with the Trustee from such sale, (B) an estimate of the total amount of Bond Obligation and the amount of Bonds of each maturity which could be redeemed from such proceeds on the first interest payment date on which Bonds are redeemable, and (C) the estimated annual interest and income to be earned on such proceeds while held and invested by the Trustee. Such interest and income on such proceeds upon receipt by the Trustee will be deposited in the Revenue Fund and will be treated as Revenues for all purposes of the Indenture, including determining whether the Commission is in compliance with the rate covenant contained in the Indenture.

(iii) If such proceeds of such sale are to be immediately used to redeem Bonds, the Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion

of such Net Revenues attributable to the portion of the Enterprise to be sold, all as shown by a certificate or opinion of an Independent Certified Public Accountant or a written report of a Qualified Independent Consultant, will have produced a sum equal to at least 1.25 times Maximum Annual Debt Service on the Bonds to be Outstanding following the redemption of Bonds from the proceeds of such sale.

(iv) (iv) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until Bonds become redeemable, the Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion of such Net Revenues attributable to the portion of the Enterprise to be sold, plus an allowance for the estimated annual interest or income to be earned on the invested proceeds of such sale while held and invested by the Trustee, all as shown by a certificate or opinion of an Independent Certified Public Accountant or a written report of a Qualified Independent Consultant, will have produced a sum equal to at least 1.25 times Maximum Annual Debt Service.

(4) If the Commission, will have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the making of additions or improvements to or extensions of the Enterprise, such proceeds of the sale will be deposited by the Treasurer in a special fund in trust to be held by the Treasurer to be used for the making of additions or improvements to or extensions of the Enterprise, and the condition set forth in the following sentence will have been satisfied. The Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Commission of the resolution authorizing such sale, less a deduction for the portion of such Net Revenues attributable to the portion of the Enterprise to be sold, all as shown by a written report of an Independent Certified Public Accountant, plus

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made with the proceeds of such sale or with the proceeds of Bonds previously issued, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year or recorded twelve-month period, were not in service, all in an amount equal to one hundred percent (100%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first twenty-four months in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Qualified Independent Consultant; and

(ii) An allowance for earnings arising from any increase in the charges made for the use of the Enterprise which has become effective prior to such sale, but which, during all or any part of such Fiscal Year or recorded twelve-month period, was not in effect, in an amount equal to one hundred percent (100%) of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or recorded twelve-month period, as shown by the certificate or opinion of a Qualified Independent Consultant;

will have produced a sum equal to at least 1.25 times the Maximum Annual Debt Service on the Bonds then Outstanding. Any balance of such proceeds from any such sale not required by the Commission for the purposes aforesaid will be deposited in the Revenue Fund established pursuant to the Indenture and applied as provided in the Indenture.

Operation and Maintenance of Enterprise. The Commission will maintain and preserve the Enterprise in good repair and working order at all times from the Revenues available for such purposes, in conformity with standards customarily followed for municipal water supply, storage and distribution systems of like size and character. The Commission will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the Enterprise, so that at all times business carried on in connection with the Enterprise will and can be properly and advantageously conducted in an efficient manner and at reasonable cost, and will operate the

Enterprise in an efficient and economical manner, consistent with the protection of the Owners of the Bonds, and will not commit or allow any waste with respect to the Enterprise.

Liens and Claims. Subject to any rights of the United States of America or the State of California, the Commission will keep the Enterprise and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to the Indenture may at all times be maintained and preserved, and the Commission will keep the Enterprise and the Revenues free from any liability which might hamper the Commission in conducting its business or operating the Enterprise. Subject to the provisions of the Indenture, the Trustee at its option (after first giving the Commission thirty days' written notice to comply therewith and failure of the Commission to so comply within said thirty-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, the Trustee will not in any event be deemed to have waived or released the Commission from liability for or on account of any of its covenants and warranties contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge made in the Indenture and to perform such covenants and warranties.

Insurance. The Commission will procure, and maintain at all times while any of the Bonds will be Outstanding, adequate fidelity insurance or bonds on all officers and employees handling or responsible for any Revenues or funds of the Enterprise, such insurance or bonds to be in an aggregate amount at least equal to the maximum amount of such Revenues or funds at any one time in the custody of all such officers and employees or in the amount of one million dollars (\$1,000,000), whichever is less.

The insurance described above may be provided as a part of any comprehensive fidelity and other insurance and not separately for the Enterprise.

The Commission may purchase, on all or any of the Bonds of any Series, insurance assuring the Bondowners that the principal of and interest on the insured Bonds will be paid when due and payable. The purchase of any such insurance will not constitute a preference or priority of the insured Bonds over any Bonds not so insured, and all Bonds Outstanding, irrespective of the providing of such insurance on some of the Bonds, will be equally and proportionately secured.

Books and Accounts; Financial Statements. The Commission will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the Commission, in which complete and correct entries will be made of all transactions relating to the Enterprise. Such books of record and accounts will at all times during business hours be subject to the inspection of the Trustee or of any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

The Commission further will prepare and file with the Trustee annually, within five months after the close of each Fiscal Year so long as any of the Bonds are Outstanding, financial statements of the Enterprise for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles applied on a consistent basis from year to year (which financial statements will include a statement showing the balances in each fund required to be established under the provisions of the Indenture), including a balance sheet, statement of income, statement of retained earnings and contributed capital, and statement of changes in financial position, which financial statements will be examined by and include the certificate or opinion of an Independent Certified Public Accountant. Such financial statements will be accompanied by a Certificate of the Commission stating that no Event of Default has occurred or is continuing as of the end of each Fiscal Year, or specifying the nature of the Events of Default, if any, which have occurred and are continuing.

The Commission will furnish a copy of these financial statements to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Trustee for distribution to investment bankers, security dealers and others interested in the Bonds and to the Owners of Bonds requesting copies thereof. The Trustee will not be required to incur any nonreimbursable expenses in making such distribution.

The Commission will cause to be published a summary statement showing the amount of Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of the principal of and interest on the Bonds, the disbursements from such Revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of the Enterprise. The statement will be published annually, not more than 120 days after the close of each Fiscal Year. The Commission will furnish a copy of the statement to any Bondowner upon request.

Upon the effectiveness of the amendments in the Forty-Third Supplemental Indenture, the provisions of the Indenture described in the second and third paragraph above will be amended and restated in their entirety as described under the caption "FORTY-THIRD SUPPLEMENTAL INDENTURE – PROPOSED AMENDMENTS TO INDENTURE – Amendments to Books and Accounts; Financial Statements" below.

Enterprise Budgets. The Commission will prepare and submit to the Mayor for review and submission to the Board of Supervisors for approval an annual budget for the Enterprise for each Fiscal Year. Such budget will set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year including, without limitation, the amounts required to provide for the payment of the principal of and interest and redemption premium, if any, on the Bonds during such Fiscal Year, to pay or provide for Operation and Maintenance Costs of the Enterprise for such Fiscal Year, to make up any deficiencies in any fund or account anticipated for the then current Fiscal Year, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and will show that Net Revenues will be at least adequate to satisfy the provisions of the rate covenant under the Indenture. Such budget will comply with any conditions or restrictions set forth in any agreements between the Commission and users of the Enterprise. The Commission will take all action available and necessary to obtain approval or acceptance of the budget by the Mayor and the Board of Supervisors. The Commission will supply to the Trustee and to any Bondowner who will so request in writing a copy of the annual budget for the Fiscal Year covered by such budget. Such budget will be open for inspection by any Owner at the principal corporate trust office of the Trustee during normal business hours. If at any time a revised annual budget for the Enterprise will be adopted which will involve an increase or decrease in the Revenues or in said expenditures of ten percent (10%) or more, the Commission will supply a copy to the Trustee and to any Bondowner who will so requests in writing.

Maintenance of Revenues; Merger with Hetch Hetchy Project. The City will not acquire, construct, operate or maintain, and will not within the scope of its powers permit any other public or private corporation, political subdivision, district or agency or any person whatsoever to acquire, construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Enterprise. The Commission will have in effect, or cause to have in effect, at all times an ordinance or resolution requiring all customers of the Enterprise to pay the fees, rates and charges applicable to the water, services and facilities furnished by the Enterprise. The Commission will not provide any water service of the Enterprise free of charge to any person, firm or corporation, or to any public agency (including the United States of America, the State of California, and any public corporation, political subdivision, city, county, district or agency of any thereof), except (i) for free use by the City and its agencies, (ii) to the extent that any such free use is required by the terms of any existing contract or agreement and (iii) for incidental insignificant free use so long as such free use does not prevent the Commission from satisfying the other covenants of the Indenture, including, without limitation, the rate covenant under the Indenture.

The Commission will not take any action pursuant to the Charter to accomplish a merger of the Enterprise with the Hetch Hetchy Project, a department of the City under the jurisdiction of the Commission, unless and until the Commission will have provided a method for segregating the Revenues from the revenues of the Hetch Hetchy Project so as to preserve the lien of the Indenture upon the Revenues, and will have obtained an opinion of counsel from a firm nationally recognized in the practice of tax-exempt financing that such merger will not, in and of itself, affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code (if applicable).

Eminent Domain Proceeds. If all or any part of the Enterprise will be taken by or under threat of eminent domain proceedings, the net proceeds realized by the Commission or the City therefrom (excluding any portion thereof payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) will be deposited by the Treasurer in a special fund in trust and applied and disbursed by the Treasurer subject to the following conditions:

(a) If such eminent domain proceedings have had a material adverse effect upon the Revenues and the security of the Bonds, the Commission will by resolution determine to apply such proceeds for one of the following purposes:

(1) The Commission may determine to apply such proceeds to the purchase, defeasance or redemption of Bonds then Outstanding. In that event, the Treasurer will transfer such proceeds to the Trustee who will apply such proceeds on a Proportionate Basis to the redemption, defeasance or purchase of Bonds of each Series then Outstanding in the proportion which the Bond Obligation amount of each Series bears to the aggregate Bond Obligation amount of all Bonds then Outstanding.

(2) The Commission may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Enterprise if (A) the Commission first secures and files with the Trustee a written report of a Qualified Independent Consultant showing (i) the loss in annual Revenues, if any, suffered, or to be suffered, by the Commission by reason of such eminent domain proceedings, (ii) a general description of the additions, improvements or extensions then proposed to be acquired by the Commission from such proceeds, and (iii) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (B) such written report states that such additional Revenues will sufficiently offset the loss of Revenues resulting from such eminent domain proceedings so that the ability of the Commission to meet its obligations under the Indenture will not be substantially impaired. The Commission will then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written report. Payments for such construction will be made by the Commission from such proceeds. Any balance of such proceeds not required by the Commission for the purposes aforesaid will be deposited in the Revenue Fund and applied as provided in the Indenture.

(b) If such eminent domain proceedings have had no effect, or at the most a relatively immaterial effect, upon the Revenues and the security of the Bonds, and a Qualified Independent Consultant so concludes in a written report filed with the Trustee, the Commission may determine to apply such proceeds to the costs of additions or improvements to or extensions of the Enterprise or may deposit such proceeds in the Revenue Fund, to be applied as provided in the Indenture.

Tax Covenants. With respect to any Series of Bonds the interest on which is to be excluded from gross income of the owners thereof for federal income tax purposes, the Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on such Bonds under Section 103 of the Code. The Commission will not directly or indirectly use or permit the use of any proceeds of any such Bonds or any other funds of the Commission, or take or omit to take any action that would cause such Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of Section 148 of the Code to the extent applicable to a Series of Bonds. If at any time the Commission is of the opinion that for purposes of the provisions of the Indenture summarized under the caption “Tax Covenants” herein it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Commission will so instruct the Trustee in writing, and the Trustee will take such action as required by such instructions.

Without limiting the generality of the foregoing, the Commission agrees that there will be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applied to a Series of Bonds the interest on which is to be excluded from gross income of the owners thereof for federal income tax purposes. This covenant will survive payment in full or defeasance of any such Bonds. The Commission specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the Indenture the Rebate Requirement. The Trustee agrees to comply with all written instructions of the Commission given in accordance with the applicable Rebate Certificate.

Notwithstanding any provision of the Indenture summarized under this caption, if the Commission provides to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under the Indenture or under a tax certificate relating to a Series of Bonds is no longer required, or to the effect that some further

action is required, to maintain the exclusion from gross income of the interest on such Series of Bonds under Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with such provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

The Commission will assure that the proceeds of any Series of Bonds the interest on which is to be excluded from gross income of the owners thereof for federal income tax purposes are not so used as to cause such Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Commission will not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of such Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Continuing Disclosure. The Commission covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated as of the date of issuance of the 2025 Series ABC Bonds (the “2025 Series ABC Continuing Disclosure Certificate”), executed and delivered by the Commission in connection with the issuance of the 2025 Series ABC Bonds, as it may be supplemented and amended in accordance with its terms. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the 2025 Series ABC Continuing Disclosure Certificate will not be considered an Event of Default; however, any Participating Underwriter (as such term is defined in the 2025 Series ABC Continuing Disclosure Certificate) or any Bondowner or beneficial owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Commission to comply with its obligations under this Section, and the sole remedy in the event of any failure of the Commission to comply with the 2025 Series ABC Continuing Disclosure Certificate will be an action to compel performance.

EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

Events of Default; Acceleration. If one or more of the following events (“Events of Default”) shall happen:

- (1) if default shall be made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or if default shall be made in the redemption from any Sinking Fund Account of any Term Bonds in the amounts and at the times provided therefor;
- (2) if default shall be made in the due and punctual payment of any installment of the interest on any Bond when and as such interest installment shall become due and payable;
- (3) if default shall be made by the Commission in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default continues for a period of sixty days after written notice of such failure, specifying such default and requiring the same to be remedied, shall have been given to the Commission by the Trustee or by a Credit Provider, or to the Commission and the Trustee by the Owners of not less than twenty-five percent (25%) of the Bond Obligation; or
- (4) if the Commission or the City shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Commission or the City, as the case may be, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Commission or the City or of the whole or any substantial part of the property of the Commission or the City;

then and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate amount of the Bond Obligation or of a Credit Provider shall, upon notice in writing to the Commission, declare the principal of all of the Current Interest Bonds then Outstanding, and the interest accrued thereon, the Capital Appreciation Bonds then Outstanding, in the amount of the Accreted Value thereof, and the Parity State Loans then outstanding, in the amount of the obligations

due thereunder, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, the Commission shall deposit with the Trustee a sum sufficient to pay all principal and Accreted Value of the Bonds maturing prior to such declaration and all matured installments of interest (if any) upon all the Current Interest Bonds, with interest on such overdue payments of principal and Accreted Value and interest installments at the rate or rates of interest borne by the respective Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal and Accreted Value of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, (i) if such declaration shall have been made by the Trustee, the Trustee, or (ii) if such declaration shall have been made upon the written request of Bondowners, the Owners of not less than a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding, or (iii) if such declaration shall have been made upon the written request of a Credit Provider, such Credit Provider, may, by written notice to the Commission and, in cases (ii) and (iii) above, to the Trustee, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Bondholder Suits. In case one or more of the Events of Default shall happen, then and in every such case the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by the Indenture by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the exercise of any power granted in the Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Indenture or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding pursuant to this Section unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least ten percent (10%) in aggregate amount of the Bond Obligation of the Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds Outstanding. The provisions of the Indenture shall constitute a contract with the Owners of the Bonds, and such contract and duties of the Commission and of the Commission members and of the officers and employees of the Commission and of the City shall be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Application of Funds Upon Acceleration. All of the Revenues, including all sums in all of the funds provided for in the Indenture upon the date of declaration of acceleration as provided for in the Section above entitled "Events of Default; Acceleration" and all sums thereafter received by the Commission or the Trustee under the Indenture, shall, if received by the Commission, be transmitted to the Trustee and be applied by the Trustee in the following order, upon presentation of the several Bonds—

First, to the payment of the costs and expenses of the Bondowners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel; and to the payment of the costs and expenses of the Trustee, including but not limited to reasonable compensation to its agents, attorneys and counsel;

Second, to the payment of the whole amount of Bond Obligation then owing and unpaid upon the Bonds, with interest on, with respect to the Current Interest Bonds, the overdue principal and installments of interest, with respect to the Capital Appreciation Bonds, the Accreted Value thereof, and with respect to the Parity State Loans, the obligations due thereunder, at the rate or rates of interest borne by the respective Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest, Accreted Value and obligations (under Parity State Loans) without preference or priority of

principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest, Accreted Value and obligations (under Parity State Loans); and

Third, to the payment of all Policy Costs, and in case such moneys shall be insufficient to pay in full all Policy Costs owing and unpaid, then to the payment of such Policy Costs pro rata (calculated by reference to the maximum amounts available under the respective Bond Reserve Fund Policies).

Remedies of Reserve Provider. If the Commission fails to pay Policy Costs to a Reserve Provider to the extent and at the times required by the provisions of the Indenture and such failure continues for 30 days after written notice of such default is received by the Commission and the Trustee from such Reserve Provider or if an Event of Default concerning bankruptcy of the Commission or the City (as described in subsection (4) under the caption “Events of Default; Acceleration” above) shall occur and be continuing, then the Reserve Provider may exercise any remedy provided under the Indenture to the Trustee or available at law or in equity to protect and enforce its right to receive payment of Policy Costs; *provided, that*, in no event, will the Reserve Provider be able to declare the principal and Accreted Value of the Bonds and the interest accrued thereon to be due and payable immediately or to exercise any remedy that the Trustee, in its sole discretion, determines would adversely affect the Bondowners.

Rights of Credit Provider. Each Credit Provider, during any period in which an Event of Default has occurred and is continuing, will be recognized as the Owner of each Bond which it guarantees or insures for the purposes of exercising all rights and privileges available to Bondowners. Any acceleration of principal payments with respect to Bonds guaranteed or insured by a Credit Provider are subject to such Credit Provider’s prior written consent (but only if such Credit Provider is not in default under its guaranty or insurance policy).

MODIFICATION OR AMENDMENT OF THE INDENTURE

Modification with Consent of Bondowners and Credit Providers. The Indenture may be modified or amended at any time by a Supplemental Indenture which will become binding when the written consents of the Owners of a majority in the aggregate amount of the Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding (exclusive of Bonds owned or held by or for the account of the City or the Commission (but excluding Bonds held in any pension or retirement fund) as provided in the Indenture) and of each Credit Provider (so long as such Credit Provider is not in default under the policy of municipal bond insurance or Letter of Credit issued by it in connection with any Series of Bonds) will have been filed with the Trustee, provided such Credit Provider’s consent will not be unreasonably withheld. The Indenture may also be amended or supplemented by a Supplemental Indenture upon written consent of each Credit Provider, provided that at the time of the amendment or supplement the payment of the principal and interest on all Outstanding Bonds is insured by a policy or policies of municipal bond insurance or payable under a Letter of Credit issued by a Credit Provider.

No such modification or amendment may:

- (1) extend the fixed maturities of the Bonds, or extend the time for making any Minimum Sinking Fund Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, or
- (2) reduce the aforesaid percentage of the Bond Obligation the consent of the Owners of which is required for the execution of any amendment or modification of the Indenture, or
- (3) modify any of the rights or obligations of the Trustee without its written consent thereto.

Modification without Consent of Bondowners or Credit Providers. The Indenture and the rights and obligations of the Commission and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which will become binding upon adoption, without the consent of any Bondowners or any Credit Provider (but with notice to each Credit Provider), but only to the extent permitted by law and only if the

Trustee determines, which determination may be based upon a good faith reliance upon an Opinion of Counsel, that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners, including, without limitation, for any one or more of the following purposes-

- (1) to add to the covenants and agreements of the Commission in the Indenture other covenants and agreements thereafter to be observed or to surrender any right or power reserved to or conferred upon the Commission by the Indenture;
- (2) to cure, correct or supplement any ambiguous or defective provision or omission or mistake contained in the Indenture, or in regard to questions arising under the Indenture, as the Commission may deem necessary or desirable;
- (3) to provide for the issuance of additional Series of Bonds, and to provide the terms and conditions under which such additional Series of Bonds may be issued, subject to and in accordance with the provisions of the Indenture; and
- (4) to amend the provisions in the Indenture specifying the purposes, in order of priority, for which expenditures can be made from the Revenue Fund for purposes lower in priority than expenditures on the Bonds.

DEFEASANCE

Discharge of Indenture. If the Commission shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways-

- (a) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all Bonds Outstanding, as and when the same become due and payable (but this clause shall not include Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer until said principal and interest shall have been paid by the Commission); or
- (b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money which, together with the amounts then on deposit in the Principal Fund, the Interest Fund and the Bond Reserve Fund, is fully sufficient to pay or redeem all Bonds Outstanding, including all principal, interest and redemption premiums, if any; or
- (c) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding; or
- (d) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, Federal Securities or general obligation bonds of the State of California in such amount which, in the determination of an Independent Certified Public Accountant, who will certify such determination to the Trustee, shall, together with the income or increment to accrue thereon and any other moneys of the Commission made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the Commission shall also pay or causes to be paid all other sums payable under the Indenture by the Commission, including all Policy Costs, then and in that case, at the election of the Commission (evidenced by a Certificate of the Commission signifying its intention to pay and discharge all such indebtedness, which shall be filed with the Trustee), and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Commission under the Indenture shall cease, terminate and be completely discharged, except only as described below under "Discharge of Liability on Bonds," and the Owners of the Bonds not so surrendered and paid shall thereafter be entitled to payment only out of the money or Federal Securities or general obligation bonds of the State of California deposited with the Trustee, escrow agent or other fiduciary as aforesaid for their payment, subject, however, to the provisions of the Indenture described below under "Payment of Bonds after Discharge of Indenture." The discharge of the obligations of the Commission

under the Indenture shall be without prejudice to the rights of the Trustee to charge for and be reimbursed by the Commission for any expenditures which it may thereafter incur in connection therewith.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, of money or Federal Securities or general obligation bonds of the State of California in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Commission in respect of such Bonds shall cease, determine and be completely discharged, except only that thereafter the Owners thereof shall be entitled to payment of the principal of and interest on such Bonds by the Commission, and the Commission shall remain liable for such payment, but only out of the money or Federal Securities or general obligation bonds of the State of California deposited in an escrow fund established for this purpose and held by the Trustee, an escrow agent, or other fiduciary, as aforesaid for their payment, subject, however, to the provisions of the Indenture described below under "Payment of Bonds after Discharge of Indenture."

Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys deposited in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture) shall then be repaid to the Commission upon its Written Request, and the Owners of such Bonds shall thereafter be entitled to look only to the Commission for payment thereof, and all liability of the Trustee or any other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Commission, as aforesaid, the Trustee may (at the cost of the Commission) first publish at least once in a Financial Newspaper or Journal a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Commission of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Commission, as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be general creditors of the Commission for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Commission (without interest thereon).

TRUSTEE PROVISIONS

The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

So long as there is no Event of Default under the Indenture, the Commission may remove the Trustee, by giving written notice to such Trustee and by giving Bondowners notice by mail, first class postage prepaid, of such removal, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor will be a bank or trust company doing business and having an office in San Francisco, California, having a combined capital and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the Commission and by giving the Bondowners notice by mail, first class postage prepaid, of such resignation. Upon receiving such notice of resignation, the Commission will promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee is appointed and accepts appointment within 45 days of giving notice of removal or notice of resignation, the resigning Trustee or any Bondowner (on behalf of himself and all other

Bondowners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

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FORTY-THIRD SUPPLEMENTAL INDENTURE

PROPOSED AMENDMENTS TO INDENTURE

The proposed amendments to the Indenture set forth in the Forty-Third Supplemental Indenture and described below will become effective when the written consents of the Owners of a majority in aggregate amount of the Bond Obligation of the Bonds then Outstanding have been filed with the Trustee and certain other requirements under the Indenture have been satisfied. All Owners of the 2025 Series ABC Bonds and any Bonds issued after the date hereof will be deemed to have agreed to, accepted and consented to the amendments to the Indenture set forth in the Forty-Third Supplemental Indenture for all purposes of the Indenture.

Amendments to Definitions. (i) There shall be added to the Indenture the definition of “Excluded Principal,” “Qualified Municipal Advisor” and “SIFMA” having the definitions set forth below; (ii) all references to the term “Parity State Loans” in the Indenture shall be deemed to refer to “Parity Loans” and shall have the definition set forth below; and (iii) the definitions of “Annual Debt Service,” “Average Annual Debt Service,” “Bondowner,” “Owner” and “Maximum Annual Debt Service” in the Indenture shall be replaced by the definitions of such terms set forth below.

Bondowner, Owner

The term “Bondowner” or “Owner” means any person who is the registered owner of any Outstanding Bond, or, if such Outstanding Bond has a maturity of one year or less and is issued in bearer form, means the bearer of such Bond, or, with respect to any Parity Loan, means the State of California (or any board, department or agency thereof) or the federal government (or any board, department or agency thereof), as applicable.

Excluded Principal

“Excluded Principal” means each payment of principal of Bonds with a remaining term, on the date of calculation, of not greater than 60 months and which the Commission specifies in a Certificate of the Commission and filed with the Trustee that the Commission intends to pay from the proceeds of Bonds or Parity Loans, other bonds, notes or other obligations of the Commission or moneys other than Revenues. No such determination shall affect the security for the Bonds or Parity Loans or the obligation of the Commission to pay the Bonds and Parity Loans from Revenues.

Maximum Annual Debt Service, Annual Debt Service, Debt Service, Average Annual Debt Service

The term “Maximum Annual Debt Service” means, at any point in time, with respect to Bonds then Outstanding, the maximum amount of principal and interest becoming due in the then current or any future Fiscal Year, calculated by the Commission as provided in this definition. For purposes of calculating Maximum Annual Debt Service, the following assumptions are to be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Minimum Sinking Fund Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond, but excluding Excluded Principal;

(ii) if any of the Outstanding Series of Bonds constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness or if Bonds then proposed to be issued would constitute Balloon Indebtedness or Balloon Indebtedness and Variable Rate Indebtedness, then, for purposes of determining Maximum Annual Debt Service, such Bonds the principal of which the Commission has not specified as Excluded Principal will be amortized for a period specified by the Commission (but no longer than forty (40) years from the date of the issuance of the

Bonds to which such Balloon Indebtedness relates) on a substantially level debt service basis or other amortization basis designated by the Commission, calculated based on a fixed rate equal to the rate at which the Commission could borrow for such period, as certified by a Qualified Municipal Advisor;

(iii) if any Outstanding Bonds constitute Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds, the options or obligations of the owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities will be treated as a principal maturity occurring on the first date on which owners of such Bonds may or are required to tender such Bonds except that any such option or obligation to tender Bonds will be ignored and not treated as a principal maturity, if (1) such Bonds are rated in one of the two highest long-term rating categories (without reference to gradations such as “plus” or “minus”) by Moody’s and by S&P or such Bonds are rated in the highest short-term, note or commercial paper rating categories by Moody’s and by S&P and (2) the obligation, if any, the Commission may have under a Letter of Credit Agreement with respect to such Bonds, other than its obligations on such Bonds, will either be subordinated to the obligation of the Commission on the Bonds or be incurred under the conditions and meeting the tests for the issuance of Additional Bonds set forth in the Indenture;

(iv) if any Outstanding Bonds constitute Variable Rate Indebtedness, the interest rate shall, as of the date of calculation, be: (i) the greater of (a) the average SIFMA rate over the past 3 years times 150% or (b) 4 percent or (ii) if, designated in writing by the Commission in the Supplemental Indenture authorizing such Bonds (which the Commission must certify, in the case of obligations interest on which is not excluded from gross income for federal income tax purposes under the Code), a fixed rate of interest reasonably determined by the Commission for obligations with similar duration, which interest rate has been certified by a Qualified Municipal Advisor as reasonable concurrent with the execution and delivery of such Supplemental Indenture;

(v) if Bonds proposed to be issued will be Variable Rate Indebtedness, then such Bonds will be assumed to bear interest at: (i) the greater of (a) the average SIFMA rate over the past 3 years times 150% or (b) 4 percent or (ii) if, designated in writing by the Commission in the Supplemental Indenture authorizing such Bonds (which the Commission must certify, in the case of obligations interest on which is not excluded from gross income for federal income tax purposes under the Code), a fixed rate of interest reasonably determined by the Commission for obligations with similar duration, which interest rate has been certified by a Qualified Municipal Advisor as reasonable concurrent with the execution and delivery of such Supplemental Indenture;

(vi) if moneys or Federal Securities or general obligation bonds of the State of California have been deposited with and are held by the Trustee or another fiduciary to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys or Federal Securities or general obligation bonds of the State of California or from the earnings thereon will be disregarded and not included in calculating Maximum Annual Debt Service.

The term “Annual Debt Service” means the sum of such principal and interest as computed for the twelve-month period ending June 30 to which reference is made.

The term “Debt Service” means the sum of all such principal and interest.

The term “Average Annual Debt Service” means total Debt Service, divided by the number of twelve-month periods ending on June 30 (including any fractional periods) remaining until the last maturity date of any Outstanding Bond.

For the purpose of calculating Maximum Annual Debt Service, Annual Debt Service, Debt Service, and Average Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds that were issued as Build America Bonds, such amount will be reduced by an amount equal to the Refundable Credits the Commission is scheduled to receive during each such twelve-month period ending June 30. If the amount of Refundable Credits scheduled to be received by the Commission for any Series of Bonds that were issued as Build America Bonds is reduced or otherwise not received during any twelve-month period ending June 30, the Commission will calculate the amount of interest due on such Series of Bonds for the subsequent twelve month period ending June 30 by offsetting against the gross amount of interest payable on such Series only the

amount of the Refundable Credits scheduled to be received under Federal legislation (or other Federal regulation, pronouncement or action) authorizing the reduction of Refundable Credits.

Parity Loans

“Parity Loans” means those loan agreements entered into between the Commission and the State of California (or any board, department or agency thereof) or the federal government (or any board, department or agency thereof) to finance additions, betterments, extensions, repairs, renewals or replacements to the Enterprise, which are entered into after the issuance of the Bonds and which, by their terms, are secured by a pledge and lien on Revenues on a parity basis with debt service on the Bonds. Parity Loans may be evidenced by or secured by Bonds.

Qualified Municipal Advisor

“Qualified Municipal Advisor” means a person or a firm selected by the Commission who or which engages in the business of advising the management of public agencies similar to the Commission concerning the issuance of debt.

SIFMA

“SIFMA” means, as of any date, the most recent rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as calculated and published by Bloomberg and made available by the Securities Industry and Financial Markets Association on its SIFMA Municipal Swap Index, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Municipal Bond 7 Day High Grade Rate Index, or if neither the SIFMA Municipal Swap Index nor the S&P Municipal Bond 7 Day High Grade Rate Index is published, a per annum rate equal to 60% of the yield of the three-month U.S. Treasury bill as reported as of the end of each trading day.

Amendments to Issuance of Additional Series of Bonds for Refunding. The provision of the Indenture described in paragraph (c) under the caption “BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS – Issuance of Additional Series of Bonds for Refunding” in this Appendix will be amended and restated in its entirety to provide as follows:

(c) Fixed serial maturities or mandatory Minimum Sinking Fund Account Payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Bonds of such additional Series on or before their respective maturity dates; provided, however, that such requirement shall not apply to Balloon Indebtedness or principal amounts of such Series of Bonds which the Commission has specified as Excluded Principal.

The provision of the Indenture described in paragraph (e) under the caption “BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS – Issuance of Additional Series of Bonds for Refunding” in this Appendix will be amended and restated in its entirety to provide as follows:

(e) After giving effect to the application of the proceeds of the additional Series of Bonds, either (i) Annual Debt Service will not be increased in any Fiscal Year (excluding Debt Service on the Outstanding Bonds to be refunded) in an amount in excess of 5% or (ii) the Average Annual Debt Service for the Bonds of such additional Series (during the period from their issuance to their last maturity date) shall be equal to or less than the Average Annual Debt Service on the Bonds to be refunded (during the period from the issuance of the additional Series to the last maturity date of the Bonds to be refunded).

Amendments to Proceedings for the Issuance of Additional Series of Bonds. The provision of the Indenture described in paragraph (c)(1) under the caption “BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS – Proceedings for the Issuance of Additional Series of Bonds” in this Appendix will be amended and restated in its entirety to provide as follows:

(1) If the additional Series of Bonds are being issued pursuant to Section 3.04, after the sale of the Series of Additional Bonds proposed to be issued (but prior to the issuance and delivery thereof and receipt of payment therefor),

the Commission shall file the following documents with the Trustee; these documents shall, with respect to such Series of Additional Bonds, be based upon the actual interest rate or rates determined at the time of sale thereof (except that, with respect to Variable Rate Indebtedness, the interest rate for the Series of Additional Bonds shall be calculated in accordance with the provisions of subsection (iv) of the definition of Maximum Annual Debt Service).

(i) A Certificate of the Commission setting forth for each of the next three Fiscal Years estimates of (A) Revenues, (B) Operation and Maintenance Costs of the Enterprise and (3) Net Revenues.

(ii) A Certificate of the Commission demonstrating that (1) the ratio of (A) Net Revenues for the most recent Fiscal Year for which audited financial statements are available, or any consecutive twelve calendar month period during the eighteen calendar month period prior to the issuance of such additional Series of Bonds, to (B) Annual Debt Service for the current Fiscal Year, calculated as of the date of sale of, and including such additional Series of Bonds, will not be less than 1.25:1; or (2) the ratio of (A) Net Revenues projected by the Commission for each of the next three Fiscal Years as determined in clause (i) above, and including in such projections amounts projected to be received from any adopted rate increases (but excluding the Bond Reserve Fund), to (B) Annual Debt Service in each of such three Fiscal Years, calculated as of the date of sale of and including such additional Series of Bonds, will not be less than 1.25:1 in each of such Fiscal Years.

Amendments to Consent Required for Other Issuances of Additional Bonds. The provision of the Indenture described in the final paragraph under the caption “BOND PROCEEDS FUNDS; ADDITIONAL SERIES OF BONDS – Consent Required for Other Issuances of Additional Bonds” in this Appendix will be amended and restated in its entirety to provide as follows:

In addition, the Commission may enter into Parity Loans if no Event of Default has occurred and is continuing under this Indenture or any Supplemental Indenture (and no event has occurred which, but for the passage of time or the giving of notice, would constitute an Event of Default under this Indenture or any Supplemental Indenture) and, on the date of the execution and delivery of such Parity Loans and with respect to Parity Loans executed and delivered prior to the effective date of the amendments set forth in Article CLXXXVII, on the effective date of the amendments set forth in Article CLXXXVII, the Commission delivers a Certificate to the Trustee setting forth, for each of the next three Fiscal Years after the delivery of the Parity Loans, and in the case of Parity Loans executed and delivered prior to the effective date of the amendments set forth in Article CLXXXVII, the next three Fiscal Years, determined on such date, (i) the Revenues, Operation and Maintenance Costs of the Enterprise and Net Revenues and (ii) the Annual Debt Service (assuming the delivery of the Parity Loans), and demonstrating that the estimated Net Revenues (together with any fund balances of the Commission, which are available for Debt Service, but excluding the Bond Reserve Fund), in each of such Fiscal Years is at least equal to 1.25 times the Annual Debt Service in each of such Fiscal Years.

Amendments to Books and Accounts; Financial Statements. The provisions of the Indenture described in the second and third paragraphs under the caption “SELECTED COVENANTS OF THE COMMISSION – Books and Accounts; Financial Statements” in this Appendix will be amended and restated in their entirety to provide as follows:

The Commission will prepare and file with the Trustee annually, within seven months after the close of each Fiscal Year so long as any of the Bonds are Outstanding, financial statements of the Enterprise for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles applied on a consistent basis from year to year (which financial statements will include a statement showing the balances in each fund required to be established under the provisions of the Indenture), including a balance sheet, statement of income, statement of retained earnings and contributed capital, and statement of changes in financial position, which financial statements will be examined by and include the certificate or opinion of an Independent Certified Public Accountant. Such financial statements will be accompanied by a Certificate of the Commission stating that no Event of Default has occurred or is continuing as of the end of each Fiscal Year, or specifying the nature of the Events of Default, if any, which have occurred and are continuing

Amendments to Covenant Regarding Amounts of Rates and Charges. The Commission’s rate covenant set forth in the Indenture as described in the Official Statement under the caption “SECURITY FOR THE BONDS –

Rate Covenants – Sufficiency of Revenue” and the first paragraph under “SECURITY FOR THE BONDS – Rate Covenants – Debt Service Coverage” will be amended and the amended provisions will provide as follows:

To the fullest extent permitted by law, the Commission shall establish, fix and prescribe, prior to the commencement of each Fiscal Year, rates, fees and charges in connection with the water, services and facilities furnished by the Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and error in the estimates to pay the following amounts:

- (1) the interest on and principal of the Bonds as they become due and payable (but not including any interest moneys for the payment of which have been deposited in the Interest Fund from the proceeds of any Series of Bonds or from any other source);
- (2) all other payments required for compliance with the terms of the Indenture and of any Supplemental Indenture providing for the issuance of Additional Series of Bonds pursuant to the Indenture;
- (3) all other payments to meet any other obligations of the SFPUC which are charges, liens or encumbrances upon, or payable from, the Revenues; and
- (4) all current Operation and Maintenance Costs of the Enterprise (but not including such Operation and Maintenance Costs of the Enterprise as are scheduled to be paid by the SFPUC from moneys other than Revenues, such money to be clearly available for such purpose).

In addition to the requirements described in the paragraph above, to the fullest extent permitted by law, the Commission shall establish, fix and prescribe, prior to the commencement of each Fiscal Year, rates, fees and charges in connection with the water, services and facilities furnished by the Enterprise, which are reasonably expected to be at least sufficient to yield during such Fiscal Year Net Revenues (together with any fund balances of the Commission, which are available for Debt Service, but excluding the Bond Reserve Fund) equal to 1.25 times Annual Debt Service payable in such Fiscal Year.

So long as the Commission has complied with its obligations described in two paragraphs above under this caption “Amendments to Covenant Regarding Amounts of Rates and Charges,” the failure to yield the amount of Revenues as described in such first paragraph, or the failure of Net Revenues to equal 1.25 times Annual Debt Service as described in such second paragraph at the end of a Fiscal Year, shall not constitute a default or an Event of Default under the Indenture so long as the Commission has complied with such first and second paragraphs at the commencement of the succeeding Fiscal Year.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE WATER SUPPLY AGREEMENT

The following brief summary of certain provisions of the Water Supply Agreement is subject in all respects to all of the provisions of such document. This brief summary does not purport to be a complete statement of said provisions and prospective purchasers of the 2025ABC Bonds are referred to the complete text of said document.

Definitions

“1984 Agreement” refers to the 1984 Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and certain Suburban Purchasers in San Mateo County, Santa Clara County and Alameda County, which expired on June 30, 2009.

“Act” refers to the Raker Act, 38 Stat. 242, the Act of Congress, enacted in 1913, that authorized the construction of the Hetch Hetchy system on federal lands.

“Adjusted Proportional Annual Use” means the respective percentages of annual water use, as adjusted to reflect deliveries of water by the Hetch Hetchy Water & Power Project to outside City Retail Customers.

“Agreement” refers to the Water Supply Agreement, by and among San Francisco and the Wholesale Customers who approve the Agreement.

“BAWSCA” refers to the Bay Area Water Supply and Conservation Agency established pursuant to Division 31 of the California Water Code (Water Code §§81300-81461) or its successor and permitted assigns.

“CEQA” refers to the California Environmental Quality Act found at §§21000 et seq. of the Public Resources Code and the Guidelines for the California Environmental Quality Act found at §§15000 et seq. of Title 14 of the California Code of Regulations, as amended from time to time.

“Commission” means the governing board of the SFPUC.

“Debt Service” means principal and interest paid during a fiscal year on Indebtedness incurred by the SFPUC the proceeds of which are used or are scheduled to be used for the acquisition or construction of New Regional Assets or to refund such Indebtedness.

“Direct Retail” refers to Regional Water System capital or operating expenditures that are incurred to provide water service solely to Retail Customers.

“Direct Wholesale” refers to Regional Water System capital or operating expenditures that are incurred to provide water service solely to one or more Wholesale Customers.

“Drought” means a water shortage caused by lack of precipitation, as reflected in resolutions of the Commission calling for voluntary or mandatory water rationing based on evaluation of water stored or otherwise available to the Regional Water System, whether or not the Commission declares a water shortage emergency pursuant to Water Code §§ 350 et seq., as amended from time to time.

“Emergency” means a sudden, non-drought event, such as an earthquake, failure of Regional Water System infrastructure or other catastrophic event or natural disaster that results in an insufficient supply of water available to the Retail or Wholesale Service Areas for basic human consumption, firefighting, sanitation, and fire protection.

“Encumbrance” or **“Encumber”** refers to the process by which the City Controller certifies the availability of amounts previously appropriated by the Commission for specifically identified SFPUC capital projects performed either by third parties or through work orders to other San Francisco departments.

“Environmental Enhancement Surcharge” means the surcharge to be imposed by the SFPUC on individual parties to the Agreement whose use exceeds their Interim Supply Allocation when the collective use of water by all parties to the Agreement is in excess of the Interim Supply Limitation.

“Excess Use Charges” are monthly charges set by the SFPUC, in the form of multipliers, that are applied to the Wholesale Customer water rates during times of mandatory rationing if a Wholesale Customer’s water usage is greater than its shortage allocation.

“Fundamental Rights” of Wholesale Customers are their status as parties to the Agreement, their allocation of water recognized in the Agreement, their protection against arbitrary, unreasonable, or unjustly discriminatory rates and any other specific rights described in the Agreement.

“Hetch Hetchy Enterprise” refers to Hetch Hetchy Water and Power Enterprise, a SFPUC operating department.

“Indebtedness” includes revenue bonds, bond anticipation notes, certificates of participation (excluding certificates of participation towards which SFPUC contributes debt service as an operating expense), and commercial paper.

“Individual Supply Guarantee” refers to each Wholesale Customer’s share of the Supply Assurance.

“Individual Water Sales Contract” refers to the contracts between each Wholesale Customer and San Francisco that details customer-specific matters such as location of service connections, service area maps and other matters specific to that customer.

“Interim Supply Allocation” refers to each Wholesale Customer’s share, to be established by the SFPUC of the Interim Supply Limitation.

“Interim Supply Limitation” refers to the 265 MGD annual average limitation on water deliveries from Regional Water System watersheds.

“Joint,” when used in connection with Hetch Hetchy Enterprise assets or expenses, refers to assets used or expenses incurred in providing both water supply (“Water-Related”) and in the generation and transmission of electrical energy (“Power-Related”).

“Local System Water” refers to Regional Water System water supplies developed in San Mateo, Alameda and Santa Clara Counties or otherwise not produced by the Hetch Hetchy Enterprise under rights of way granted by the Act.

“MGD” refers to an average flow rate of one million gallons per day over a specific time period, often a year. For example, one MGD is equal to 365 million gallons per year or 1,120 acre feet per year.

“Minimum Annual Purchase Quantity” means the minimum amount of water that a Wholesale Customer that has as Individual Supply Guarantee agrees to purchase from San Francisco annually.

“Net Annual Debt Service” refers to debt service less payments made from proceeds of Indebtedness (e.g., capitalized interest), earnings on bond proceeds (e.g., reserve fund earnings) used to pay Debt Service, and interest paid from renewed commercial paper, or from reserve fund liquidation.

“New Assets” refers to Regional and Hetch Hetchy Water-Only and Water-Related capital assets added to Regional Water System plant in service after June 30, 2009.

“New Regional Assets” refers to New Assets placed in service on or after July 1, 2009 that are used and useful in delivering water to Wholesale Customers. The following four categories comprise New Regional Assets:

1. Water Enterprise Regional Assets
2. Water Enterprise Direct Wholesale Assets
3. Hetch Hetchy Water Only Assets
4. Water-Related portion (45 percent) of Hetch Hetchy Joint Assets

“Power-Only,” when used with reference to Hetch Hetchy Enterprise capital costs and operating and maintenance expenses, means capital costs and expenses that are incurred solely for the construction and operation of assets used to generate and transmit electrical energy.

“Power-Related” refers to the power related portion (55%) of Joint Hetch Hetchy Enterprise assets or expenses.

“Proportional Annual Use” means the shares of deliveries from the Regional Water System used by City Retail Customers and by the Wholesale Customers in a fiscal year, expressed as a percentage.

“Proportional Water Use” refers the general principle of allocating Regional Water System costs based on the relative purchases of water by Retail and Wholesale Customers.

“Regional Water System” means the water storage, transmission and treatment system operated by the SFPUC in Tuolumne, Stanislaus, San Joaquin, Alameda, Santa Clara, San Mateo and San Francisco counties, including projects constructed under the WSIP, but excluding Direct Retail and Direct Wholesale assets.

“Regional,” when used with reference to Water Enterprise capital assets and operating expenses, refers to assets and expenses that benefit Wholesale and Regional Customers.

“Retail Customers” means any customer that purchases water from San Francisco that is not a Wholesale Customer, whether located inside or outside of San Francisco.

“Retail Service Area” means the areas where SFPUC sells water to Retail Customers.

“Retail Water” means water sold by the SFPUC to its Retail Customers within and outside San Francisco.

“San Francisco” refers to the City and County of San Francisco.

“SFPUC” refers to the San Francisco Public Utilities Commission as an operating department of San Francisco, the General Manager of which reports to the Commission.

“Substantially Expended,” when used with respect to a specific bond issue, means 98% of the proceeds from that bond issue and investment earnings contributed to the project fund have been expended.

“Supply Assurance” means the 184 MGD maximum annual average metered supply of water dedicated by San Francisco to public use in the Wholesale Service Area (not including San José and Santa Clara).

“Temporary Modified Minimum Annual Purchase Quantity” means the minimum amount of water that a Wholesale Customer that has an Individual Supply Guarantee, which has received a permanent transfer of a portion of Individual Supply Guarantee and a portion of Minimum Annual Purchase Quantity, agrees to purchase from San Francisco on a temporary annual basis.

“Term” means the 25-year term of the Agreement commencing July 1, 2009, including one or both 5-year extensions authorized by the Agreement.

“Tier 1 Shortage Plan” refers to the Water Shortage Allocation Plan, adopted by the SFPUC and the Wholesale Customers in conjunction with the Agreement describing the method for allocating water between the SFPUC and the Wholesale Customers collectively for shortages of up to 20% of deliveries from the Regional Water System, as amended from time-to-time.

“Water Enterprise” refers to the San Francisco Water Department (SFWD), an SFPUC Operating Department.

“Water Management Charge” refers to the charge collected by San Francisco on behalf of BAWSCA for local water resource development in the Wholesale Service Area.

“Water-Only,” when used with reference to Hetch Hetchy Enterprise capital costs and operating and maintenance expenses, means capital costs and expenses that are incurred solely for the construction and operation of assets used to protect water quality or to provide for the delivery of water for consumptive purposes.

“Water-Related” refers to the water related portion (45%) of Joint Hetch Hetchy Enterprise assets or expenses.

“Wheeling Statute” refers to Article 4 of Chapter 11 of the California Water Code, as amended from time to time.

“Wholesale Capital Fund” is the account established by the SFPUC for deposit of Wholesale Customer revenue that is used to fund the wholesale share of revenue-funded New Regional Assets.

“Wholesale Customer” or **“Customers”** means one or more of the 26 water customers that are contracting for purchase of water from San Francisco pursuant to the Agreement. Cordilleras Mutual Water Company is a wholesale customer of the SFPUC, but is not a party to Water Supply Agreement and is not a “Wholesale Customer.”

“Wholesale Revenue Coverage” refers to the additional dollar amount included in wholesale rates each fiscal year that is charged to Wholesale Customers by the SFPUC for their proportionate share of Debt Service coverage.

“Wholesale Revenue Coverage Reserve” refers to the account established by the SFPUC for deposit of Wholesale Revenue Coverage.

“Wholesale Revenue Requirement” means the calculated Wholesale Customer portion of SFPUC Regional Water System capital and operating costs.

“Wholesale Service Area” means the combined service areas of the Wholesale Customers, as delineated on the service area maps attached to each Individual Water Sales Contract.

“WSIP” refers to the Water System Improvement Program approved by the Commission in Resolution No. 08-0200 on October 30, 2008, as amended from time to time.

Term

The Term of the Agreement is twenty-five (25) years. The Term began on July 1, 2009 and ends on June 30, 2034.

In December 2031, the SFPUC may provide written notice to the Wholesale Customers that it is willing to extend the Term of the Agreement. Between January 1, 2032 and June 30, 2032, any Wholesale Customer may accept the SFPUC’s offer to extend the Term by providing a written notice of extension to the SFPUC. If such notices of extension are received from Wholesale Customers representing at least two-thirds in number as of June 30, 2032 and seventy five percent (75%) of the quantity of water delivered by the SFPUC to all Wholesale Customers during fiscal year 2030-31, the Term shall be extended for another five (5) years (“First Extension Term”), through June 30, 2039.

No party to the Agreement which does not wish to remain a party during the Extension Term shall be compelled to do so by the actions of other parties.

In December 2036, the SFPUC may provide written notice to the Wholesale Customers that it is willing to extend the Term of the Agreement. Between January 1, 2037 and June 30, 2037, any Wholesale Customer may accept the SFPUC's offer to extend the Term by providing a written notice of extension to the SFPUC. If such notices of extension are received from Wholesale Customers representing at least two-thirds in number as of June 30, 2037 and seventy five percent (75%) of the quantity of water delivered by the SFPUC to all Wholesale Customers during fiscal year 2035-36, the Term shall be extended for another five (5) years ("Second Extension Term"), through June 30, 2044. No party to the Agreement which does not wish to remain a party during the Extension Term shall be compelled to do so by the actions of other parties.

Amendments to Agreement

The Agreement may be amended with the written consent of San Francisco and of Wholesale Customers representing at least two-thirds in number and seventy five percent (75%) of the quantity of water delivered by San Francisco to all Wholesale Customers during the fiscal year immediately preceding the amendment.

No amendment which adversely affects a Fundamental Right of a Wholesale Customer may be made without the written consent of that customer.

Supply Assurance

San Francisco agrees to deliver water to the Wholesale Customers up to the amount of the Supply Assurance. Water delivered by San Francisco to Retail Customers shall not be included in the Supply Assurance. Such commitment is subject to the Interim Supply Limitation provisions in the Agreement.

Both the Supply Assurance and the Individual Supply Guarantees identified are expressed in terms of daily deliveries on an annual average basis and do not themselves constitute a guarantee by San Francisco to meet peak daily or hourly demands of the Wholesale Customers, irrespective of what those peak demands may be. The parties acknowledge, however, that the Regional Water System has been designed and constructed to meet peak daily and hourly demands and that its capacity to do so has not yet been reached. San Francisco agrees to operate the Regional Water System to meet peak requirements of the Wholesale Customers to the extent possible without adversely affecting its ability to meet peak demands of Retail Customers. The Agreement shall not preclude San Francisco from undertaking to meet specific peak demand requirements of individual Wholesale Customers in their Individual Water Sales Contracts.

The Supply Assurance is perpetual and shall survive the expiration or earlier termination of the Agreement. Similarly, the Individual Supply Guarantees and/or the Individual Water Sales Contracts are perpetual and shall survive the expiration or earlier termination of the Agreement or the Individual Water Sales Contracts.

The amount of water made available by San Francisco to the Wholesale Customers is subject to reduction, to the extent and for the period made necessary by reason of water shortage, Drought, Emergencies, or by malfunctioning or rehabilitation of facilities in the Regional Water System. The amount of water made available to the Wholesale Customers may not be reduced, however, merely because the water recycling and groundwater projects which WSIP envisions to be constructed within San Francisco, or the conservation programs intended to reduce water use by Retail Customers that are included in the WSIP, do not generate the yield or savings (10 MGD combined) anticipated by San Francisco.

Allocation of Supply Assurance

A portion of the Supply Assurance has been allocated among 24 of the 26 Wholesale Customers. Three Wholesale Customers do not have Individual Supply Guarantees. The cities of San José and Santa Clara do not have an Individual Supply Guarantee because San Francisco has provided water to them on a temporary and interruptible

basis. The City of Hayward does not have an Individual Supply Guarantee because of the terms of the 1962 contract between it and San Francisco.

If the total amount of water delivered by San Francisco to Hayward and to the Wholesale Customers with Individual Supply Guarantees exceeds 184 MGD over a period of three consecutive fiscal years (i.e., July 1 through June 30), then the Individual Supply Guarantees of those Wholesale Customers shall be reduced pro rata so that their combined entitlement and the sustained use by Hayward does not exceed 184 MGD.

It is the responsibility of each Wholesale Customer to limit its purchases of water from San Francisco so as to remain within its Individual Supply Guarantee. San Francisco is not liable to any Wholesale Customer or obligated to supply more water to any Wholesale Customer individually or to the Wholesale Customers collectively than the amount to which it or they are otherwise entitled under the Agreement due to the use by any Wholesale Customer of more water than the amount to which it is entitled under the Agreement.

San Francisco installs such new connections between the Regional Water System and the distribution system of any Wholesale Customer that are necessary to deliver the quantities of water to which the Wholesale Customer is entitled under the Agreement. San Francisco has the right to determine the location of such connections, in light of the need to maintain the structural integrity of the Regional Water System and, where applicable, the need to limit peaking directly off of Regional Water System pipelines by a Wholesale Customer's individual retail customers, the need to ensure that a Wholesale Customer's individual retail customers have access to alternative sources of water in the event of a reduction in San Francisco's ability to provide them with water, and other factors which may affect the desirability or undesirability of a particular location.

Wholesale Customer Service Areas

A Wholesale Customer may not deliver water furnished to it by San Francisco outside the boundary of its service area without the prior written consent of San Francisco, except for deliveries to another Wholesale Customer on an emergency and temporary basis. San Francisco may refuse a Wholesale Customer's request to expand its service area on any reasonable basis.

If two or more Wholesale Customers agree to adjust the boundaries of their respective service areas so that one assumes an obligation to serve customers in an area that was previously within the service area of another Wholesale Customer, they may also correspondingly adjust their respective Individual Supply Guarantees. Such adjustments require only the consent of San Francisco and the Wholesale Customers involved, so long as the Supply Assurance and the Individual Supply Guarantees of other Wholesale Customers are not affected.

San Francisco acknowledges that it has heretofore consented in writing to deliveries of water by individual Wholesale Customers outside their service area boundaries and agrees that nothing in the Agreement is intended to affect such prior authorizations, which remain in full force and effect according to their terms.

Permanent Transfers of Individual Supply Guarantees and Minimum Annual Purchase Quantities

A Wholesale Customer that has an Individual Supply Guarantee may transfer a portion of it to one or more other Wholesale Customers; transfers of a portion of an Individual Supply Guarantee must be permanent; and transfers of portions of Individual Supply Guarantees are subject to approval by the SFPUC. SFPUC review is limited to (1) whether a proposed transfer complies with the Act, and (2) whether the affected facilities in the Regional Water System have sufficient capacity to accommodate delivery of the increased amount of water to the proposed transferee.

Transfers of a portion of a Minimum Annual Purchase Quantity may be included in transfers of a portion of an Individual Supply Guarantee and are subject to the same requirements for Individual Supply Guarantee transfers as well as certain additional conditions.

Restrictions on Resale

Each Wholesale Customer agrees that it will not sell any water purchased from San Francisco to a private party for resale by such private party to others in violation of the Act.

Each Wholesale Customer also agrees that it will not sell water purchased from San Francisco to another Wholesale Customer without prior written approval of the SFPUC, except on a temporary and emergency basis. The SFPUC agrees that it will not unreasonably withhold its consent to a request by a Wholesale Customer to deliver water to another Wholesale Customer for resale.

Conservation; Use of Local Sources

Each Wholesale Customer shall take all actions within its legal authority related to water conservation that are necessary to insure that the SFPUC (a) remains eligible for (i) state and federal grants and (ii) access to the Drought Water Bank operated by the California Department of Water Resources, as well as other Drought-related water purchase or transfer programs, and (b) complies with future legal requirements imposed on the Regional Water System by the federal government, the State, or any other third party as conditions for receiving funding or water supply.

San Francisco and each Wholesale Customer agree that they will diligently apply their best efforts to use both surface water and groundwater sources located within their respective service areas and available recycled water to the maximum feasible extent, taking into account the environmental impacts, the public health effects and the effects on supply reliability of such use, as well as the cost of developing such sources.

Restrictions on Purchases of Water from Others; Minimum Annual Purchases

Each Wholesale Customer (except for Alameda County Water District and the cities of Milpitas, Mountain View and Sunnyvale) agrees that it will not contract for, purchase or receive, with or without compensation, directly or indirectly, from any person, corporation, governmental agency or other entity, any water for delivery or use within its service area without the prior written consent of San Francisco.

The prohibition in the preceding sentence does not apply to:

1. recycled water;
2. water necessary on an emergency and temporary basis, provided that the Wholesale Customer promptly gives San Francisco notice of the nature of the emergency, the amount of water that has been or is to be purchased, and the expected duration of the emergency; or
3. water in excess of a Wholesale Customer's Individual Supply Guarantee.

Alameda County Water District and the cities of Milpitas, Mountain View and Sunnyvale may purchase water from sources other than San Francisco, provided that San Francisco shall require that each purchase a minimum annual quantity of water from San Francisco. These Minimum Annual Purchase Quantities are set out in the Agreement and the Individual Water Sales Contracts between San Francisco and each of these four Wholesale Customers, and a portion of such a quantity may be transferred to another Wholesale Customer at the same time as a transfer of a portion of Individual Supply Guarantee. Certain Wholesale Customers may also be required to purchase Temporary Modified Minimum Annual Purchase Quantities from San Francisco.

Water Quality

San Francisco shall deliver treated water to Wholesale Customers (except Coastside County Water District, which receives untreated water from Crystal Springs and Pilarcitos Reservoirs) that complies with primary maximum contaminant level and treatment technique standards at the regulatory entry points designated in the San Francisco Regional Water System Domestic Water Supply Permit (currently Permit No. 02-04-04P3810001) issued by the California Department of Public Health.

Regional Water System Repair, Maintenance and Operation

San Francisco will keep the Regional Water System in good working order and repair consistent with prudent utility practice.

San Francisco will continue to operate its reservoirs in a manner that assigns higher priority to the delivery of water to the Bay Area and the environment than to the generation of electric power. The SFPUC, as the Regional Water System operator, is solely responsible for making day-to-day operational decisions.

Shortages

Notwithstanding San Francisco's obligations to deliver the Supply Assurance to the Wholesale Customers collectively and the Individual Supply Guarantees to Wholesale Customers individually, San Francisco may reduce the amount of water available or interrupt water deliveries to specific geographical areas within the Regional Water System service area to the extent that such reductions are necessary due to Emergencies, or in order to install, repair, rehabilitate, replace, investigate or inspect equipment in, or perform other maintenance work on, the Regional Water System. Such reductions or interruptions may be imposed by San Francisco without corresponding reductions or interruptions in the amount of water available to SFPUC water users outside the specific geographical area where reductions or interruptions are necessary, if the system's ability to supply water outside the specific geographical area has not been impaired. In the event of such a reduction or interruption, San Francisco will restore the supply of water to the specific geographical area as soon as is possible.

Following a major system emergency event, the SFPUC will work closely with its Wholesale Customers to monitor customer demand, including the demand source. In the event that any individual Wholesale Service Area or Retail Service Area customer's uncontrolled distribution system leaks could result in major water waste and endanger the supply provided by the Regional Water System as a whole, flow through some customer connections may need to be temporarily reduced or terminated. SFPUC will work closely with customers to assess the nature of the demand (e.g., fire-fighting versus leakage), so that public health and safety protection can be given top priority.

1. All emergencies that require use of non-potable source water will require use of chlorine, or other suitable disinfectant, if feasible.

2. San Francisco will use its best efforts to meet the seismic reliability and delivery reliability level of service goals adopted by the Commission in conjunction with the WSIP. San Francisco will distribute water on an equitable basis throughout the Regional Water System service area following a regional Emergency, subject to physical limitations caused by damage to the Regional Water System.

Notwithstanding San Francisco's obligations to deliver the Supply Assurance to the Wholesale Customers collectively and the Individual Supply Guarantees to Wholesale Customers individually, San Francisco may reduce the amount of water available to the Wholesale Customers in response to Drought.

1. The Tier 1 Shortage Plan set forth in the Agreement will continue to be used to allocate water from the Regional Water System between Retail and Wholesale Customers during system-wide shortages of 20% or less.

2. San Francisco and the Wholesale Customers may negotiate in good faith revisions to the Tier 1 Shortage Plan to adjust for and accommodate anticipated changes due to demand hardening in the SFPUC's Wholesale and Retail Service Areas. Until agreement is reached, the current Tier 1 Shortage Plan will remain in effect.

3. The SFPUC will honor allocations of water among the Wholesale Customers ("Tier 2 Allocations") provided by BAWSCA or if unanimously agreed to by all Wholesale Customers. If BAWSCA or all Wholesale Customers do not provide the SFPUC with Tier 2 Allocations, then the SFPUC may make a final allocation decision after first meeting and discussing allocations with BAWSCA and the Wholesale Customers. For Regional Water System shortages in excess of 20%, San Francisco shall (a) follow the Tier 1 Shortage Plan allocations up to the 20% reduction, (b) meet and discuss how to implement incremental reductions above 20% with the Wholesale Customers, and (c) make a final determination of allocations above the 20% reduction. After the SFPUC has made the final

allocation decision, the Wholesale Customers shall be free to challenge the allocation on any applicable legal or equitable basis.

4. San Francisco will use its best efforts to identify potential sources of dry year water supplies and establish the contractual and other means to access and deliver those supplies in sufficient quantity to meet a goal of not more than 20% system-wide shortage in any year of the design drought.

Wheeling of Water from Outside SFPUC System

Subject to the Wheeling Statute, the SFPUC will not deny use of Regional Water System unused capacity for wheeling when such capacity is available for wheeling purposes during periods when the SFPUC has declared a water shortage emergency under Water Code Section 350 if the following conditions are met:

A. The transferor pays reasonable charges incurred by the SFPUC as a result of the wheeling, including capital, operation, maintenance, administrative and replacement costs (as such are defined in the Wheeling Statute).

B. Wheeled water that is stored in the Regional Water System spills first.

C. Wheeled water will not unreasonably: (1) impact fish and wildlife resources in Regional Water System reservoirs; (2) diminish the quality of water delivered for consumptive uses; or (3) increase the risk of exotic species impairing Regional Water System operations. The transferor may at its own expense provide for treatment to mitigate these effects.

D. Priority will be given to wheeling by Wholesale Customers or BAWSCA over arrangements for third-party public entities.

Limits on New Customers

Until December 31, 2028, San Francisco will not enter into contracts to supply water to any entity other than a Wholesale Customer (whether permanent or temporary, firm or interruptible) unless:

1. It completes any necessary environmental review under CEQA of the proposed new wholesale water service obligations;

2. It concurrently completes any necessary environmental review under CEQA and commits to make both San José and Santa Clara permanent customers with Individual Supply Guarantees equal to at least 9 MGD; and

3. The Agreement is amended to incorporate any commitments to proposed new wholesale customers and to San José and Santa Clara, and to address the effects, if any, of the new customer(s) on water supply reliability, water quality and cost to existing customers of the Regional Water System.

As of January 1, 2029, San Francisco will not enter into contracts to supply water to any entity other than a Wholesale Customer (whether permanent or temporary, firm or interruptible) unless:

1. It completes any necessary environmental review under CEQA of the proposed new wholesale water service obligations;

2. It concurrently completes any necessary environmental review under CEQA and commits to make both San José and Santa Clara permanent customers with Individual Supply Guarantees equal to at least 9 MGD;

3. Doing so increases the reliability of the Regional Water System; and

4. The Agreement is concurrently amended (a) to reflect that increased reliability by means of an increased commitment by San Francisco to deliver water during Droughts and (b) to address the effects, if any, of the new customer(s) on water supply, water quality and cost to existing customers of the Regional Water System.

San Francisco may enter into new retail water service obligations outside of the City and County of San Francisco:

1. Only in Alameda, San Mateo, Santa Clara, San Joaquin and Tuolumne Counties;
 2. That are within or immediately adjacent to areas in which it currently serves other Retail Customers;
- and
3. Until the aggregate additional demand represented by the new retail customers reaches 0.5 MGD.

The limitations on serving new Retail Customers described in this subsection do not apply to historical obligations to supply water that may be contained in prior agreements between the SFPUC or its predecessor the Spring Valley Water Company, and individual users or property owners located adjacent to Regional Water System transmission pipelines.

Subject to completion of necessary environmental review under CEQA, San Francisco may at any time enter into water exchanges or cost sharing agreements with other water suppliers to enhance dry year or normal year water deliveries, provided that San Francisco cannot incur new water service obligations to such other water suppliers unless the requirements for taking on new wholesale customers are met.

New Sources of Water Supply to Maintain Supply Assurance

Sudden and unanticipated events may require San Francisco to act promptly to protect the health, safety and economic well-being of its Retail and Wholesale Customers. Such sudden events include, but are not limited to drought, earthquakes, terrorist acts, catastrophic failures of facilities owned and operated by San Francisco, and other natural or man-made events. If such events diminish San Francisco's ability to maintain the Supply Assurance, San Francisco may increase the Wholesale Revenue Requirement to pay for planning, evaluation and implementation of replacement sources of supply when such needs arise and without the prior approval of the Wholesale Customers.

Climate change, regulatory actions and other events may impact San Francisco's ability to maintain the Supply Assurance from its existing surface water supplies, but on timescales long enough to permit San Francisco to collaborate with its Wholesale Customers on how best to address possible impacts to water supply. If such events diminish San Francisco's ability to maintain the Supply Assurance, San Francisco may increase the Wholesale Revenue Requirement to pay for planning, evaluation and implementation of replacement sources of supply when such needs arise and without the prior approval of the Wholesale Customers.

New Sources of Water Supply to Increase Supply Assurance

San Francisco may offer to increase the Supply Assurance at the request of some or all of its Wholesale Customers. Costs associated with providing additional water from its existing water supplies in San Mateo, Santa Clara, Alameda, Tuolumne, and Stanislaus Counties shall be allocated to Wholesale and Retail Customers as described in the Agreement.

If San Francisco seeks to develop additional water supplies from new sources to increase the Supply Assurance available to Wholesale Customers, studies and resulting water supply projects will be conducted jointly with BAWSCA under separate agreement(s) specifying the purpose of the projects, the anticipated regional benefits and how costs of studies and implementation will be allocated and charged. Nothing in the Agreement shall serve as precedent for the allocation of such new supply capital costs between Retail and Wholesale Customers or associated operational expenses, which shall only occur following approval of both parties and amendment of the Agreement, if necessary.

Interim Supply Limitation Imposed by SFPUC

In adopting the WSIP in Res. No. 08-0200, the Commission included full implementation of all proposed WSIP capital improvement projects to achieve level of service goals relating to public health, seismic safety, and

delivery reliability, but decided to adopt a water supply element that includes the Interim Supply Limitation. The Interim Supply Limitation is allocated as follows between Retail and Wholesale Customers:

Retail Customers' allocation: 81 MGD
Wholesale Customers' allocation: 184 MGD

The Wholesale Customers' collective allocation of 184 MGD under the Interim Supply Limitation includes the demand of the cities of San José and Santa Clara, whose demand is not included in the Supply Assurance.

Transfers of Interim Supply Allocations

Any Wholesale Customer, including Hayward, may transfer a portion of its Interim Supply Allocation to one or more other Wholesale Customers. All Wholesale Customers are also eligible transferees, including California Water Service Company up to its Individual Supply Guarantee. Transfers of a portion of an Interim Supply Allocation must be prospective. The duration of a transfer cannot be less than the balance of the fiscal year. Transfers of portions of Interim Supply Allocations are subject to approval by the SFPUC. SFPUC review is limited to determining (1) whether a proposed transfer complies with the Act, and (2) whether the affected facilities in the Regional Water System have sufficient capacity to accommodate delivery of the increased amount of water to the proposed transferee.

Maintenance of Condition of Hetch Hetchy Reservoir

San Francisco may not change the existing condition of the Hetch Hetchy Reservoir by:

1. Abandoning or decommissioning O'Shaughnessy Dam; or
2. Draining Hetch Hetchy Reservoir, except for purposes of (i) repair, rehabilitation, maintenance, improvement, or reconstruction of O'Shaughnessy Dam or appurtenances, (ii) supplying water to the Bay Area during drought, or (iii) meeting water release requirements under the Raker Act, or federal or state law unless the parties enter into an amendment to the Water Supply Agreement.

Environmental Enhancement Surcharge

For the duration of the Interim Supply Limitation, the Commission will establish the Environmental Enhancement Surcharge concurrently with the budget-coordinated rate process set forth in the Agreement. The monetary amount of the Environmental Enhancement Surcharge per volume of water, such as dollars per acre-foot, will be equivalent for Retail Customer use in excess of 81 MGD and Wholesale Customer use in excess of 184 MGD.

The Environmental Enhancement Surcharge will be levied only if and when combined Retail Customer and Wholesale Customer purchases exceed the Interim Supply Limitation of 265 MGD and if the fund described below has been established by the San Francisco Board of Supervisors. In that event, the Environmental Enhancement Surcharge will apply to Retail Customers for use in excess of 81 MGD and to individual Wholesale Customers for use in excess of their Interim Supply Allocations established by the Commission.

1. Environmental Enhancement Surcharges related to the Retail Customers' use in excess of their 81 MGD Retail Customer Allocation will be paid by the SFPUC, and no portion of such surcharges may be allocated to Wholesale Customers. The method of recovering the Environmental Enhancement Surcharges imposed upon Retail Customers shall be within the sole discretion of the SFPUC.
2. Environmental Enhancement Surcharges related to the individual Wholesale Customers' use in excess of their respective Interim Supply Allocations will be paid to the SFPUC by individual Wholesale Customers.

Environmental Enhancement Surcharges paid by the SFPUC and by Wholesale Customers will be placed into a restricted reserve fund. The SFPUC will request the San Francisco Board of Supervisors to establish this fund by ordinance and, if adopted, the fund will be subject to the following restrictions:

1. Interest earnings will stay in the reserve fund.
2. The reserve fund shall (a) be subject to automatic appropriation; (b) require unexpended and unencumbered fund balances to be carried forward from year to year; and (c) not be transferred to the San Francisco General Fund.
3. The reserve fund may be used only for specific environmental restoration and enhancement measures for the Sierra and local watersheds, such as those included in the Watershed Environmental Improvement Program.
4. Environmental Enhancement Surcharge proceeds shall be expended in an expeditious manner. Any Environmental Enhancement Surcharge proceeds that remain in the reserve fund as of December 31, 2018 shall be used to complete projects previously approved. Upon completion of the identified projects, the balance of any unexpended sums in the reserve fund shall be distributed to BAWSCA and the SFPUC in proportion to the total amount of surcharges assessed to the Wholesale and Retail Customers, respectively.

Specific uses of Environmental Enhancement Surcharges will be decided by the SFPUC and BAWSCA General Managers following input from environmental stakeholders and other interested members of the public. If parties are unable to agree, then they will jointly select a third person to participate in making the decision.

San José/Santa Clara Interim Supply Allocation and Process for Reduction/ Termination.

San Francisco will supply a combined annual average of 9 MGD to the cities of San José and Santa Clara through 2028. Water supplied by San Francisco may only be used in the existing defined service areas in the northern portions of San José and Santa Clara. San Francisco may reduce the quantity of water specified in this section when it establishes the Interim Supply Allocations for Wholesale Customers. The establishment of Interim Supply Allocations for San José and Santa Clara shall not be considered a reduction of supply, provided that the Interim Supply Allocations assigned to San José and Santa Clara do not effect a reduction greater than the aggregate average reduction in Individual Supply Guarantees for Wholesale Customers that have such guarantees.

San Francisco Decisions in 2028 Regarding Future Water Supply

By December 31, 2028, San Francisco will have completed any necessary CEQA review that is relevant to making San José and Santa Clara permanent customers of the Regional Water System and will decide whether or not to make San José and Santa Clara permanent customers of the Regional Water System. San Francisco will make San José and Santa Clara permanent customers only if, and to the extent that, San Francisco determines that Regional Water System long term water supplies are available. In the event that San Francisco decides to afford permanent status to San José and Santa Clara, the Agreement will be amended.

By December 31, 2028, San Francisco will have completed any necessary CEQA review and will decide how much water if any, in excess of the Supply Assurance it will supply to Wholesale Customers from the Regional Water System to meet their projected future water demands until the year 2040, and whether to offer a corresponding increase in the Supply Assurance as a result of its determination.

Retained Discretion of SFPUC and Wholesale Customers

The Agreement contemplates discretionary actions that the SFPUC and the Wholesale Customers may choose to take in the future that could result in physical changes to the environment (“Discretionary Actions”). The Discretionary Actions include decisions to:

1. Develop additional or alternate water resources by the SFPUC or one or more Wholesale Customers;
2. Implement the physical facilities comprising the WSIP by December 30, 2021;
3. Approve wheeling proposals by Wholesale Customers;
4. Approve new wholesale customers and water exchange or cost sharing agreements with other water suppliers;
5. Provide additional water to San José and/or Santa Clara;
6. Offer permanent status to San José and/or Santa Clara;
7. Reduce or terminate supply to San José and/or Santa Clara;
8. Provide additional water to Wholesale Customers in excess of the Supply Assurance to meet their projected future water demands;
9. Offer a corresponding volumetric increase in the Supply Assurance; and
10. Implement Hetch Hetchy Water and Power projects listed in the Agreement.

Wholesale Revenue Requirement

The Agreement shall be applicable only to the water rates charged by San Francisco to the Wholesale Customers. Nothing contained in the Agreement shall limit, constrain, or in any way affect the rates which San Francisco may charge for water sold to Retail Customers or the methodology by which such rates are determined.

The Agreement sets forth the method by which the Wholesale Customers' collective share of expenses incurred by the SFPUC in delivering water to them will be determined.

The Agreement implements two general principles as follows: (1) the Wholesale Customers should not pay for expenses of SFPUC operations from which they receive no benefit and (2) the Wholesale Customers should pay their share of expenses incurred by the SFPUC in delivering water to them on the basis of Proportional Annual Use unless otherwise explicitly provided in the Agreement.

To implement these general principles, the Wholesale Revenue Requirement will consist of, and be limited to the Wholesale Customers' shares of the following categories of expense:

1. Contribution to the capital cost of Water Enterprise New Regional Assets.
2. Water Enterprise operation and maintenance expenses, including power purchased from the Hetch Hetchy Enterprise that is used in the operation of the Water Enterprise.
3. Water Enterprise administrative and general expenses.
4. Water Enterprise property taxes.
5. The Water Enterprise's share of the Hetch Hetchy Enterprise's operation and maintenance, administrative and general, and property tax expenses.
6. The Water Enterprise's share of the Hetch Hetchy Enterprise's capital cost of New Assets classified as Water-Only and the Water-Related portion of Joint Assets.

In each of these cost categories, Direct Retail Expenses will be allocated entirely to Retail Customers. Direct Wholesale Expenses will be allocated entirely to the Wholesale Customers. Regional Expenses will be allocated between Retail Customers and Wholesale Customers.

For purposes of establishing the rates to be charged Wholesale Customers, expenses will be based on the budget for, and estimates of water purchases in, the following fiscal year. For purposes of accounting, the Wholesale Revenue Requirement will be determined on the basis of actual expenses incurred and actual water use.

In addition, rates charged to Wholesale Customers may include the Wholesale Customers' contribution to a Wholesale Revenue Coverage Reserve, which is not included in the Wholesale Revenue Requirement itself.

Capital Cost Contribution – New Regional Assets

The Wholesale Customers shall pay the wholesale share of Net Annual Debt Service for new Regional Assets.

1. The amount of Net Annual Debt Service for New Regional Assets will be determined for each series of Indebtedness issued. Until the proceeds of a particular series are Substantially Expended, the amount attributable to specific projects will be based on the expected use of proceeds shown in the "Certificate Regarding Use of Proceeds" executed by the SFPUC General Manager on behalf of the Commission in connection with the sale of the Indebtedness.
2. After the proceeds of a series are Substantially Expended, the SFPUC General Manager will prepare and execute a certificate showing the actual expenditure of proceeds at an allocation of Net Debt Service to New Regional Assets for a series of bonds will be used in the fiscal year in which the proceeds have been Substantially Expended and thereafter.
3. The Wholesale Customers' share of Net Annual Debt Service for the New Regional Assets that are categorized as Direct Wholesale will be 100 percent. (None of the projects in the WSIP are categorized as Direct Wholesale.) The Wholesale Customers' share of Net Annual Debt Service for all other New Regional Assets will be determined each year and will be equal to the Wholesale Customers' Proportional Annual Use.
4. If Indebtedness is issued by the SFPUC to refund the 2006 Revenue Bonds, Series A or to refund any other long-term Indebtedness issued after July 1, 2009, the Net Annual Debt Service attributable to proceeds used for refunding will be allocated on the same basis as the Indebtedness being refunded.
5. In addition to Net Debt Service, Wholesale Customers will pay a proportionate share of annual administrative costs associated with Indebtedness, such as bond trustee fees, credit rating agency fees, letter of credit issuer fees, San Francisco Revenue Bond Oversight Committee fees, etc., but only to the extent such fees are neither paid from proceeds of Indebtedness nor included in SFPUC operation and maintenance or administrative and general expenses.

The Wholesale Customers shall pay the wholesale share of the appropriation contained in the SFPUC annual budget for each year to be used to acquire or construct New Regional Assets.

The Wholesale Customers' share of the annual appropriation for revenue-funded New Regional Assets that are categorized as Direct Wholesale will be 100 percent. The Wholesale Customers' share of the annual appropriation for all other revenue-funded New Regional Assets will be determined each year and will be equal to the Wholesale Customers' Proportional Annual Use in each fiscal year. The amount appropriated in each fiscal year for the wholesale share of New Regional Assets shall be contributed to the Wholesale Capital Fund.

Hetch Hetchy Enterprise Expenses

There are two steps involved in determining the amount of the Wholesale Customers' share of Hetch Hetchy Enterprise expenses.

1. The first step is to determine the Water Enterprise's share of Hetch Hetchy Enterprise operation expenses, maintenance expenses, administrative and general expenses, and property taxes.
2. The second step is to determine the Wholesale Customers' share of expenses allocable to the Water Enterprise.

The Water Enterprise's share of Hetch Hetchy Enterprise expenses consist of 100 percent of Water-Only expenses and the Water-Related portion (45%) of Joint expenses.

The Wholesale Customers' share of the sum of the Water Enterprise's share of Hetch Hetchy Enterprise expenses shall be calculated by multiplying that dollar amount by Adjusted Proportional Annual Use.

Wholesale Customers are also allocated a share of Hetch Hetchy Enterprise capital costs. The components of Hetch Hetchy Enterprise capital costs are as follows:

1. The Water Enterprise will be assigned 100 percent of Net Annual Debt Service attributable to acquisition and construction of New Hetch Hetchy Enterprise assets that are Water-Only and the Water-Related portion (45 percent) of Net Annual Debt Service on New Hetch Hetchy Enterprise Joint assets.
2. The Water Enterprise will be assigned 100 percent of capital expenditures from revenues for New Hetch Hetchy Enterprise assets that are Water-Only and the Water-Related portion (45 percent) of such expenditures for new Hetch Hetchy Enterprise Joint assets.

The Wholesale Customers' share of the Net Annual Debt Service and revenue funded capital expenditures shall be calculated by multiplying that dollar amount by Adjusted Proportional Annual Use.

Additional Agreements Related to Financial Issues

The Wholesale Customers have no entitlement to any of the following sources of revenue to the SFPUC.

1. Revenues from leases or sales of SFPUC real property.
2. Revenues from other utility services such as the sale of electric power, natural gas and steam.
3. Revenues from the sale of water to customers and entities other than the Wholesale Customers.
4. Revenues earned from the investment of SFPUC funds other than funds contributed by the Wholesale Customers to the Wholesale Revenue Coverage Reserve or the Wholesale Capital Fund. Wholesale Customers are also entitled to the benefit of earnings on proceeds of Indebtedness (through expenditure on New Regional Assets and /or application to Debt Service) and to interest on the Balancing Account.
5. Revenues not related to the sale of water.

The Wholesale Customers will not be charged with any of the following expenses:

1. Capital costs for assets constructed or acquired prior to July 1, 1984.

2. Expenses incurred by the SFPUC for generation and distribution of electric power, including Hetch Hetchy Enterprise Power-Only expenses and the Power-Related share of Hetch Hetchy Enterprise Joint expenses. An exception to this is Regional energy costs incurred by the Water Enterprise, for which Wholesale Customers are charged on the basis of Proportional Annual Use.
3. Expenses incurred by SFPUC in providing water to Retail Customers.
4. Expenses associated with the SFPUC's accruals or allocations for uncollectible Retail Water accounts.
5. Attorneys' fees and costs incurred by the Wholesale Customers that a court of competent jurisdiction orders San Francisco to pay as part of a final, binding judgment against San Francisco.
6. Any expenses associated with funding any reserves (other than the required Wholesale Revenue Coverage Reserve) accrued and not anticipated to be paid within one year unless such reserve is established by mutual agreement of the SFPUC and BAWSCA.
7. Any expenses accrued in respect to pending or threatened litigation, damage or personal injury claims or other loss contingencies unless projected to be paid within one year. Otherwise, such expenses will be charged to the Wholesale Customers when actually paid.
8. Any expenses associated with installing, relocating, enlarging, removing or modifying meters and service connections at the request of an individual Wholesale Customer.
9. The Retail Customers' portion of any Environmental Enhancement Surcharges imposed to enforce the Interim Supply Limitation.

The following payments by Wholesale Customers, individually or collectively, are not credited as Wholesale revenues.

1. Payments by individual Wholesale Customers of the Environmental Enhancement Surcharge imposed to enforce the Interim Supply Limitation.
2. Payments of attorneys' fees and costs incurred by San Francisco that a court of competent jurisdiction orders the Wholesale Customers to pay as part of a final, binding judgment against the Wholesale Customers.
3. Payments by individual Wholesale Customers for installation, relocation, enlargement, removal or modification of meters and service connections requested by, and charged to, a Wholesale Customer.
4. Payments applied to the amortization of the ending balance in the balancing account under the 1984 Agreement.
5. Payments of the Water Management Charge which are delivered to BAWSCA.
6. Payments directed to the Wholesale Revenue Coverage Reserve.
7. Prepayments of certain capital and revenues payment.

The Wholesale Customers will receive a proportional benefit from funds received by the SFPUC from (a) governmental grants, rebates, reimbursements or other subventions, (b) private-sector grants for Regional capital or operating purposes of the Water Enterprise and the Water-Only and Water-related portion of Joint Hetch Hetchy Water Enterprise expenses, or (c) a SFPUC use of taxable bonds.

The Wholesale Customers will receive a proportionate benefit from recovery of damages, including liquidated damages, by SFPUC from judgments against or settlements with contractors, suppliers, sureties, etc., related to Regional Water System projects and the Water-Only and Water-Related portion of Joint Hetch Hetchy Enterprise projects.

The SFPUC will continue to charge Wholesale Customers for assets acquired or constructed with proceeds of Indebtedness on which Wholesale Customers paid Debt Service during the Term of the Agreement on the “cash” basis (as opposed to the “utility” basis) after the expiration or earlier termination of the Agreement.

Rate Adjustments

Adjustments to the rates applicable to the Wholesale Customers, other than emergency rate increases and drought rate increases, shall be coordinated with the budget development process described in the Agreement.

The Commission may adjust the Wholesale Customers’ rates in response to an Emergency that damages the Regional Water System and disrupts San Francisco’s ability to maintain normal deliveries of water to Retail and Wholesale Customers. In such an Emergency, the Commission may adopt an emergency rate surcharge applicable to Wholesale Customers without following the budgeting procedures set forth in the Agreement, provided that any such rates surcharge imposed by the Commission shall be applicable to both Retail and Wholesale Customers and incorporate the same percentage increase for all customers. Any emergency rate surcharge adopted by the Commission shall remain in effect only until the next-budget coordinated rate-setting cycle.

If the Commission declares a water shortage emergency under Water Code Section 350, implements the Tier 1 Shortage Plan and imposes drought rates on Retail Customers, it may concurrently adjust wholesale rates independently of coordination with the annual budget process. Those adjustments may be designed to encourage water conservation and may constitute changes to the structure of the rates. Drought Rate payments and payments of excess use charges levied in accordance with the Tier 1 Shortage Plan constitute Wholesale Customer Revenue and count towards the Wholesale Revenue Requirement. The SFPUC may use these revenues to purchase additional water for the Wholesale Customers from the State Drought Water Bank or other willing seller.

Rate Structure

The Agreement is not intended and shall not be construed to limit the Commission’s right (a) to adjust the structure of the rate schedule applicable to the Wholesale Customers (i.e., the relationship among the several charges set out therein) or (b) to add, delete, or change the various charges which make up the rate schedule, provided that neither such charges nor the structure of the rate schedule(s) applicable to the Wholesale Customers shall be arbitrary, unreasonable, or unjustly discriminatory as among said customers. The SFPUC will give careful consideration to proposals for changes in the rate schedule made jointly by the Wholesale Customers but, subject to the limitations set out above, shall retain the sole and exclusive right to determine the structure of the rate schedule.

The SFPUC may recommend, and the Commission may adopt, changes in the structure of wholesale rates at any time. However, the new rate schedule implementing these changes will become effective at the beginning of the following fiscal year.

Balancing Account

After the close of each fiscal year, the SFPUC will compute the costs allocable to the Wholesale Customers for that fiscal year based on actual costs incurred by the SFPUC and actual amounts of water used by the Wholesale Customers and the Retail Customers. That amount will be compared to the amounts billed to the Wholesale Customers for that fiscal year (including any Excess Use Charges, but excluding revenues not credited to the Wholesale Revenue Requirement). The difference will be posted to a “balancing account” as a credit to, or charge against, the Wholesale Customers. Interest shall also be posted to the balancing account calculated by multiplying the amount of the opening balance by the average net interest rate, certified by the Controller as earned in the San Francisco Treasury for the previous fiscal year on the San Francisco County Pooled Investment Account. Interest, when posted, will carry the

same mathematical sign (whether positive or negative) as carried by the opening balance. The amount posted to the balancing account in each year shall be added to, or subtracted from, the balance in the account from previous years.

If the amount in the balancing account is owed to the Wholesale Customers (a positive balance), the SFPUC shall take it into consideration in establishing wholesale rates. However, the SFPUC need not apply the entire amount to reduce wholesale rates for the immediately ensuing year. Instead, the SFPUC may prorate a positive ending balance over a period of up to three successive years in order to avoid fluctuating decreases and increases in wholesale rates.

If the amount in the balancing account is owed to the SFPUC (a negative balance), the SFPUC shall not be obligated to apply all or any part of the negative balance in establishing wholesale rates for the immediately ensuing year. Instead, the SFPUC may prorate the negative balance in whole or in part over multiple years in order to avoid fluctuating increases and decreases in wholesale rates.

Wholesale Revenue Coverage Reserve

The SFPUC may include in wholesale rates for any fiscal year an additional dollar amount (“Wholesale Revenue Coverage”), which for any fiscal year shall equal the following:

1. The lesser of (i) 25% of the Wholesale Customers’ share of Net Annual Debt Service for that fiscal year, or (ii) the amount necessary to meet the Wholesale Customers’ proportionate share of Debt Service coverage required by then-current Indebtedness for that fiscal year, minus
2. A credit for (i) the actual amount previously deposited in the “Wholesale Revenue Coverage Reserve,” (ii) accrued interest on the amounts on deposit in the Wholesale Revenue Coverage Reserve, and (iii) an amount equal to any additional interest that would have accrued on the actual amounts previously deposited in the Wholesale Revenue Coverage Reserve assuming no withdrawals had been made therefrom.

During each fiscal year, the SFPUC will set aside and deposit that portion of revenue equal to Wholesale Revenue Coverage into a separate account that the SFPUC will establish and maintain, to be known as the “Wholesale Revenue Coverage Reserve.” Deposits into the Wholesale Revenue Coverage Reserve shall be made no less frequently than monthly. The Wholesale Revenue Coverage Reserve shall be credited with interest. The SFPUC may use amounts in the Wholesale Revenue Coverage Reserve for any lawful purpose. Any balance in the Wholesale Revenue Coverage Reserve in excess of the Wholesale Revenue Coverage amount as of the end of any fiscal year shall be applied as a credit against wholesale rates in the immediately following fiscal year unless otherwise directed by BAWSCA.

If, prior to expiration of the Term, the SFPUC determines that it would be in the best financial interest of both Retail Customers and Wholesale Customers of the Regional Water System for the Debt Service coverage requirement to be increased in one or more series of proposed new Indebtedness above 125%, or for the coverage covenant to be strengthened in other ways, it will provide a written report to BAWSCA. The report will contain (1) a description of proposed covenant(s) in the bond indenture; (2) an explanation of how savings are expected to be achieved (e.g., increase in the SFPUC’s credit rating over the then-current level; ability to obtain credit enhancement, etc.); (3) the estimated all-in true interest cost savings; (4) a comparison of the Wholesale Revenue Requirements using the Debt Service coverage limitation and under the proposed methodology; and (5) a comparison of the respective monetary benefits expected to be received by both Retail and Wholesale Customers. The SFPUC and BAWSCA agree to meet and confer in good faith about the proposed changes.

Any increase in Debt Service coverage proposed by the SFPUC shall be commensurate with Proportional Water Use by Retail and Wholesale Customers. If the SFPUC demonstrates that an increase in Debt Service coverage will result in equivalent percentage reductions in total Wholesale and Retail Debt Service payments over the life of the proposed new Indebtedness, based on Proportional Water Use, BAWSCA may agree to a modification of the Wholesale Revenue Coverage requirement. If BAWSCA does not agree to a proposed modification in coverage requirements in the covenants for new Indebtedness, SFPUC may nevertheless proceed with the modification and the issuance of new Indebtedness. Any Wholesale Customer, or BAWSCA, may challenge an increase in the Wholesale Revenue Requirement resulting from the modification in Debt Service coverage through arbitration. If the arbitrator

finds that the increase in Debt Service coverage (1) did not and will not result in equivalent percentage reductions in total Wholesale and Retail Debt Service payments over the life of the proposed new Indebtedness, based on Proportional Water Use, or (2) was not commensurate with Proportional Water Use, the arbitrator may order the Wholesale Revenue Requirement to be recalculated both retrospectively and prospectively to eliminate the differential impact to Wholesale or Retail Customers.

Working Capital Requirement

The SFPUC maintains working capital in the form of unappropriated reserves for the purpose of bridging the gap between when the SFPUC incurs operating expenses required to provide service and when it receives revenues from its Retail and Wholesale Customers. The Wholesale Customers shall fund their share of working capital as part of the annual Wholesale Revenue Requirement calculation. The amount of wholesale working capital for which the Wholesale Customers will be responsible will be determined using the 60-day standard formula approach.

Applying this approach, annual wholesale working capital equals one-sixth of the wholesale allocation of operation and maintenance, administrative and general, and property tax expenses for the Water and Hetch Hetchy Enterprises. Wholesale working capital shall be calculated separately for the Water and Hetch Hetchy Enterprises.

Wholesale Capital Fund

The SFPUC shall establish a comparable Wholesale Revenue-Funded Capital Fund (Wholesale Capital Fund) to enable the Wholesale Customers to fund the wholesale share of revenue-funded New Regional Assets. The SFPUC may include in wholesale rates for any fiscal year an amount equal to the wholesale share of the SFPUC's appropriation for revenue funded New Regional Assets for that year, which sum will be credited to the Wholesale Capital Fund. The wholesale share of other sources of funding, where legally permitted and appropriately accounted for under GAAP, will also be credited to the Wholesale Capital Fund, together with interest earnings on the Wholesale Capital Fund balance.

The SFPUC will expend revenues appropriated and transferred to the Wholesale Capital Fund only on New Regional Assets.

In order to prevent the accumulation of an excessive unexpended and unencumbered surplus in the Wholesale Capital Fund, any excess fund balance will be transferred for the credit of the Wholesale Customers to the Balancing Account.

Arbitration and Judicial Review

All questions or disputes arising under the following subject areas shall be subject to mandatory, binding arbitration and shall not be subject to judicial determination:

1. the determination of the Wholesale Revenue Requirement, which shall include both the calculations used in the determination and the variables used in those calculations;
2. the SFPUC's adherence to accounting practices and conduct of the compliance audit; and
3. the SFPUC's classification of new assets for purposes of determining the Wholesale Revenue Requirement.

All other questions or disputes arising under this Agreement shall be subject to judicial determination. Disputes about the scope of arbitrability shall be resolved by the courts.

Preservation of Water Rights; Notice of Water Rights Proceedings

It is the intention of San Francisco to preserve all of its water rights, irrespective of whether the water held under such water rights is allocated under the Agreement. Nothing in the Agreement shall be construed as an abandonment, or evidence of an intent to abandon, any of the water rights that San Francisco presently possesses.

Reservations of, and Limitations on, Claims

The 1984 Agreement resolved a civil action brought against San Francisco by certain of the Wholesale Customers. Plaintiffs in that action contended that they, and other Wholesale Customers that are municipalities or special districts, were “co-grantees” within the meaning of Section 8 of the Act and were entitled to certain rights, benefits and privileges by virtue of that status. San Francisco disputed those claims.

Nothing in the Agreement, or in the Individual Water Sales Contracts, shall be construed or interpreted in any way to affect the ultimate resolution of the controversy between the Parties concerning whether any of the Wholesale Customers are “co-grantees” under the Act and, if so, what rights, benefits and privileges accrue to them by reason of that claimed status.

The following claims, which San Francisco disputes, are reserved but may not be asserted during the Term (or portions thereof, as indicated):

1. The Wholesale Customers’ claim that the Act entitles them to water at cost.
2. The Wholesale Customers’ claim that San Francisco is obligated under the Act or state law to supply them with additional water in excess of the Supply Assurance. This claim may not be asserted unless and until San Francisco decides not to meet projected water demands of Wholesale Customers in excess of the Supply Assurance.
3. The claim by San José and Santa Clara that they are entitled under the Act, or any other federal or state law, to permanent, non-interruptible status and to be charged rates identical to those charged other Wholesale Customers. This claim may not be asserted unless and until San Francisco notifies San José or Santa Clara that it intends to interrupt or terminate water deliveries.
4. The Wholesale Customers’ claim that the SFPUC is not entitled to impose a surcharge for lost power generation revenues attributable to furnishing water in excess of the Supply Assurance. This claim may not be asserted unless and until SFPUC furnishes water in excess of the Supply Assurance during the Term and also includes such a surcharge in the price of such water.
5. Claims by Wholesale Customers (other than San José and Santa Clara, whose service areas are fixed) that SFPUC is obligated under the Act or state law to furnish water, within their Individual Supply Guarantee, for delivery to customers outside their existing service area and that Wholesale Customers are entitled to enlarge their service areas to supply those customers. Such claims may be asserted only after SFPUC’s denial of, or failure for six months to act on, a written request by a Wholesale Customer to expand its service area.

The Wholesale Customers (and the SFPUC, where specified) will refrain from the following activities during the Term (or portions thereof, as specified):

1. The Wholesale Customers and the SFPUC will not contend before any court, administrative agency or legislative body or committee that the methodology for determining the Wholesale Revenue Requirement (or the requirements for (a) amortization of the ending balance under the 1984 Agreement, or (b) contribution to the Wholesale Revenue Coverage) determined in accordance with the Agreement violates the Act or any other provision of federal law, state law, or San Francisco’s City Charter, or is unfair, unreasonable or unlawful.

2. The Wholesale Customers will not challenge the transfer of funds by the SFPUC to any other San Francisco City department or fund, provided such transfer complies with the San Francisco City Charter. The transfer of its funds, whether or not permitted by the City Charter, will not excuse the SFPUC from its failure to perform any obligation imposed by the Agreement.
3. The Wholesale Customers and the SFPUC will not assert monetary claims against one another based on the 1984 Agreement other than otherwise arbitral claims arising from the three fiscal years immediately preceding the start of the Term (i.e., Fiscal Years 2006-07, 2007-08 and 2008-09).

The Wholesale Customers do not, by executing the Agreement, concede the legality of the SFPUC's establishing Interim Supply Allocations or imposing Environmental Enhancement Surcharges on water use in excess of such allocations. Any Wholesale Customer may challenge such allocation when imposed and/or such surcharges if and when levied, in any court of competent jurisdiction.

The furnishing of water in excess of the Supply Assurance by San Francisco to the Wholesale Customers shall not be deemed or construed to be a waiver by San Francisco of its claim that it has no obligation under any provision of law to supply such water to the Wholesale Customers, nor shall it constitute a dedication by San Francisco to the Wholesale Customers of such water.

Prohibition of Assignment

The Agreement shall be binding on, and shall inure to the benefit of, the Wholesale Customers and San Francisco, and their respective successors and permitted assigns. Each Wholesale Customer agrees that it will not transfer or assign any rights or privileges under the Agreement, either in whole or in part, or make any transfer of all or any part of its water system or allow the use thereof in any manner whereby any provision of the Agreement will not continue to be binding on it, its assignee or transferee, or such use of the system. Any assignment or transfer in violation of this covenant, and any assignment or transfer that would result in the supply of water in violation of the Act, shall be void.

Nothing shall prevent any Wholesale Customer (except the California Water Service Company and Stanford) from entering into a joint powers agreement or a municipal or multi-party water district with any other Wholesale Customer (except the two listed above) to exercise the rights and obligations granted to and imposed upon the Wholesale Customers hereunder, nor shall this section prevent any Wholesale Customer (except the two listed above) from succeeding to the rights and obligations of another Wholesale Customer hereunder as long as the Wholesale Service Area served by the Wholesale Customers involved in the succession is not thereby enlarged.

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APPENDIX C

SFPUC WATER ENTERPRISE FINANCIAL STATEMENTS

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**Delivering High-Quality
Water Every Day.**



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

Water Enterprise

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

SAN FRANCISCO WATER ENTERPRISE

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	17
Statements of Revenues, Expenses, and Changes in Net Position	19
Statements of Cash Flows	20
Notes to Financial Statements	22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	84

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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



Walnut Creek, California
November 12, 2024

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

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

Organization and Business

The San Francisco Public Utilities Commission (SFPUC or the Commission) is a department of the City and County of San Francisco (the City) that is responsible for the maintenance, operation, and development of three utility enterprises: Water (the Enterprise), Hetch Hetchy Water and Power and CleanPowerSF, and Wastewater. The Enterprise collects, transmits, treats, and distributes high-quality drinking water to a total population of approximately 2.7 million people, including retail customers in the City and wholesale customers located in San Mateo, Santa Clara, and Alameda Counties. The Enterprise sold approximately 174 million gallons of water per day in the year ended June 30, 2024. Approximately 70% of the water delivered by the Enterprise is to wholesale customers. Retail customers use the remaining 30% and are primarily San Francisco consumers, including residential, commercial, industrial, and governmental users. Wholesale customers include cities, water districts, one private utility, and one non-profit university. Service to these customers is provided pursuant to the 25-year Amended and Restated Water Supply Agreement (WSA), commenced on July 1, 2009, which established the basis for determining the costs of wholesale service.

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 as of 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.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2024

- Total assets exceeded total liabilities by \$641,038.
- Net position increased by \$57,575 or 8.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by \$125,515 or 2.2% to \$5,778,467.
- Current and other assets increased by \$174,613 or 25.3% mainly due to increases of reimbursements receivable relating to the Mountain Tunnel Improvement project for Clean Water State Revolving Funds (SRF) Loans and restricted cash from the issuances of the 2023 Series AB and 2023 Series CD bonds.
- Operating revenues decreased by \$14,201 or 2.1% to \$676,890.
- Operating expenses increased by \$69,103 or 15.0% to \$529,356.

Financial Highlights for Fiscal Year 2023

- Total assets exceeded total liabilities by \$565,858.
- Net position increased by \$58,646 or 9.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization increased by \$30,969 or 0.6% to \$5,652,952.
- Current and other assets decreased by \$99,872 or 12.6% mainly due to bond principal and interest payments, capital project expenses, and payments for salaries.
- Operating revenues increased by \$117,974 or 20.6% to \$691,091.
- Operating expenses increased by \$58,489 or 14.6% to \$460,253.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Financial Position

The following table summarizes the Enterprise's net position.

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

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Total assets:					
Current and other assets	\$ 865,690	691,077	790,949	174,613	(99,872)
Capital assets, net of accumulated depreciation and amortization	5,778,467	5,652,952	5,621,983	125,515	30,969
Total assets	6,644,157	6,344,029	6,412,932	300,128	(68,903)
Deferred outflows of resources:					
Unamortized loss on refunding of debt	89,186	124,635	139,481	(35,449)	(14,846)
Pensions	93,526	70,101	52,852	23,425	17,249
Other postemployment benefits	29,974	28,616	32,445	1,358	(3,829)
Total deferred outflows of resources	212,686	223,352	224,778	(10,666)	(1,426)
Liabilities:					
Current liabilities:					
Revenue bonds	138,140	135,095	125,285	3,045	9,810
Certificates of participation	3,402	3,267	3,138	135	129
Commercial paper	190,000	—	206,297	190,000	(206,297)
State revolving fund loans	—	—	3,283	—	(3,283)
Other liabilities	148,337	148,547	182,349	(210)	(33,802)
Subtotal current liabilities	479,879	286,909	520,352	192,970	(233,443)
Long-term liabilities:					
Revenue bonds	4,826,497	4,575,751	4,735,650	250,746	(159,899)
Certificates of participation	85,830	89,232	92,499	(3,402)	(3,267)
Commercial paper	—	371,459	—	(371,459)	371,459
State revolving fund loans	259,970	163,627	118,478	96,343	45,149
Arbitrage rebate payable	869	—	—	869	—
Other liabilities	350,074	291,193	218,669	58,881	72,524
Subtotal long-term liabilities	5,523,240	5,491,262	5,165,296	31,978	325,966
Total liabilities:					
Revenue bonds	4,964,637	4,710,846	4,860,935	253,791	(150,089)
Certificates of participation	89,232	92,499	95,637	(3,267)	(3,138)
Commercial paper	190,000	371,459	206,297	(181,459)	165,162
State revolving fund loans	259,970	163,627	121,761	96,343	41,866
Arbitrage rebate payable	869	—	—	869	—
Other liabilities	498,411	439,740	401,018	58,671	38,722
Total liabilities	6,003,119	5,778,171	5,685,648	224,948	92,523
Deferred inflows of resources:					
Unamortized gain on refunding of debt	31,854	—	—	31,854	—
Pensions	13,305	28,504	248,704	(15,199)	(220,200)
Leases	36,583	41,558	44,583	(4,975)	(3,025)
Other postemployment benefits	22,334	27,075	25,348	(4,741)	1,727
Total deferred inflows of resources	104,076	97,137	318,635	6,939	(221,498)
Net position:					
Net investment in capital assets	350,430	460,213	512,313	(109,783)	(52,100)
Restricted for debt service	44,724	14,625	14,671	30,099	(46)
Restricted for capital projects	200,632	56,822	17,085	143,810	39,737
Restricted for other purposes	—	—	100,407	—	(100,407)
Unrestricted	153,862	160,413	(11,049)	(6,551)	171,462
Total net position	\$ 749,648	692,073	633,427	57,575	58,646

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Net Position, Fiscal Year 2024

For the period ended June 30, 2024, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$749,648. Total net position increased from prior year by \$57,575 or 8.3% (see Table 1). Increases of \$289,462 in assets and deferred outflows of resources, and increases of \$231,887 in liabilities and deferred inflows of resources are described below.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interest and lease receivables, interfund receivables due from other governmental agencies, prepaids, and inventory.

During the fiscal year 2024, current and other assets increased by \$174,613 or 25.3%. The increases included \$93,433 for reimbursements receivable from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the SF Westside Recycled Water and the Mountain Tunnel Improvement projects, \$53,237 in restricted and unrestricted cash and investments mainly due to the issuances of Series 2023 Series AB and 2023 Series CD bonds, \$16,069 in Wholesale Balancing Account receivable (see Note 11 for details), \$15,531 in charges for services receivable due to more billings than collections and adopted rate increases of 9.7% for wholesale customers and 5.0% for retail customers, \$1,264 in interest receivable mainly due to higher interest rates, \$505 in notes receivable from the sale of the Balboa Reservoir due to interest accruals, \$366 due from other governments for a Federal Emergency Management Agency disaster cost recovery relating to the 2020 Wildfires Santa Clara Fence project, and \$275 in restricted interest and other receivables mainly due to increases in capacity fees. These increases were offset by decreases of \$4,567 in leases receivable due to payments received, \$1,121 in prepaid expenses of multiple software licensing and membership fees, \$366 in inventory due to more issuances than purchases during the fiscal year, and \$13 for custom work projects due from the Department of Public Works (DPW).

Capital assets, net of accumulated depreciation and amortization, increased by \$125,515 or 2.2% mainly from the San Joaquin Pipeline Valve and Safe Entry Improvement and Mountain Tunnel Improvement projects. The largest portion of the Enterprise's net position of \$350,430 or 46.7% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by \$109,783 or 23.9% from prior year's \$460,213. The change was explained by an increase of \$235,298 in liabilities mainly from the issuances of 2023 Series AB and 2023 Series CD bonds, and additional State Revolving Funds Loans relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, offset by an increase of \$125,515 in capital assets mainly from additional assets placed into service.

Deferred outflows of resources decreased by \$10,666 due to a decrease of \$35,449 in unamortized loss on refunding of debt mainly from defeasance of refunding loss by the 2023 Series CD revenue refunding bonds, offset by increases of \$23,425 from pensions and \$1,358 in OPEB benefits based on actuarial estimates.

Total liabilities increased by \$224,948 which was due to increases of \$253,791 in outstanding revenue bonds mainly from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, \$96,343 in SRF Loans payable due to additional loans relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, \$37,300 in pensions based on actuarial estimates, \$9,700 in OPEB liabilities based on actuarial estimates, \$6,442 in interest payable mainly from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, \$3,148 in damage claims based on actuarial reports, \$2,055 in accrued payroll, vacation and sick leave based on unused leave and a 4.75% cost-of-living adjustment, \$1,715 in restricted and unrestricted payables due to higher year end

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

expense accruals for operating activities as compared to prior year, \$1,267 in accrued workers' compensation based on actuarial estimates, \$1,073 in unearned revenues mainly for the water utility California state arrearages relief grant received, and \$869 in arbitrage rebate payable mainly for the 2023 Series A bonds. These increases were offset by decreases of \$181,459 in commercial paper from refunding by the 2023 Series AB revenue bonds, \$3,267 in certificates of participation from repayment and amortization of premium, \$2,440 payment to San Francisco Municipal Transportation Agency (MTA) for a settlement payable relating to the Van Ness Corridor Transit Improvement project, \$1,189 in leases liability due to payments in the current year, and \$400 in subscription liability from payments in the current year.

Deferred inflows of resources increased by \$6,939 due to an increase of \$31,854 in unamortized gain on refunding of debt from the issuance of 2023 Series CD revenue refunding bonds, offset by decreases of \$15,199 related to pensions based on actuarial estimates, \$4,975 in leases due to fewer leases, and \$4,741 in OPEB benefits based on actuarial estimates.

Net Position, Fiscal Year 2023

For the period ended June 30, 2023, the Enterprise's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$692,073. Total net position increased from prior year by \$58,646 or 9.3% (see Table 1). The increase in net position was the result of a decrease of \$128,975 in liabilities and deferred inflows of resources offset by a decrease of \$70,329 in assets and deferred outflows of resources.

Current and other assets are primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interest and lease receivables, interfund receivables due from other governmental agencies, prepaids, and inventory.

During the fiscal year 2023, current and other assets decreased by \$99,872 or 12.6%. The decreases included \$100,407 in restricted net pension asset based on actuarial estimates, \$45,106 in restricted and unrestricted cash and investments mainly due to debt principal and interest payments, capital projects spending, payments for salaries and goods and services, \$6,625 in prepaid expenses of multiple software licensing and membership fees, \$2,535 in lease receivable due to lease payments received, \$632 in restricted interest and other receivables mainly due to capacity fees, and \$63 mainly for custom work projects due from the Department of Public Works (DPW). These decreases were offset by increases of \$28,594 for a reimbursement receivable from the State Water Resources Control Board (SWRCB) State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, \$11,007 in notes receivable from the sale of the Balboa Reservoir, \$10,052 in Wholesale Balancing Account receivable (see Note 11 for details), \$2,249 in interest receivable mainly due to higher interest rates, \$2,205 in charges for services receivable mainly due to a 15.9% rate increase for wholesale customers beginning July 1, 2022, and \$1,389 in inventory due to more purchases than issuances during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by \$30,969 or 0.6% mainly due to Mountain Tunnel Improvement and SF Westside Recycled Water projects. The largest portion of the Enterprise's net position of \$460,213 or 66.5% represents net investment in capital assets (see Capital Assets section of the MDA for more information), which decreased by \$52,100 or 10.2% from prior year's \$512,313. The change was explained by an increase of \$83,069 in liabilities related to capital assets mainly from State Revolving Funds Loan relating to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, offset by a \$30,969 increase in capital assets mainly from increased buildings, structures and improvements.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Deferred outflows of resources decreased by \$1,426 due to decreases of \$14,846 from amortization for unamortized loss on refunding and \$3,829 in OPEB obligations based on actuarial estimates, offset by an increase of \$17,249 from pensions based on actuarial estimates.

Total liabilities increased by \$92,523, which was due to increases of \$165,162 in commercial paper from additional principal issuances, \$115,343 in pensions based on actuarial reports, \$41,866 in SRF loan payable due to additional loans related to the Mountain Tunnel Improvement and SF Westside Recycled Water projects, \$15,329 in restricted and unrestricted payables due to higher year end expense accruals for capital projects as compared to prior year, \$4,486 in OPEB obligations based on actuarial estimates, \$2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project, \$1,168 in accrued payroll, vacation and sick leave due to cost of living adjustments and unused leave, \$1,147 in lease liability from additional leases, and \$762 in workers' compensation based on actuarial estimates. These increases were offset by decreases of \$150,089 in outstanding revenue bonds from \$125,284 in bond repayment, \$24,813 in bond premium amortization, offset by \$8 in bond discount amortization, \$79,150 in the Wholesale Balancing Account liability (see Note 11 for details), \$16,444 in general liability based on actuarial report, \$5,160 in unearned revenues mainly from lower custom work deposits and reduced Bay Area Water Supply and Conservation Agency (BAWSCA) Bond Surcharges, \$3,138 in certificates of participation from \$3,124 in principal repayment and \$14 in amortization of premium, \$848 in subscription liabilities from the implementation of GASB Statement No. 96 – SBITAs, and \$351 in interest payable from lower outstanding revenue bonds.

Deferred inflows of resources decreased by \$221,498 due to decreases of \$220,200 related to pensions based on actuarial estimates and \$3,025 in leases based on Controller's Office GASB 87 lease calculations, offset by an increase of \$1,727 in OPEB obligations based on actuarial estimates.

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
June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	\$ 650,233	661,241	539,526	(11,008)	121,715
Rents and concessions	8,556	13,282	13,765	(4,726)	(483)
Other operating revenues	18,101	16,568	19,826	1,533	(3,258)
Interest and investment income (loss)	25,097	11,156	(10,896)	13,941	22,052
Other non-operating revenues	42,071	40,679	41,871	1,392	(1,192)
Total revenues	<u>744,058</u>	<u>742,926</u>	<u>604,092</u>	<u>1,132</u>	<u>138,834</u>
Expenses:					
Operating expenses	529,356	460,253	401,764	69,103	58,489
Interest expenses	222,055	214,913	213,681	7,142	1,232
Amortization of premium, discount, refunding loss, and issuance costs	(13,825)	(9,971)	(9,875)	(3,854)	(96)
Non-operating expenses	1,760	1,775	828	(15)	947
Total expenses	<u>739,346</u>	<u>666,970</u>	<u>606,398</u>	<u>72,376</u>	<u>60,572</u>
Change in net position before capital contributions and transfers	<u>4,712</u>	<u>75,956</u>	<u>(2,306)</u>	<u>(71,244)</u>	<u>78,262</u>
Capital contributions	53,599	2,717	—	50,882	2,717
Transfers from the City and County of San Francisco	505	5	15,035	500	(15,030)
Transfers to the City and County of San Francisco	(1,241)	(20,032)	(30,666)	18,791	10,634
Capital contributions and net transfers	<u>52,863</u>	<u>(17,310)</u>	<u>(15,631)</u>	<u>70,173</u>	<u>(1,679)</u>
Change in net position	<u>57,575</u>	<u>58,646</u>	<u>(17,937)</u>	<u>(1,071)</u>	<u>76,583</u>
Net position at beginning of year	<u>692,073</u>	<u>633,427</u>	<u>651,364</u>	<u>58,646</u>	<u>(17,937)</u>
Net position at end of year	<u>\$ 749,648</u>	<u>692,073</u>	<u>633,427</u>	<u>57,575</u>	<u>58,646</u>

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Results of Operations, Fiscal Year 2024

The Enterprise's total revenues of \$744,058 for the year represented an increase of \$1,132 or 0.2% from prior year (see Table 2). Increases included \$13,941 from interest and investment income, \$1,533 in other operating revenues, and \$1,392 in other non-operating revenues. These increases were offset by decreases of \$11,008 in charges for services and \$4,726 in rents and concessions.

Charges for services were \$650,233, a decrease of \$11,008 or 1.7%, mainly due to a higher Wholesale Balancing Account adjustment to increase revenues in prior year, offset by adopted rate increases of 9.7% for wholesale customers and 5% for retail customers beginning July 1, 2023. Rents and concessions were \$8,556, a decrease of \$4,726 or 35.6%, mainly due to funding allocation for low-income customer assistance programs. Other operating revenues were \$18,101, an increase of \$1,533 or 9.3%, mainly due to increased consumption by other City departments and an adopted rate increase of 5% beginning July 1, 2023. Interest and investment income were \$25,097, an increase of \$13,941 or 125.0%, mainly due to higher unrealized gains in the current year compared to prior year and higher interest rates. Other non-operating revenues were \$42,071, an increase of \$1,392 or 3.4%, mainly due to grants for COVID-19 pandemic related water utility arrearages relief and disaster cost recovery for the 2020 Wildfires Santa Clara Fence project.

The Enterprise's total expenses were \$739,346, an increase of \$72,376 or 10.9%. Operating expenses were \$529,356, an increase of \$69,103 or 15.0%, resulting from increases of \$30,435 in general and administrative expenses mainly due to an increase in judgment and claims expenses based on actuarial estimates, \$24,070 in personnel services mainly due to pension expenses based on actuarial estimates, \$11,054 in other operating expenses mainly due SF Recycled Water and Mountain Tunnel Improvement projects spending, \$3,209 in contractual services mainly for construction expenses, and \$3,149 in materials and supplies mainly for water treatment supplies. These increases were offset by decreases of \$2,272 for services provided by other departments mainly from lower water assessment fees paid to Hetch Hetchy Water, and \$542 in depreciation. Interest expenses increased by \$7,142 compared to prior year, mainly due to the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds. Amortization of bond premium, discount, refunding loss/gain and issuance costs increased by \$3,854 due to the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds. Non-operating expenses decreased by \$15 mainly due to higher rebates provided to customers in the prior year.

Capital contributions of \$53,599 were received from developers for assets relating mainly to the Treasure Island, Yerba Buena Island, and Pier 70 Development project. Transfer in of \$505 from the General Fund included \$500 for research on environmental impacts in Hunter's Point Shipyard and \$5 for the Mayor's Office's minimum compensation ordinance. Transfer out of \$1,241 included \$1,167 to the Arts Commission for the arts enrichment fund, \$42 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and \$32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program.

Results of Operations, Fiscal Year 2023

The Enterprise's total revenues of \$742,926 for the year represented an increase of \$138,834 or 23.0% from prior year (see Table 2). Increases included \$121,715 from charges for services, and \$22,052 in interest and investment income. These increases were offset by decreases of \$3,258 in other operating revenues, \$1,192 in other non-operating revenues, and \$483 in rents and concessions.

Charges for services were \$661,241, an increase of \$121,715 or 22.6% mainly due to an adopted rate increase of 15.9% for wholesale customers and a 5% drought surcharge for retail customers beginning July

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

1, 2022. Rents and concessions were \$13,282, a decrease of \$483 or 3.5% mainly due to lease terminations. Other operating revenues were \$16,568, a decrease of \$3,258 or 16.4% mainly due to decreased consumption by other City departments and fewer capacity fee applications. Interest and investment income was \$11,156, an increase of \$22,052 or 202.4% due to prior year unrealized losses and higher interest earned on pooled cash. Other non-operating revenues were \$40,679, a decrease of \$1,192 or 2.8% due to an accrued settlement and water utility arrearages relief grant received in prior year.

The Enterprise's total expenses were \$666,970, an increase of \$60,572 or 10.0%. Operating expenses were \$460,253, an increase of \$58,489 or 14.6%, as a result of increases of \$52,324 in personnel services mainly due to pensions based on actuarial estimates, \$6,937 in depreciation from additional capital assets placed into service, \$6,603 in services provided by other departments mainly for higher water assessments fees paid to Hetch Hetchy Water, \$4,357 in contractual services mainly for custom work and professional and specialized service charges, and increase of \$4,327 in materials and supplies mainly for water treatment supplies. These increases were offset by a decrease of \$16,059 in general administrative and other expenses mainly from judgment and claims. Interest expenses increased by \$1,232, compared to prior year, mainly due to increased commercial paper interest. Amortization of bond premium, discount, refunding loss and issuance costs increased by \$96 mainly due to amortization of bond refunding loss. Non-operating expenses increased by \$947 mainly for youth employment and employment projects.

Transfer in of \$5 from the General Fund was for the Mayor's Office's minimum compensation ordinance. Transfer out of \$20,032 included \$20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and \$32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. Capital contribution of \$2,717 was received from a developer for assets relating to the Potrero HOPE SF and Sunnydale HOPE SF projects.

Capital Assets

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

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

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Facilities, improvements, machinery, and equipment	\$ 5,052,639	5,005,667	5,056,747	46,972	(51,080)
Intangible assets	2,657	2,331	3,152	326	(821)
Land and rights-of-way	113,322	113,322	113,441	—	(119)
Construction work in progress	606,804	526,994	444,254	79,810	82,740
Right-to-use lease and subscription assets	3,045	4,638	4,389	(1,593)	249
Total	<u>\$ 5,778,467</u>	<u>5,652,952</u>	<u>5,621,983</u>	<u>125,515</u>	<u>30,969</u>

Capital Assets, Fiscal Year 2024

The Enterprise has net capital assets of \$5,778,467 invested in a broad range of utility capital assets as of June 30, 2024 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by \$125,515 from the prior year. Facilities, improvements, machinery, and equipment increased by \$46,972 mainly due to additions relating to various Water Main Replacement projects. Intangible assets

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

increased by \$326 mainly due to Maximo improvements and Software as a Service Applications additions. Land and rights-of-way was unchanged. Construction work in progress increased by \$79,810 mainly from the San Joaquin Pipeline Valve and Safe Entry Improvements and Mountain Tunnel Improvement projects. Right-to-use lease and subscription assets decreased by \$1,593 due to fewer leases and subscription assets.

As of June 30, 2024 and 2023, the Enterprise had capital commitments of \$225,678 and \$187,936, respectively.

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

San Joaquin Pipeline Valve and Safe Entry Improvements	\$ 21,253
Mountain Tunnel Improvements	18,114
New City Distribution Division Headquarters	10,999
2023 March Winter Storm Joint Project	10,622
Lead Component Service Program	10,419
Water Main Replacement - WD-2847 Laidley/Castro to Harper/Bemis/Miguel/Various Side	8,038
College Hill Reservoir Outlet and Pipeline	7,960
New services for water installation	7,195
Water Main Replacement - WD-2859 Taraval Segment B	6,482
Regional Groundwater Storage and Recovery	6,426
Skyline Ridge Trail	6,336
Water Main Replacement - WD-2801 Mariposa to Cesar Chavez/York/Hampshire Streets	6,289
Water Main Replacement - WD-2843 Diamond/27th/28th/Duncan Streets	5,675
Westside Recycled Water Project	5,444
San Andreas Reservoir Road Improvements	5,358
Other project additions individually below \$5,000	84,360
Total	<u>\$ 220,970</u>

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

Water Main Replacement - WD-2859 Taraval Segment B	\$ 15,052
Water Main Replacement - WD-2843 Diamond/27th/28th/Duncan Streets	11,814
Water Main Replacement - WD-2847 Laidley/Castro to Harper/Bemis/Miguel/Various Side	10,882
Renewed Water Service Lines	10,419
Harry Tracy Water Treatment Plant Filters No. 1-6 Stainless Steel Underdrains	10,356
Water Main Replacement - WD-2806 Vicente Street/19th to 25th Avenue	9,315
Water Main Replacement - WD-2718 Prospect/Fair/Coso Avenues/Coleridge Street	9,173
Contributed Capital - Yerba Buena Island 1.34 mg Prestressed Concrete Water Storage	8,770
Contributed Capital - Pier 70 Phase 1 Auxiliary Water Supply System Pipe Network	8,648
New Water Service Facilities	7,195
Auxiliary Water Supply System - Pipeline at Clarendon Avenue	6,871
Contributed Capital - Pier 70 Phase 1 Low Pressure Water Pipe Network	6,789
2023 March Emergency Major Road Repair - Cherry Lake Road	6,679
Potable Emergency Firefighting Water System - Pipeline at 19th Avenue	6,489
Other items individually below \$5,000	72,425
Total	<u>\$ 200,877</u>

See Note 4 for additional information about Capital Assets.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Water System Improvement Program (WSIP)

The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high-quality drinking water to its 27 wholesale customers and regional retail customers in Alameda, Santa Clara, and San Mateo Counties, as well as approximately 800,000 residential customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements and long-term water supply objectives, as well as improve seismic and delivery reliability.

Overall, the \$4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with \$4.8 billion of project appropriations expended through fiscal year ended June 30, 2024. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2024, 35 local projects were completed. For regional projects, 48 projects were completed, the Alameda Creek Recapture and Regional Groundwater Storage projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is June 2032. Additional details regarding the WSIP are available at <https://sfpuc.gov/construction-contracts/water-infrastructure-improvements>.

Capital Assets, Fiscal Year 2023

The Enterprise has net capital assets of \$5,652,952 invested in a broad range of utility capital assets as of June 30, 2023 (see Table 3). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery, and equipment. The Enterprise's net revenue and long-term debt are used to finance capital investments. Capital assets, net of accumulated depreciation and amortization, increased by \$30,969 from the prior year. Facilities, improvements, machinery, and equipment decreased by \$51,080 mainly due to depreciation. Intangible assets decreased by \$821 mainly due to amortization. Land decreased by \$119 from the sale of Balboa Reservoir. Construction work in progress increased by \$82,740 mainly from the Mountain Tunnel Improvement and SF Westside Recycled Water projects. Right-to-use lease and subscription assets increased by \$249 due to the implementation of GASB Statement No. 96 – SBITAs.

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

Mountain Tunnel Improvements	\$ 22,623
SF Westside Recycled Water Project	9,400
New Water Utility Service Facilities	7,594
Water Main Replacement and Auxiliary Water Supply System Pipeline - 19th Ave	7,183
College Hill Reservoir Outlet and Pipeline	7,087
Sunol Valley Water Treatment Plant Ozonation	6,987
Water Main Replacement - WD-2718 Prospect/Cortland/Fair Ave	5,987
Harry Tracy Water Treatment Plant - Filters No. 1 to 6 Underdrain Replacement	5,939
Water Main Replacement - WD-2859 Taraval Segment B	5,649
San Joaquin Pipeline Valve and Safe Entry Improvements	5,486
Water Main Replacement - WD-2843 Diamond/27th/28th Streets	5,372
Water Main Replacement - WD-2806 Vicente Street/19th to 25th Ave	5,189
Regional Groundwater Storage and Recovery	5,152
Other project additions individually below \$5,000	80,743
Total	\$ <u>180,391</u>

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

Auxiliary Water Supply System Pumping Station No. 2 Improvement - Structural System	\$ 14,683
Water Main Replacement - WD-2811 17th/Clayton/Ord Streets	11,240
New Water Utility Service Facilities	7,594
Water Main Replacement - 19th Ave	7,018
Auxiliary Water Supply System Pumping Station No. 2 Improvement - Diesel Engine Generator	6,235
Other items individually below \$5,000	54,730
Total	<u>\$ 101,500</u>

See Note 4 for additional information about Capital Assets.

Water System Improvement Program

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Overall, the \$4.8 billion WSIP to upgrade the City of San Francisco's regional and local drinking water systems is 99% completed with \$4.8 billion of project appropriations expended through fiscal year ended June 30, 2023. The program consists of 35 local projects located within San Francisco and 52 regional projects spread over seven different counties from the Sierra Foothills to San Francisco. As of June 30, 2023, 35 local projects were completed. For regional projects, 48 projects were completed, the Alameda Creek Recapture and Regional Groundwater Storage projects are under construction, the Bioregional Habitat Restoration project is in close-out, and Long-Term Mitigation Endowment project is not applicable as it does not include construction. The expected completion date is February 2027. Additional details regarding the WSIP are available at <https://sfpuc.gov/construction-contracts/water-infrastructure-improvements>.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Debt Administration

As of June 30, 2024, the Enterprise had \$5,503,839 total debt outstanding, an increase of \$165,408 over the prior year, as shown below in Table 4. More detailed information about the Enterprise's debt activity is presented in Notes 6, 7, and 8 to the financial statements.

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

		2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenue bonds	\$	4,964,637	4,710,846	4,860,935	253,791	(150,089)
Commercial paper		190,000	371,459	206,297	(181,459)	165,162
Certificates of participation		89,232	92,499	95,637	(3,267)	(3,138)
State revolving fund loans		259,970	163,627	121,761	96,343	41,866
Total	\$	<u>5,503,839</u>	<u>5,338,431</u>	<u>5,284,630</u>	<u>165,408</u>	<u>53,801</u>

The increase of \$253,791 in revenue bonds was due to increases of \$928,890 in bond principal and \$136,522 in bond premium from the issuances of 2023 Series AB revenue bonds and 2023 Series CD revenue refunding bonds, and \$8 from the amortization of discount. These increases were offset by decreases of \$619,115 in bond principal from refunding of various bonds by the 2023 Series CD revenue refund bonds, \$135,075 in bond principal from repayment, \$29,008 in premium from amortization, and \$28,431 in bond premium from refunding. The Enterprise had \$190,000 in tax-exempt commercial paper as of June 30, 2024, and \$343,767 in tax-exempt and \$27,692 in taxable commercial paper as of June 30, 2023. The \$181,459 decrease of commercial paper resulted from a \$372,609 decrease due to refunding by the 2023 Series AB revenue bonds, offset by a \$190,995 increase in tax-exempt and \$155 increase in taxable commercial paper from new issuances. The decrease of \$3,267 in certificates of participation was from repayment. The \$96,343 increase in SRF loans was from \$97,477 in additional reimbursement requests submitted mainly for the Mountain Tunnel Improvement project offset by \$1,134 in reversals of accrued interest capitalized to principal relating to the SF Westside Recycled Water project.

Credit Ratings and Bond Insurance – The Enterprise carried underlying ratings of “Aa2” and “AA-” from Moody’s and S&P Global Ratings (S&P) on June 30, 2024, and “Aa2” and “AA-” from Moody’s and S&P on June 30, 2023, respectively.

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

Debt Authorization – Pursuant to the Charter Section 8B.124, the Enterprise can incur indebtedness upon two-thirds vote of the Board of Supervisors, as approved by voters in Proposition E in November 2002. As of June 30, 2024, the Board of Supervisors has authorized the issuance of \$6,157,510 in revenue bonds under Proposition E, with \$4,317,653 issued against this authorization. The Enterprise can also incur indebtedness of up to \$1,628,000 for improvements to the water system pursuant to Proposition A that

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

was approved by the voters in November 2002. As of June 30, 2024, \$1,499,230 of the \$1,628,000 Proposition A authorized bonds were issued. The Enterprise is also authorized to issue up to \$500,000 in commercial paper.

Cost of Debt Capital – The Enterprise's outstanding long-term debt has coupon interest rates ranging from 0.7% to 7.0% as of June 30, 2024, and 0.3% to 7.0% as of June 30, 2023. The Enterprise's short-term debt has interest rates ranging from 2.2% to 5.2% during fiscal year 2024, and 1.2% to 5.3% during fiscal year 2023.

Rates and Charges

Rate Setting Process

Retail Customers

Proposition E, as approved by the voters in November 2002, amended the City Charter by adding the new Article VIII B, entitled "Public Utilities," which changed the Commission's ability to issue new revenue bonds and set retail water rates. For the retail water rate setting, 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 rate study was completed in spring 2023. In May 2023, the Commission subsequently adopted three years of retail rate increases from July 1, 2023 through June 30, 2026.

Other miscellaneous fees for service and charges were last approved in April 2024 to be effective July 1, 2024, and generally increase annually by the Consumer Price Index from the Controller's Office of the City and County of San Francisco, or the 20-City Average Construction Index (CCI) published by Engineering News-Record (ENR) Magazine.

All current SFPUC Rates Schedules and Fees are available at <https://sfpuc.gov/accounts-services/water-power-and-sewer-rates>.

Wholesale Customers

The Water Supply Agreement (WSA) prescribes the rate setting process for the wholesale water rates. The WSA has a 25-year term, beginning on July 1, 2009, with two 5-year extension options, and was most recently amended and restated in January 2023. Compared to the prior contract with the wholesale customers, the WSA changed the rate basis by which the capital cost recovery is determined from a "utility basis" to a "cash basis," resulting in the repayment of the cost of capital over the life of the debt funding of those assets or at the time of budget appropriation and spending for revenue-funded capital projects, rather than the life of the asset. The WSA requires the rate be calculated and set annually and includes a reconciliation between prior year revenues and expenses. Refer to Note 11 of the notes to financial statements for further discussion on the balancing account of the wholesale customers.

SAN FRANCISCO WATER ENTERPRISE
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

Ten-year Average Rate Adjustments		
Effective Date:	Retail	Wholesale ⁵
July 1, 2016	10.0 ¹	9.3
July 1, 2017	7.0 ¹	-
July 1, 2018	9.0 ²	-
July 1, 2019	8.0 ²	-
July 1, 2020	7.0 ²	-
July 1, 2021	7.0 ²	-
July 1, 2022	- ³	15.9
July 1, 2023	5.0 ⁴	9.7
July 1, 2024	5.0 ⁴	8.8
July 1, 2025	5.0 ⁴	-

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

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

³ No retail rate increase adopted and effective July 1, 2022.

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

⁵ Wholesale rates adopted annually.

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, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102. This report is available at <https://sfpuc.gov/about-us/reports/audited-financial-statements-reports>.

SAN FRANCISCO WATER ENTERPRISE
Statements of Net Position
June 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Assets		
Current assets:		
Cash and investments with City Treasury	\$ 380,201	402,885
Cash and investments outside City Treasury	193	192
Receivables:		
Charges for services, current portion (net of allowance for doubtful accounts of \$10,777 as of June 30, 2024 and \$8,615 as of June 30, 2023)	79,483	63,943
Wholesale balancing account receivable, current portion	26,121	5,571
Due from other City departments	102	115
Due from other governments	366	—
Interest	3,861	2,621
Interest - Leases	935	911
Restricted due from other governments	129,580	36,147
Leases receivable, current portion	3,246	3,521
Restricted interest and other receivable (net of allowance for doubtful accounts of \$131 as of June 30, 2024 and \$30 as of June 30, 2023)	3,789	3,510
Total current receivables	<u>247,483</u>	<u>116,339</u>
Prepaid charges, advances, and other receivables, current portion	4,958	5,909
Inventory	7,825	8,191
Restricted cash and investments outside City Treasury, current portion	40,065	10,863
Total current assets	<u>680,725</u>	<u>544,379</u>
Non-current assets:		
Wholesale balancing account receivable, less current portion	—	4,481
Restricted cash and investments with City Treasury	71,015	21,000
Restricted cash and investments outside City Treasury, less current portion	63,185	66,482
Leases receivable, less current portion	35,817	40,109
Restricted interest and other receivable (net of allowance for doubtful accounts of \$0 as of June 30, 2024 and \$8 as of June 30, 2023)	—	4
Charges for services, less current portion (net of allowance for doubtful accounts of \$664 as of June 30, 2024 and \$656 as of June 30, 2023)	200	209
Note receivable - Balboa Reservoir	11,512	11,007
Right-to-use lease asset, net of accumulated amortization	2,734	3,943
Right-to-use subscription asset, net of accumulated amortization	311	695
Capital assets, not being depreciated and amortized	720,805	640,995
Capital assets, net of accumulated depreciation and amortization	5,054,617	5,007,319
Prepaid charges, advances, and other receivables, less current portion	3,236	3,406
Total non-current assets	<u>5,963,432</u>	<u>5,799,650</u>
Total assets	<u>6,644,157</u>	<u>6,344,029</u>
Deferred outflows of resources		
Unamortized loss on refunding of debt	89,186	124,635
Pensions	93,526	70,101
Other postemployment benefits	29,974	28,616
Total deferred outflows of resources	<u>\$ 212,686</u>	<u>223,352</u>

SAN FRANCISCO WATER ENTERPRISE
Statements of Net Position
June 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 25,353	22,671
Accrued payroll	13,444	11,807
Accrued vacation and sick leave, current portion	7,585	7,057
Accrued workers' compensation, current portion	2,188	1,914
Due to other City departments	—	2,440
Damage claims liability, current portion	5,716	11,125
Unearned revenues, refunds, and other	15,050	13,977
Bond, loan, lease, and subscription interest payable, current portion	37,924	35,104
Lease liability, current portion	1,028	1,189
Subscription liability, current portion	153	400
Revenue bonds, current portion	138,140	135,095
Certificates of participation, current portion	3,402	3,267
Commercial paper, current portion	190,000	—
Current liabilities payable from restricted assets	39,896	40,863
Total current liabilities	<u>479,879</u>	<u>286,909</u>
Long-term liabilities:		
Arbitrage rebate payable	869	—
Net other postemployment benefits liability	158,301	148,601
Net pension liability	152,643	115,343
Lease liability, less current portion	1,793	2,821
Subscription liability, less current portion	155	308
Accrued vacation and sick leave, less current portion	6,418	6,528
Accrued workers' compensation, less current portion	8,814	7,821
Damage claims liability, less current portion	17,057	8,500
Bond, loan, lease, and subscription interest payable, less current portion	3,622	—
Revenue bonds, less current portion	4,826,497	4,575,751
Certificates of participation, less current portion	85,830	89,232
Commercial paper, less current portion	—	371,459
State revolving fund loans	259,970	163,627
Pollution remediation obligation	1,271	1,271
Total long-term liabilities	<u>5,523,240</u>	<u>5,491,262</u>
Total liabilities	<u>6,003,119</u>	<u>5,778,171</u>
Deferred inflows of resources		
Unamortized gain on refunding of debt	31,854	—
Pensions	13,305	28,504
Leases	36,583	41,558
Other postemployment benefits	22,334	27,075
Total deferred inflows of resources	<u>104,076</u>	<u>97,137</u>
Net position		
Net investment in capital assets	350,430	460,213
Restricted for debt service	44,724	14,625
Restricted for capital projects	200,632	56,822
Unrestricted	153,862	160,413
Total net position	<u>\$ 749,648</u>	<u>692,073</u>

See accompanying notes to financial statements

SAN FRANCISCO WATER ENTERPRISE
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2024 and 2023
(In thousands)

	2024	2023
Operating revenues:		
Charges for services	\$ 650,233	661,241
Rents and concessions	8,556	13,282
Capacity fees	863	1,256
Other revenues	17,238	15,312
Total operating revenues	<u>676,890</u>	<u>691,091</u>
Operating expenses:		
Personnel services	159,779	135,709
Contractual services	20,128	16,919
Materials and supplies	23,195	20,046
Depreciation and amortization	155,172	155,714
Services provided by other departments	77,638	79,910
General and administrative and other	93,444	51,955
Total operating expenses	<u>529,356</u>	<u>460,253</u>
Operating income	<u>147,534</u>	<u>230,838</u>
Non-operating revenues (expenses):		
Federal and state grants	12,414	—
Interest and investment income	25,097	11,156
Interest expenses	(222,055)	(214,913)
Amortization of premium, discount, refunding loss, and issuance costs	13,825	9,971
Net gain from sale of assets	2,060	12,660
Other non-operating revenues	27,597	28,019
Other non-operating expenses	(1,760)	(1,775)
Net non-operating expenses	<u>(142,822)</u>	<u>(154,882)</u>
Change in net position before capital contributions and transfers	<u>4,712</u>	<u>75,956</u>
Capital contributions	53,599	2,717
Transfers from the City and County of San Francisco	505	5
Transfers to the City and County of San Francisco	(1,241)	(20,032)
Capital contributions and net transfers	<u>52,863</u>	<u>(17,310)</u>
Change in net position	<u>57,575</u>	<u>58,646</u>
Net position at beginning of year	<u>692,073</u>	<u>633,427</u>
Net position at end of year	<u><u>\$ 749,648</u></u>	<u><u>692,073</u></u>

See accompanying notes to financial statements.

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

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Cash received from customers, including cash deposits	\$ 636,706	582,603
Cash received from tenants for rent	8,343	13,098
Cash received from miscellaneous revenues	4,776	4,832
Cash paid to employees for services	(151,655)	(142,866)
Cash paid to suppliers for goods and services	(194,099)	(174,938)
Cash paid for judgments and claims	(18,216)	(6,927)
Net cash provided by operating activities	<u>285,855</u>	<u>275,802</u>
Cash flows from non-capital financing activities:		
Cash received from grants	13,400	—
Cash received from settlements	—	6,750
Cash paid for rebates and program incentives	(1,760)	(1,775)
Transfers from the City and County of San Francisco	505	5
Transfers to the City and County of San Francisco	(1,241)	(20,032)
Net cash provided by (used in) non-capital financing activities	<u>10,904</u>	<u>(15,052)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	1,569	1,370
Proceeds from bond issuance, net of premium	474,538	—
Proceeds from commercial paper borrowings	191,150	165,162
Proceeds from State revolving fund loan	4,044	12,371
Principal paid on commercial paper	(372,609)	—
Principal paid on long-term debt	(138,342)	(128,408)
Interest paid on long-term debt	(214,366)	(209,194)
Interest paid on commercial paper	(1,511)	(5,170)
Issuance cost paid on long-term debt	(4,545)	—
Lease payment	(1,270)	(1,050)
Subscription payment	(408)	(862)
Acquisition and construction of capital assets	(228,113)	(172,835)
Federal interest income subsidy from Build America Bonds	22,909	23,260
Net cash (used in) capital and related financing activities	<u>(266,954)</u>	<u>(315,356)</u>
Cash flows from investing activities:		
Interest income received	17,141	9,141
Proceeds from sale of investments outside City Treasury	1,015,279	348,315
Purchase of investments outside City Treasury	(1,081,634)	(348,315)
Net cash (used in) provided by investing activities	<u>(49,214)</u>	<u>9,141</u>
Decrease in cash and cash equivalents	(19,409)	(45,465)
Cash and cash equivalents:		
Beginning of year	514,901	560,366
End of year	<u>495,492</u>	<u>514,901</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments with City Treasury:		
Unrestricted	380,201	402,885
Restricted	71,015	21,000
Add: Unrealized loss on investments with City Treasury	7,188	13,479
Cash and investments outside City Treasury:		
Unrestricted	193	192
Restricted	103,250	77,345
Less: Unrealized (gain) loss on investments outside City Treasury	(540)	—
Less: Restricted (with maturity more than 90 days - see table in Note 3)	(65,815)	—
Cash and cash equivalents at end of year on statements of cash flows	<u>\$ 495,492</u>	<u>514,901</u>

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

	<u>2024</u>	<u>2023</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 147,534	230,838
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	155,172	155,714
Miscellaneous revenue	4,776	4,832
Provision for uncollectible accounts	2,263	4,584
Write-off of capital assets and other non-cash items	58	4,628
Changes in operating assets and liabilities:		
Receivables:		
Charges for services	(17,701)	(13,655)
Prepaid charges, advances, and other	560	6,709
Due from other City departments	13	63
Inventory	366	(1,389)
Leases	(327)	575
Subscriptions	8	895
Accounts payable	2,682	(181)
Accrued payroll	1,637	1,312
Net other postemployment benefits obligation*	3,601	10,042
Net pension obligations*	(1,324)	(21,699)
Accrued vacation and sick leave	418	(144)
Accrued workers' compensation	1,267	762
Due to other City departments	(2,440)	2,440
Wholesale balancing account	(16,069)	(89,202)
Damage claims liability	3,148	(16,444)
Unearned revenues, refunds, and other liabilities	213	(4,878)
Total adjustments	<u>138,321</u>	<u>44,964</u>
Net cash provided by operating activities	<u>\$ 285,855</u>	<u>275,802</u>
Noncash transactions:		
Accrued capital asset costs	\$ 39,896	40,863
Interfund payable	—	2,440
Unrealized loss on investments with City Treasury	7,188	13,479
Unrealized (gain) on investments outside City Treasury	(540)	—
Capital contribution	53,599	2,717
Sale of land with promissory note	11,512	11,007
Principal refunded	619,115	—
Bond proceeds paid to refunding escrow	590,874	—

* Net other postemployment benefits obligation include related deferred outflows/inflows
See accompanying notes to financial statements.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(1) Description of Reporting Entity

The San Francisco Water Enterprise (the Enterprise) was established in 1930 under the provisions of the Charter of the City and County of San Francisco (the City). The Enterprise acquired the fully developed, mature water works for San Francisco on March 3, 1930. Since then, the City has operated and maintained the water works as the San Francisco Water Enterprise. The Board of Supervisors of the City has adopted resolutions (the Water Resolutions) providing for the issuance of various water revenue and refunding bond series. The Water Resolutions require the City to keep separate books of records and accounts of the Enterprise. The Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the distribution of water to San Francisco and certain suburban areas. In fiscal year 2024, the Enterprise sold approximately 63,854 million gallons, i.e., about 174 million gallons per day of water, to approximately 2.7 million people within San Francisco and certain suburban areas.

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

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

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

The SFPUC is a department of the City, and as such, the financial operations of the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF, and the Wastewater 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, 2024 and 2023, the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

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

(b) Cash and Cash Equivalents

The Enterprise considers its pooled cash 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 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 on quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) Inventory

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

(e) Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets at the time of donation and capital assets received

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

(f) *Intangible Assets*

Intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, permits, leases, and subscription-based information technology arrangements (SBITAs). The Enterprise capitalizes purchased or internally developed intangible assets with a useful life extending beyond one reporting period. It has established a capitalization threshold of \$100. Intangible assets are amortized over the benefit period or the contract term for leases and SBITAs, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 4).

(g) *Construction Work in Progress*

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

(h) *Bond Discount, Premium, and Issuance Costs*

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

(i) *Accrued Vacation and Sick Leave*

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

(j) *Workers' Compensation*

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 14(b)).

(k) *General Liability*

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 14(a)).

(l) *Arbitrage Rebate Payable*

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The arbitrage rebate liability as of June 30, 2024 and 2023 were \$869 and \$0, respectively.

(m) *Refunding of Debt*

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

(n) *Income Taxes*

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

(o) *Revenue Recognition*

Water service charges are based on water usage as determined by the Enterprise. Effective July 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 amounts as of June 30, 2024 and 2023 were \$44,465 and \$31,704, respectively.

(p) *Use of Estimates*

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

(q) *Accounting and Financial Reporting for Pollution Remediation Obligations*

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

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

- 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 15(d)).

(r) Leases

Leases are defined as a contract that conveys control of the right to use another entity's underlying asset for a specified period. The Enterprise is a lessee and lessor for various noncancellable leases of land, building, equipment, vehicles, easement, 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 executes a lessor lease or lease expense if the Enterprise executes a lessee lease based on the provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Leases Other Than Short-term

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

Measurement of Lease Amounts (Lessee)

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

Key Estimates and Judgments

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

- The Enterprise generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate is implicit in the lease. The City's incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table. The City's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease payments under similar terms at the commencement or remeasurement date.
- The lease term includes the noncancellable period of the lease, plus any additional periods covered by either lessee or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by the Enterprise to determine if they should be included in the measurement of the lease receivables or lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- Equipment and other leases have a capitalization threshold of \$100. 70% below market rent and/or ground leases are determined to be below market rent (BMR) and are excluded from lease capitalization.

Remeasurement of Lease

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Presentation in Statement of Net Position

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

(s) *Subscription-Based Information Technology Arrangements*

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

Short-term SBITAs

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

SBITAs Other Than Short-term

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

Measurement of Subscription Amounts (Subscriber)

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

Key Estimates and Judgments

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

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

- The subscription term includes the noncancellable period of the subscription, plus any additional periods covered by either subscriber or lessor unilateral option to (1) extend for which

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the subscriber and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the subscription term.

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

Remeasurement of Lease or SBITAs

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

Presentation in Statement of Net Position

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

(t) Other Postemployment Benefits (OPEB)

Net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 12(b)).

(u) New Accounting Standards Adopted in Fiscal Year 2024

- 1) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 were adopted by the Enterprise for the year ended June 30, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023. The Enterprise adopted the provisions of Statement No. 99 in fiscal year 2024 which did not have a significant effect on its financial statements.
- 2) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Enterprise adopted the provisions of Statement No. 100 in fiscal year 2024 which did not have a significant effect on its financial statements.

(v) GASB Statements Implemented in Fiscal Year 2023

- 1) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the comparability and consistency of conduit debt obligation reporting and reporting of related transactions by State and local government issuers. The new standard is effective for periods beginning after December 15, 2021. The Enterprise adopted the provisions of Statement No. 91 in fiscal year 2023 which did not have a significant effect on its financial statements.
- 2) In March 2020, the GASB Issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements and availability payment arrangements (PPPs). The Enterprise adopted the provisions of Statement No. 94 in fiscal year 2023 which did not have a significant effect on its financial statements.
- 3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The standard is effective for periods beginning after June 15, 2022. The Enterprise adopted the provisions of Statement No. 96 in fiscal year 2023 (see Note 10).

(w) Future Implementation of New Accounting Standards

- 1) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 101 in fiscal year 2025.
- 2) In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints within governments. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 102 in fiscal year 2025.
- 3) In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 103 in fiscal year 2026.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

- 4) In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain types of capital assets, such as lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* to be disclosed separately by major classes of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements* are also required to be disclosed separately. Furthermore, the statement requires intangible assets other than those three types to be disclosed separately by major class. Finally, the statement requires additional disclosures for capital assets held for sale. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 104 in fiscal year 2026.

(x) Reclassifications

The Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. Lease receivable, lease related interest receivable, lease related interest payable, and subscription related interest payable were reclassified from net investment in capital assets to unrestricted in the statement of net position for fiscal year 2023. Restricted liabilities were reclassified from net position restricted for capital projects to net investment in capital assets for fiscal years 2024 and 2023. These reclassifications had no effect on previously reported changes in net position.

(3) Cash, Cash Equivalents, and Investments

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

Some restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The current balances as of June 30, 2024 and 2023 were \$103,250 and \$77,345, respectively. The Enterprise held all investments in treasury and government obligations, commercial paper, as well as money market mutual funds consisting of treasury and government obligations.

Funds held by the trustee established under the 2002 Amended and Restated Indentures agreements are invested in "Permitted Investments," as defined in the agreement, which includes money market funds and investment agreements. The agreement permits investment in money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and have a rating by S&P of "AAAm-G," "AAAm," or "Aam," and a rating by Moody's of "Aaa," "Aa1," or "Aa2". The credit ratings of the money market funds invested in as of June 30, 2024 were "Aaa-mf" and "P-1" by Moody's, and "AAAm" and "A-1" by S&P. The credit ratings of the money market funds invested in as of June 30, 2023 were "Aaa-mf"

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

and “P-1” by Moody’s, and “AAAm” and “A-1” by S&P. Investment agreements must be with a U.S. bank or trust company that have a rating by Moody’s and S&P of “A” or higher, or are guaranteed by any entity with a rating of “A” or higher, at the time the agreement is entered.

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 tables present the restricted and unrestricted cash and investments outside City Treasury, including commercial paper issuers, credit ratings and the fair value hierarchy as of June 30, 2024 and 2023:

Cash and Investments outside City Treasury							
Investments	Credit Ratings (S&P/Moody's)	June 30, 2024		Investments exempt from fair value	Fair Value Measurements Using		
		Maturities	Fair Value		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	\$ 22,815	22,815	—	—	—
Money Market Funds	A-1/P-1	< 90 days	43	43	—	—	—
Commercial Paper-Toyota Motor Corp	A-1+/P-1	October 11, 2024	45,422	—	45,422	—	—
Commercial Paper-Toronto-Dominion Bank	A-1+/P-1	October 28, 2024	10,310	—	10,310	—	—
U.S. Agency Securities	AA+/Aaa	April 17, 2025	10,083	—	10,083	—	—
Cash and Cash Equivalents	N/A		14,577	14,577	—	—	—
Total Restricted Cash and Investments outside City Treasury			\$ 103,250	37,435	65,815	—	—
Cash and Cash Equivalents	N/A		\$ 193	193	—	—	—
Total Unrestricted Cash and Investments outside City Treasury			\$ 193	193	—	—	—

Cash and Investments outside City Treasury							
Investments	Credit Ratings (S&P/Moody's)	June 30, 2023		Investments exempt from fair value	Fair Value Measurements Using		
		Maturities	Fair Value		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	\$ 64,249	64,249	—	—	—
Money Market Funds	A-1+/P-1	< 90 days	43	43	—	—	—
Cash and Cash Equivalents	N/A		13,053	13,053	—	—	—
Total Restricted Cash and Investments outside City Treasury			\$ 77,345	77,345	—	—	—
Cash and Cash Equivalents	N/A		\$ 192	192	—	—	—
Total Unrestricted Cash and Investments outside City Treasury			\$ 192	192	—	—	—

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

The restricted cash and investments outside City Treasury as of June 30, 2024 and 2023 included an unrealized gain due to changes in fair value on commercial paper of \$540 and \$0, respectively.

Additional cash outside of the investment pool included revolving fund and cash in transit. The revolving fund has a balance of \$28 and \$28 as of June 30, 2024 and 2023, respectively, which is held in a commercial bank in non-interest bearing checking accounts covered by Federal Deposit

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Insurance Corporation depository insurance. These accounts were established as provided by the City's Administrative Code for revolving fund needs. The cash in transit was \$165 and \$164 as of June 30, 2024 and 2023, respectively.

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

	<u>2024</u>	<u>2023</u>
Current assets:		
Cash and investments with City Treasury	\$ 380,201	402,885
Cash and investments outside City Treasury	193	192
Restricted cash and investments outside City Treasury	40,065	10,863
Non-current assets:		
Restricted cash and investments with City Treasury	71,015	21,000
Restricted cash and investments outside City Treasury	<u>63,185</u>	<u>66,482</u>
Total cash, cash equivalents, and investments	<u>\$ 554,659</u>	<u>501,422</u>

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

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

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

	<u>Fair Value</u>	<u>% of</u> <u>Investments</u>
Toyota Motor Corp	\$ 45,422	51.2 %
Toronto-Dominion Bank	10,310	11.6

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

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

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 113,322	—	—	113,322
Intangible assets	679	—	—	679
Construction work in progress	526,994	220,970	(141,160) *	606,804
Total capital assets not being depreciated and amortized	640,995	220,970	(141,160)	720,805
Capital assets being depreciated and amortized:				
Facilities and improvements	6,755,307	191,146	—	6,946,453
Intangible assets	26,121	1,593	—	27,714
Machinery and equipment	337,799	8,138	(131)	345,806
Right-to-use lease assets	8,208	—	(1,197)	7,011
Right-to-use subscription assets	2,450	—	(1,590)	860
Total capital assets being depreciated and amortized	7,129,885	200,877	(2,918)	7,327,844
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,828,932)	(141,039)	—	(1,969,971)
Intangible assets	(24,469)	(1,267)	—	(25,736)
Machinery and equipment	(258,507)	(11,273)	131	(269,649)
Right-to-use lease assets	(4,265)	(1,209)	1,197	(4,277)
Right-to-use subscription assets	(1,755)	(384)	1,590	(549)
Total accumulated depreciation and amortization	(2,117,928)	(155,172)	2,918	(2,270,182)
Total capital assets being depreciated and amortized, net	5,011,957	45,705	—	5,057,662
Total capital assets, net	\$ 5,652,952	266,675	(141,160)	5,778,467

* Decrease in construction work in progress includes \$58 in capital project write-offs, mainly related to Chlorine Trim Station Repairs project. The remaining difference of \$59,775 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 113,441	—	(119)	113,322
Intangible assets	679	—	—	679
Construction work in progress	444,254	180,391	(97,651) *	526,994
Total capital assets not being depreciated and amortized	558,374	180,391	(97,770)	640,995
Capital assets being depreciated and amortized:				
Facilities and improvements	6,660,691	94,616	—	6,755,307
Intangible assets	25,142	979	—	26,121
Machinery and equipment	332,473	5,905	(579)	337,799
Right-to-use lease assets	5,646	2,562	—	8,208
Right-to-use subscription assets	2,450	—	—	2,450
Total capital assets being depreciated and amortized	7,026,402	104,062	(579)	7,129,885
Less accumulated depreciation and amortization for:				
Facilities and improvements	(1,688,717)	(140,215)	—	(1,828,932)
Intangible assets	(22,669)	(1,800)	—	(24,469)
Machinery and equipment	(247,700)	(11,386)	579	(258,507)
Right-to-use lease assets	(2,834)	(1,431)	—	(4,265)
Right-to-use subscription assets	(873)	(882)	—	(1,755)
Total accumulated depreciation and amortization	(1,962,793)	(155,714)	579	(2,117,928)
Total capital assets being depreciated and amortized, net	5,063,609	(51,652)	—	5,011,957
Total capital assets, net	\$ 5,621,983	128,739	(97,770)	5,652,952

* Decrease in construction work in progress includes \$4,628 in capital project write-offs, mainly related to Stern Grove Emergency Restoration and Upper Alameda Creek Filter projects. The remaining difference of \$10,920 is mainly due to direct additions to facilities and improvements, intangible assets and machinery and equipment.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(5) Restricted Assets

Pursuant to the Indentures, all revenues of the Enterprise (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the Water Revenue and Refunding Bonds. Accordingly, the revenues of the Enterprise shall not be used for any other purpose while any of its Water Revenue and Refunding Bonds are outstanding, except as expressly permitted by the Indentures. Further, all revenues shall be deposited by the City Treasurer, by instruction of the Enterprise, in special funds designated as the Water Enterprise Revenue Fund (the Water Revenue Fund), which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statement of net position of the Enterprise as cash and investments. Deposits in the Water Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes pertaining to the financing, maintenance, and operation of the Enterprise in accordance with the following priority:

1. The payment of operation and maintenance expenses for such utility and related facilities;
2. The payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Enterprise may establish or the Board of Supervisors may require with respect to employees of the Enterprise;
3. The payment of principal, interest, reserve, sinking fund, and other mandatory funds created to secure Revenue Bonds and parity State revolving fund loans issued by the Enterprise for the acquisition, construction, or extension of facilities owned, operated, or controlled by the Enterprise;
4. The payment of principal and interest on General Obligation Bonds issued by the City for the Enterprise's purposes;
5. Reconstruction and replacement as determined by the Enterprise or as required by any of the Enterprise's Revenue Bond ordinances duly adopted and approved; and
6. The acquisition of land, real property, or interest in real property for, and the acquisition, construction, enlargement, and improvement of, new and existing buildings, structures, facilities, equipment, appliances, and other property necessary or convenient to the development or improvement of such utility owned, controlled, or operated by the Enterprise; and for any other lawful purpose of the Enterprise, including the transfer of surplus funds pursuant to the Charter.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

In accordance with the Indenture, the bond financing program maintains that certain restricted cash and investment balances be held in trust. Restricted assets held in trust consisted of the following as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and investments with City Treasury:		
Water revenue bond construction fund	\$ 71,015	21,000
Cash and investments outside City Treasury:		
2010A Water revenue bond fund	—	12
2010B Water revenue bond fund	22,813	21,861
2010D Water revenue bond fund	—	12
2010E Water revenue bond fund	16,495	16,643
2010F Water revenue bond fund	—	8
2010G Water revenue bond fund	18,994	18,178
2015A Water revenue refunding bond fund	7	4
2016A Water revenue refunding bond fund	13	8
2016B Water revenue refunding bond fund	1	1
2016C Water revenue bond fund	4	2
2017A Water revenue bond fund	1	—
2017B Water revenue bond fund	6	2
2017C Water revenue bond fund	—	1
2017D Water revenue refunding bond fund	6	4
2017E Water revenue refunding bond fund	1	1
2019A Water revenue refunding bond fund	7	5
2019B Water revenue refunding bond fund	1	—
2019C Water revenue refunding bond fund	1	—
2020A Water revenue bond fund	4	2
2020B Water revenue bond fund	2	1
2020C Water revenue bond fund	2	1
2020D Water revenue bond fund	1	—
2020E Water revenue refunding bond fund	3	2
2020F Water revenue refunding bond fund	17	13
2020G Water revenue refunding bond fund	1	23
2020H Water revenue refunding bond fund	1	8
2023A Water revenue bond fund	19,235	—
2023B Water revenue bond fund	3,551	—
2023C Water revenue refunding bond fund	99	—
2023D Water revenue refunding bond fund	19	—
2009C Certificates of participation - 525 Golden Gate	965	1,696
2009D Certificates of participation - 525 Golden Gate	7,345	5,761
Commercial Paper - Tax Exempt	17	15
Commercial Paper - Taxable	28	28
Habitat reserve endowment fund	13,610	13,053
Total cash and investments outside City Treasury	<u>103,250</u>	<u>77,345</u>
Interest and other receivables:		
Water bond construction fund including interest, prepaids, and other receivables	3,789	3,514
Due from other government for State Revolving Fund	129,580	36,147
Total restricted assets	<u>\$ 307,634</u>	<u>138,006</u>

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(6) Short-Term Debt

The Commission and the Board of Supervisors have authorized the overall Interim Funding Program issuance of up to \$500,000, pursuant to the voter-approved 2002 Proposition E. The program is made up of two components: (1) three series totaling \$400,000 (aggregate principal amount) that are for the issuance of either tax-exempt or taxable commercial paper and which are each supported by a high-grade bank credit facility in the form of a letter of credit or bank liquidity facility; and (2) one series that is for a \$100,000 direct bank loan that can be used to make tax-exempt or taxable draws from a high-grade bank pursuant to a revolving credit agreement. As of June 30, 2024 and 2023, amounts outstanding under Proposition E were \$190,000 and \$371,59, respectively. Commercial paper interest rates ranged from 3.9% to 5.5%.

With maturities up to 270 days, the Enterprise intends to maintain the program by remarketing the commercial paper upon maturity over the near-to-medium term, at which time outstanding commercial paper will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the commercial paper interest rates rise to a level that exceeds these benefits, the Enterprise will refinance the commercial paper with the long-term, fixed-rate debt.

As of June 30, 2023, the Enterprise had \$371,459 in outstanding commercial paper which were repaid by the 2023 Series AB Water Revenue Bonds issued in July 2023. The \$371,459 has been reclassified to long-term liabilities on the financial statements.

The commercial paper notes can be issued in the aggregate principal amounts of up to \$500,000 and may be marketed and re-marketed with maturities up to 270 days and are secured by three separate bank letters of credit and one revolving note, as set forth below. The commercial paper notes and the revolving notes are payable from revenues, and are secured on a parity lien basis with each other. The commercial paper notes and the revolving notes, collectively, are secured on a basis subordinate to the payment of debt service on outstanding bonds and SRF Loans.

As of June 30, 2024, the commercial paper notes are secured by the following series. Series A-1/A-1-T, has a \$100 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on May 16, 2025. The agreement for the Series A-1/A-1-T credit facility stipulates a quarterly commitment fee of .33%, on the maintenance of ratings of at least "AA-" by S&P and "Aa3" by Moody's. Series A-2/A-2-T, has a \$200 million letter of credit from Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on June 14, 2027. The agreement for the Series A-2/A-2-T credit facility stipulates a quarterly commitment fee of .29%, on the maintenance of ratings of at least "AA-" by S&P and "Aa3" by Moody's. Series A-3/A-3-T, has a \$100 million letter of credit from Barclays Bank PLC which expires on July 19, 2024. The agreement for the Series A-3/A-3-T credit facility stipulates a quarterly commitment fee of .29%, on the maintenance of ratings of at least "AA-" by S&P and "Aa3" by Moody's.

BofA Securities, Inc., J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, serve as dealers for the commercial paper notes. The annual fee paid to the dealer equals .05% of the average outstanding principal amount of the Notes managed by the Dealer.

The revolving notes were issued pursuant to a \$100 million revolving credit agreement with U.S. Bank National Association which expires on July 18, 2024. The revolving credit agreement stipulates an unutilized quarterly commitment fee of .21%, on the maintenance of ratings of at least "AA-" by S&P and "Aa3" by Moody's. The revolving credit agreement had \$0 outstanding as of June 30, 2024.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, the Enterprise had \$310,000 and \$128,541 in unused authorization as of June 30, 2024 and 2023, respectively. Significant events of default include 1) payment defaults 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2024, there were no such events describe herein.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

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

	Interest rate	Maturity (Calendar Year)		2023	Additions	Reductions	2024	Due within one year
Revenue Bonds:								
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	\$	336,390	—	(13,245)	323,145	13,725
2010E revenue bonds (Build America)	4.90 – 6.00	2040		331,455	—	(13,165)	318,290	13,610
2010G revenue bonds (Build America)	6.95	2050		351,470	—	—	351,470	—
2015A revenue refunding bonds	2.00 – 5.00	2036		366,375	—	(92,240)	274,135	29,485
2016A revenue refunding bonds	4.00 – 5.00	2039		686,945	—	(113,445)	573,500	24,800
2016B revenue refunding bonds	1.50 – 5.00	2030		58,980	—	(13,175)	45,805	13,720
2016C revenue bonds	0.87 – 4.19	2046		225,275	—	(6,105)	219,170	6,275
2017A revenue bonds	5.00	2047		24,675	—	(2,445)	22,230	2,570
2017B revenue bonds	5.00	2047		30,095	—	(2,985)	27,110	3,135
2017C revenue bonds	5.00	2047		14,395	—	(1,425)	12,970	1,500
2017D revenue refunding bonds	2.00 – 5.00	2035		345,340	—	(88,045)	257,295	10,230
2017E revenue refunding bonds	4.00 – 5.00	2031		48,125	—	(795)	47,330	835
2017F revenue refunding bonds	5.00	2031		8,005	—	(735)	7,270	770
2017G revenue refunding bonds	2.03 – 2.91	2024		18,890	—	(13,665)	5,225	5,225
2019A revenue refunding bonds	1.81 – 3.47	2043		587,825	—	(194,745)	393,080	2,700
2019B revenue refunding bonds	3.15 – 3.52	2041		16,315	—	(70)	16,245	75
2019C revenue refunding bonds	3.15 – 3.52	2041		17,775	—	(80)	17,695	80
2020A revenue bonds	4.00 – 5.00	2050		150,895	—	—	150,895	—
2020B revenue bonds	5.00	2050		61,330	—	—	61,330	—
2020C revenue bonds	4.00	2050		85,335	—	—	85,335	—
2020D revenue bonds	3.00	2050		49,200	—	—	49,200	—
2020E revenue refunding bonds	2.83 – 2.95	2047		335,035	—	(151,400)	183,635	915
2020F revenue refunding bonds	0.26 – 3.15	2047		135,455	—	(1,430)	134,025	1,440
2020G revenue refunding bonds	0.26 – 3.10	2043		108,970	—	(44,310)	64,660	6,360
2020H revenue refunding bonds	0.26 – 3.15	2047		64,815	—	(685)	64,130	690
2023A revenue bonds	5.00-5.25	2052		—	349,495	—	349,495	—
2023B revenue bonds	5.00-5.25	2052		—	64,540	—	64,540	—
2023C revenue refunding bonds	4.00-5.00	2043		—	486,875	—	486,875	—
2023D revenue refunding bonds	5.00	2035		—	27,980	—	27,980	—
Less issuance discount				(115)	—	8	(107)	—
Add issuance premiums				251,596	136,522	(57,439)	330,679	—
Total revenue bonds payable				4,710,846	1,065,412	(811,621)	4,964,637	138,140
2009D COPs (Build America)	6.36 – 6.49	2041		92,499	—	(3,267)	89,232	3,402
Commercial paper *	2.20 – 5.15	2023		371,459	—	(371,459)	—	—
State Revolving Funds Loan	1.00 – 1.10	2057		163,627	97,477	(1,134)	259,970	—
Accrued interest payable				35,104	221,095	(214,653)	41,546	37,924
Net other postemployment benefits liability				148,601	9,700	—	158,301	—
Lease liability				4,010	—	(1,189)	2,821	1,028
Subscription liability				708	—	(400)	308	153
Net pension liability				115,343	37,300	—	152,643	—
Arbitrage rebate payable				—	869	—	869	—
Accrued vacation and sick leave				13,585	13,724	(13,306)	14,003	7,585
Accrued workers' compensation				9,735	4,336	(3,069)	11,002	2,188
Damage claims liability				19,625	18,823	(15,675)	22,773	5,716
Pollution remediation obligation				1,271	—	—	1,271	—
Total			\$	5,686,413	1,468,736	(1,435,773)	5,719,376	196,136

* Commercial paper recorded as short-term liability in FY24

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2022	Additions	Reductions	2023	Due within one year
Revenue Bonds:							
2010B revenue bonds (Build America)	4.00% – 6.00%	2040	\$ 349,170	—	(12,780)	336,390	13,245
2010E revenue bonds (Build America)	4.90 – 6.00	2040	344,200	—	(12,745)	331,455	13,165
2010G revenue bonds (Build America)	6.95	2050	351,470	—	—	351,470	—
2015A revenue refunding bonds	2.00 – 5.00	2036	382,420	—	(16,045)	366,375	28,070
2016A revenue refunding bonds	4.00 – 5.00	2039	719,735	—	(32,790)	686,945	23,590
2016B revenue refunding bonds	1.50 – 5.00	2030	71,510	—	(12,530)	58,980	13,175
2016C revenue bonds	0.87 – 4.19	2046	231,230	—	(5,955)	225,275	6,105
2017A revenue bonds	5.00	2047	27,000	—	(2,325)	24,675	2,445
2017B revenue bonds	5.00	2047	32,930	—	(2,835)	30,095	2,985
2017C revenue bonds	5.00	2047	15,750	—	(1,355)	14,395	1,425
2017D revenue refunding bonds	2.00 – 5.00	2035	346,795	—	(1,455)	345,340	1,270
2017E revenue refunding bonds	4.00 – 5.00	2031	48,890	—	(765)	48,125	795
2017F revenue refunding bonds	5.00	2031	8,705	—	(700)	8,005	735
2017G revenue refunding bonds	2.03 – 2.91	2024	31,960	—	(13,070)	18,890	13,665
2019A revenue refunding bonds	1.81 – 3.47	2043	591,320	—	(3,495)	587,825	3,565
2019B revenue refunding bonds	3.15 – 3.52	2041	16,385	—	(70)	16,315	70
2019C revenue refunding bonds	3.15 – 3.52	2041	17,850	—	(75)	17,775	80
2020A revenue bonds	4.00 – 5.00	2050	150,895	—	—	150,895	—
2020B revenue bonds	5.00	2050	61,330	—	—	61,330	—
2020C revenue bonds	4.00	2050	85,335	—	—	85,335	—
2020D revenue bonds	3.00	2050	49,200	—	—	49,200	—
2020E revenue refunding bonds	2.83 – 2.95	2047	335,535	—	(500)	335,035	1,530
2020F revenue refunding bonds	0.26 – 3.15	2047	135,455	—	—	135,455	1,430
2020G revenue refunding bonds	0.26 – 3.10	2043	114,765	—	(5,795)	108,970	7,065
2020H revenue refunding bonds	0.26 – 3.15	2047	64,815	—	—	64,815	685
Less issuance discount			(124)	—	9	(115)	—
Add issuance premiums			276,409	—	(24,813)	251,596	—
Total revenue bonds payable			4,860,935	—	(150,089)	4,710,846	135,095
2009C certificates of participation (COPs)	2.00 – 5.00	2022	3,124	—	(3,124)	—	—
2009C COPs issuance premiums			14	—	(14)	—	—
2009D COPs (Build America)	6.36 – 6.49	2041	92,499	—	—	92,499	3,267
Commercial paper	1.20 – 5.30	2023	—	371,459	—	371,459	—
State Revolving Funds Loan	1.00 – 1.10	2057	121,761	41,866	—	163,627	—
Net other postemployment benefits liability			144,115	4,486	—	148,601	—
Lease liability			2,863	2,562	(1,415)	4,010	1,189
Subscription liability			1,556	—	(848)	708	400
Net pension liability			—	115,343	—	115,343	—
Accrued vacation and sick leave			13,729	12,427	(12,571)	13,585	7,057
Accrued workers' compensation			8,973	3,984	(3,222)	9,735	1,914
Damage claims liability			36,069	1,898	(18,342)	19,625	11,125
Wholesale balancing account			79,150	—	(79,150)	—	—
Pollution remediation obligation			1,271	—	—	1,271	—
Total			\$ 5,366,059	554,025	(268,775)	5,651,309	160,047

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

(a) Water Revenue Bonds 2010 Series B

The 2010 Series B Bonds in the par amount of \$417,720 were issued as taxable Build America Bonds (BAB) (with Direct Pay Subsidy) to provide \$364,757 in new money for WSIP capital projects and pay financing costs. The 2010 Series B bonds were issued as serial and term bonds with coupons ranging from 4.0% to 6.0% and have a final maturity of 2040. The Series B bonds have a true interest cost (net of federal subsidy) of 3.9%. As of June 30, 2024 and 2023, the principal amount outstanding was \$323,145 and \$336,390, respectively.

(b) Water Revenue Bonds 2010 Series E

In July 2010, the 2010 Series E Bonds in the par amount of \$344,200 were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide \$300,446 in new money proceeds for WSIP capital projects. The Series E bonds were issued as serial and term bonds with coupons ranging from 4.9% to 6.0% and have a final maturity of 2040. The Series E bonds have a true interest cost (net of federal subsidy) of 3.8%. As of June 30, 2024 and 2023, the principal amount of 2010 Series E bonds outstanding was \$318,290 and \$331,455, respectively.

(c) Water Revenue Bonds 2010 Series G

In December 2010, the \$351,470 Series G bonds were issued as taxable Build America Bonds (with Direct Pay Subsidy) to provide \$288,252 in new money for WSIP capital projects. The Series G bonds were issued as term bonds with a coupon of 7.0% and have a final maturity of 2050. The Series G bonds have a true interest cost (net of federal subsidy) of 4.5%. As of June 30, 2024 and 2023, the principal amount of 2010 Series G bonds outstanding was \$351,470.

(d) Water Revenue Refunding Bonds 2015 Series A

In April 2015, the Enterprise issued tax-exempt revenue bonds, 2015 Series A in the amount of \$429,600 for the purpose of refunding all the outstanding 2006 Series A bonds maturing on and after November 1, 2015 and portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2023. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2015 Series A bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2036. The Series A bonds have a true interest cost of 3.3%. Unamortized 2006 Series A bond issuance costs were \$1,392, and there were no unamortized bond issuance costs for 2009 Series A bonds at the date of the refunding. The refunding resulted in the recognition of a deferred accounting loss of \$25,365, gross debt service savings of \$28,148 over the next 20 two-year terms, and an economic gain of \$48,561 or 10.3% of refunded principal.

A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2015 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2015 Series A bonds starting on November 1, 2028 to November 1, 2033 and November 1, 2036. As of June 30, 2024 and 2023, the principal amount of 2015 Series A bonds outstanding was \$274,135 and \$366,375, respectively.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(e) *Water Revenue Refunding Bonds 2016 Series AB*

In October 2016, the Enterprise issued tax-exempt revenue bonds, 2016 Series AB in the aggregate amount of \$893,820. The 2016 Series A bonds were issued for the purpose of refunding a portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2020, a portion of the outstanding 2009 Series B bonds maturing on and after November 1, 2020, and a portion of the outstanding 2010 Series F bonds maturing on and after November 1, 2021. The 2016 Series B bonds were issued for the purpose of refunding, on a current basis, all the outstanding 2006 Series B and Series C bonds, and a portion of the outstanding 2010 Series A bonds maturing on and after November 1, 2020, the bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2016 Series AB bonds include serial bonds with interest rates varying from 1.5% to 5.0% and have a final maturity in 2039. The Series AB bonds have a true interest cost of 2.9%. Unamortized bond issuance costs at the date of refunding were \$145 for 2006 Series B bonds and \$54 for 2006 Series C bonds. The refunding resulted in the recognition of a deferred accounting loss of \$106,205, gross debt service savings of \$135,966, and an economic gain of \$107,152 or 11.5% of refunded principal.

A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2016 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2016 Series A bonds starting on November 1, 2031 to November 1, 2035. As of June 30, 2024 and 2023, the principal amount of 2016 Series AB bonds outstanding was \$619,305 and \$745,925, respectively.

(f) *Water Revenue Bonds 2016 Series C*

In December 2016, the Enterprise issued taxable bonds, 2016 Series C in the amount of \$259,350. The bonds were issued as Green Bonds. The purpose of the bonds was to refund all of the outstanding taxable commercial paper notes in the approximate amount of \$237,000, and to provide \$19,975 of new money for WSIP capital projects. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2016 Series C bonds include serial bonds with interest rates varying from 0.9% to 4.0% and have a final maturity in 2046, and two term bonds with 4.0% and 4.2% interest rates and final maturities of 2041 and 2046. The Series C bonds have a true interest cost of 3.9%. As of June 30, 2024 and 2023, the principal amount of 2016 Series C bonds outstanding was \$219,170 and \$225,275, respectively.

(g) *Water Revenue Bonds 2017 Series ABC*

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 ABC in the aggregate amount of \$339,540. The purpose of the 2017 Series ABC Bonds was to refund approximately \$120,500 aggregate principal amount of commercial paper notes and to provide \$230,500 new money for WSIP capital projects, other various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2017 Series ABC bonds include serial bonds with coupon rates of 5.0% and have final maturity in 2045, and four term bonds with coupons of 5.0% and final maturities from 2045 to 2047.

The \$121,140 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately \$60,265 of commercial paper notes and to provide \$65,500 in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. The Series A bonds have a true interest cost of 3.8%. A

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

portion of the proceeds of the 2020 Series E refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series A bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series A bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series A Revenue Bonds were \$94,140 as June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series A bonds outstanding was \$22,230 and \$24,675, respectively.

The \$147,725 2017 Series B bonds were issued as tax-exempt bonds to provide \$150,000 in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. The Series B bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series F refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series B bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series B bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series B Revenue Bonds were \$114,795 as of June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series B bonds outstanding was \$27,110 and \$30,095, respectively.

The \$70,675 2017 Series C bonds were issued as tax-exempt bonds to refund approximately \$60,266 of commercial paper notes and to provide \$15,000 in new money for Hetch Hetchy Water capital projects. The Series C bonds were issued as serial bonds and a term bond with coupons of 5.0% and have a final maturity of 2047. The Series C bonds have a true interest cost of 3.8%. A portion of the proceeds of the 2020 Series H refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated October 1, 2020 to refund and legally defease a portion of the outstanding 2017 Series C bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem the maturities of the 2017 Series C bonds starting on November 1, 2030 and thereafter. The defeased principal amount outstanding for the 2017 Series C Revenue Bonds were \$54,925 as of June 30, 2024. As of June 30, 2024 and 2023, the principal amount of 2017 Series C bonds outstanding was \$12,970 and \$14,395, respectively.

(h) Water Revenue Refunding Bonds 2017 Series DEFG

In December 2017, the Enterprise issued tax-exempt revenue bonds, 2017 Series DEF, and taxable 2017 Series G refunding bonds in the aggregate amount of \$442,180. The 2017 Series D (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2022, a portion of the outstanding 2012 Series A bonds maturing on and after November 1, 2031. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2017 Series D bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Series C bonds were sufficient to pay the accrued interest and tender price of maturities of the 2017 Series D bonds starting on November 1, 2031 to November 1, 2035.

The 2017 Series E bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2022, a portion of the outstanding 2011 Series D bonds maturing on and after November 1, 2022, a portion of 2012 Series C1 bonds maturing on or after November 1, 2029.

The 2017 Series F bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2022.

The taxable 2017 Series G (WSIP, Green) bonds were issued to refund a portion of the outstanding 2011 Series A bonds maturing on and after November 1, 2022.

The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2017 Series DEFG bonds include serial bonds with interest rates varying from 2.0% to 5.0% and have a final maturity in 2035. The Series DEFG bonds have a true interest cost of 2.9%. The refunding resulted in the recognition of a deferred accounting loss of \$34,275, gross debt service savings of \$68,942, and an economic gain of \$51,698 or 10.7% of refunded principal. As of June 30, 2024 and 2023, the principal amount of 2017 Series DEFG bonds outstanding was \$317,120 and \$420,360, respectively.

(i) Water Revenue Refunding Bonds 2019 Series ABC

In January 2020, the Enterprise issued taxable revenue bonds, 2019 Series ABC refunding bonds in the aggregate amount of \$656,955. The 2019 Series A (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series F (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2020, and a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2035. A portion of the proceeds of the 2023 Series C refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2023 to refund and legally defease a portion of the outstanding 2019 Series A bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem portions of the maturities of the 2019 Series A bonds starting on November 1, 2024 to November 1, 2026 and November 1, 2029 to November 1, 2033. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2019 Series A bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of portions of maturities of the 2019 Series A bonds starting on November 1, 2026 to November 1, 2032, November 1, 2034, November 1, 2039 and November 1, 2043. The defeased principal amount outstanding for 2019 Series A Revenue Bonds were \$5,745 as of June 30, 2024.

The 2019 Series B (Hetch Hetchy Water) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2032.

The 2019 Series C (Local) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2032.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2019 Series ABC bonds include serial bonds with interest rates varying from 1.8% to 3.5% and have a final maturity in 2043. The Series ABC bonds have a true interest cost of 3.3%. The refunding resulted in the recognition of a deferred accounting loss of \$17,329, gross debt service savings of \$119,827, and an economic gain of \$92,556 or 14.0% of refunded principal. As of June 30, 2024 and 2023, the principal amount of 2019 Series ABC bonds outstanding was \$427,020 and \$621,915, respectively.

(j) Water Revenue Bonds 2020 Series ABCD

In September 2020, the Enterprise issued tax-exempt revenue bonds, 2020 Series ABCD in the aggregate amount of \$346,760. The purpose of the 2020 Series ABCD Bonds was to refund approximately \$229,770 aggregate principal amount of commercial paper notes and to provide \$164,632 new money for various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2020 Series ABCD bonds include term bonds with coupons of 3.0% to 5.0% and final maturity in 2050.

The \$150,895 2020 Series A bonds were issued as tax-exempt Green Bonds to refund approximately \$180,000 of commercial paper notes for WSIP capital projects. The Series A bonds were issued as term bonds with coupons of 4.0% and 5.0% and a final maturity of 2050. The 2020 Series A bonds have a true interest cost of 3.3%. As of June 30, 2024 and 2023, the principal amount of 2020 Series A bonds outstanding was \$150,895.

The \$61,330 Series B bonds were issued as tax-exempt bonds to provide \$69,644 in new money for Water Enterprise capital projects (non-WSIP, Regional). The Series B bonds were issued as term bonds with coupons of 5.0% and have a final maturity of 2050. The Series B bonds have a true interest cost of 3.7%. As of June 30, 2024 and 2023, the principal amount of 2020 Series B bonds outstanding was \$61,330.

The \$85,335 Series C bonds were issued as tax-exempt bonds to provide \$94,948 in new money for Water Enterprise capital projects (non-WSIP, Local). The Series C bonds were issued as term bonds with coupons of 4.0% and have a final maturity of 2050. The Series C bonds have a true interest cost of 3.0%. As of June 30, 2024 and 2023, the principal amount of 2020 Series C bonds outstanding was \$85,335.

The \$49,200 Series D bonds were issued as tax-exempt bonds to refund approximately \$49,761 of commercial paper notes for Hetch Hetchy Water capital projects. The Series D bonds were issued as term bonds with coupons of 3.0% and a final maturity of 2050. The 2020 Series D bonds have a true interest cost of 2.7%. As of June 30, 2024 and 2023, the principal amount of 2020 Series D bonds outstanding was \$49,200.

(k) Water Revenue Refunding Bonds 2020 Series EFGH

In October 2020, the Enterprise issued taxable revenue bonds, 2020 Series EFGH refunding bonds in the aggregate amount of \$664,395. The 2020 Series E (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D (WSIP) bonds maturing on and after November 1, 2020, a portion of the outstanding 2012 Series A (WSIP) bonds maturing on and after November 1, 2038, and a portion of the outstanding 2017 Series A (WSIP) bonds maturing on and after November 1, 2030. A portion of the proceeds of the 2023 Series C bonds were used to pay at closing a portion of the 2020 Series E bonds which had

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series C bonds were sufficient to pay the accrued interest and tender price of the 2020 Series E bonds maturing November 1, 2041.

The 2020 Series F (non-WSIP, Regional) bonds were issued for the purpose of refunding a portion of the outstanding 2017 Series B bonds maturing on or after November 1, 2030.

The 2020 Series G (non-WSIP, Local) bonds were issued for the purpose of refunding a portion of the outstanding 2010 Series D bonds maturing on or after November 1, 2020, a portion of the 2011 Series D bonds maturing on or after November 1, 2022, a portion of 2012 Series B bonds maturing on or after November 1, 2031, and a portion of 2012 Series C bonds maturing on or after November 1, 2025. A portion of the proceeds of the 2023 Series D refunding bonds were deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2023 to refund and legally defease a portion of the outstanding 2020 Series G bonds. These deposits, together with certain other available monies were held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities. The principal and interest on monies held by the escrow agent will be sufficient to redeem portions of the maturities of the 2020 Series G bonds maturing on November 1, 2024 and November 1, 2025. A portion of the proceeds of the 2023 Series D bonds were used to pay at closing a portion of the 2020 Series G bonds which had been tendered for purchase on August 10, 2023. The proceeds of the 2023 Series D bonds were sufficient to pay the accrued interest and tender price of portions of maturities of the 2020 Series G bonds starting on November 1, 2026 to November 1, 2032 and November 1, 2035. The defeased principal amount outstanding for the 2020 Series G Revenue Bonds was \$1,495 as of June 30, 2024.

The 2020 Series H (Hetch Hetchy Water) bonds were issued for the purpose of refunding a portion of the outstanding 2017 Series C bonds maturing on or after November 1, 2030.

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2020 Series EFGH bonds include serial bonds and term bonds with interest rates varying from 0.3% to 3.1% and have a final maturity in 2047. The Series EFGH bonds have a true interest cost of 2.7%. The refunding resulted in the recognition of a deferred accounting loss of \$27,010, gross debt service savings of \$117,114, and an economic gain of \$75,212 or 12.0% of refunded principal. As of June 30, 2024 and 2023, the principal amount of 2020 Series EFGH bonds outstanding was \$446,450 and \$644,275, respectively.

(I) Water Revenue Bonds 2023 Series AB

In July 2023, the Enterprise issued tax-exempt revenue bonds, 2023 Series AB in the aggregate amount of \$414,035. The purpose of the 2023 Series AB Bonds was to refund approximately \$373,000 aggregate principal amount of commercial paper notes and to provide approximately \$59,341 new money for various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2023 Series AB bonds include serial and term bonds with coupons of 5.0% to 5.3% and final maturities in 2052.

The \$349,495 2023 Series A bonds were issued as tax-exempt bonds to refund approximately \$305,625 of commercial paper notes for Water Enterprise capital projects and to provide approximately \$59,299 new money for various capital projects for the Water Enterprise. The Series A bonds were issued as serial and term bonds with coupons of 5.0% to 5.3% and a final

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

maturity of 2052. The Series A bonds have a true interest cost of 4.1%. As of June 30, 2024, the principal amount of 2023 Series A bonds outstanding was \$349,495.

The \$64,540 Series B bonds were issued as tax-exempt bonds to refund approximately \$67,348 of commercial paper notes for Hetch Hetchy Water capital projects and approximately \$42 in new money for Hetch Hetchy Water capital projects. The Series B bonds were issued as serial and term bonds with coupons of 5.0% to 5.3% and have a final maturity of 2052. The Series B bonds have a true interest cost of 4.1%. As of June 30, 2024, the principal amount of 2023 Series B bonds outstanding was \$64,540.

(m) Water Revenue Refunding Bonds 2023 Series CD

In August 2023, the Enterprise issued tax-exempt revenue bonds, 2023 Series CD refunding bonds in the aggregate amount of \$514,855. The 2023 Series C (WSIP, Green) bonds were issued for the purpose of paying the purchase price of a portion of the 2015 Series A revenue bonds maturing on or after November 1, 2028, a portion of the 2016 Series A revenue bonds maturing on or after November 1, 2031, a portion of the 2017 Series D revenue bonds maturing on or after November 1, 2031, a portion of the 2019 Series A (WSIP, Green) revenue bonds maturing on or after November 1, 2026, and a portion of the 2020 Series E (WSIP, Green) revenue bonds maturing on November 1, 2041 that were tendered for cash and advance refund portions of 2019 Series A maturing on or after November 1, 2024.

The 2023 Series D (Local Water) bonds were issued for the purpose of paying the purchase price of a portion of the 2020 Series G bonds maturing on or after November 1, 2026 that were tendered for cash and advance refund portions of 2020 Series G bonds maturing on or after November 1, 2024.

The bonds carried “Aa2” and “AA-” ratings from Moody’s and S&P, respectively. The 2023 Series CD bonds include serial bonds with interest rates of 4.0% to 5.0% and have a final maturity in 2043. The Series CD bonds have a true interest cost of 3.2%. The refunding resulted in the recognition of a deferred accounting gain of \$33,378, gross debt service savings of approximately \$85,376, and an economic gain of \$58,518 or 9.5% of refunded principal. As of June 30, 2024, the principal amount of 2023 Series CD bonds outstanding was \$514,855.

(n) Future Annual Debt Service of Revenue Bonds

The following table presents the future annual debt service relating to the revenue and refunding bonds outstanding as of June 30, 2024. The federal interest subsidy amounts represent 35.0%, excluding sequestration, of the interest for the revenue bond 2010 Series B, E, and G.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

	<u>Principal</u>	<u>Interest before subsidy</u>	<u>Federal interest subsidy*</u>	<u>Interest net of subsidy</u>
Fiscal years ending June 30:				
2025	\$ 138,140	214,379	(20,370)	194,009
2026	149,540	207,947	(19,876)	188,071
2027	154,735	200,835	(19,345)	181,490
2028	159,210	193,311	(18,772)	174,539
2029	174,380	185,123	(18,164)	166,959
2030-2034	989,480	790,528	(79,528)	711,000
2035-2039	1,169,760	530,841	(53,376)	477,465
2040-2044	858,385	286,469	(25,530)	260,939
2045-2049	529,695	147,127	(12,339)	134,788
2050-2053	310,740	21,931	(1,184)	20,747
	<u>4,634,065</u>	<u>2,778,491</u>	<u>(268,484)</u>	<u>2,510,007</u>
Less: Current portion	(138,140)			
Less: Unamortized bond discount	(107)			
Add: Unamortized bond premiums	330,679			
Long-term portion as of June 30, 2024	\$ <u>4,826,497</u>			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidies on the 2010 Series B bonds, 2010 Series E bonds, and 2010 Series G bonds are reduced by 5.7%, or a total reduction of \$16,228, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

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

(o) Clean Water State Revolving Fund (CWSRF) Loan and Grant

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of \$191,094, which includes \$15,000 of principal forgiveness, or a grant. It will bear an interest rate of 1.0% for a 30-year term, with loan repayment beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2024 and 2023 was \$154,178 and \$131,525, respectively. In addition, there was \$15,000 of principal forgiveness in fiscal year 2023.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

California Clean Water State Revolving Fund Loan	Principal	Interest	Total
Fiscal years ending June 30:			
2025	\$ —	—	—
2026	4,432	1,542	5,974
2027	4,477	1,497	5,974
2028	4,521	1,453	5,974
2029	4,567	1,407	5,974
2030-2034	23,526	6,342	29,868
2035-2039	24,728	5,143	29,871
2040-2044	25,989	3,882	29,871
2045-2049	27,315	2,556	29,871
2050-2054	28,708	1,163	29,871
2055	5,915	60	5,975
	<u>154,178</u>	<u>25,045</u>	<u>179,223</u>
Less: Current portion	—		
Long-term portion as of June 30, 2024	\$ <u>154,178</u>		

(p) Drinking Water State Revolving Fund (DWSRF) Loan

In April 2022, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Enterprise's Mountain Tunnel Improvement Project. The DWSRF loan is in the amount of \$238,219. It will bear an interest rate of 1.1% for a 30-year term, with interest payments beginning annually after the initial loan proceed draw occurs and loan principal repayment beginning one year after substantial completion of project construction. Power Enterprise is responsible for repayment for its share of SRF Loan debt service costs representing up to its allocable share of the cost of the Mountain Tunnel Improvement Project by a Memorandum of Understanding that will be executed with the Water Enterprise. The DWSRF loan is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The principal outstanding as of June 30, 2024 and 2023 was \$105,792 and \$32,102, respectively.

Drinking Water State Revolving Fund Loan	Principal	Interest	Total
Fiscal years ending June 30:			
2025	\$ —	—	—
2026	—	—	—
2027	—	—	—
2028	—	—	—
2029	3,041	1,058	4,099
2030-2034	15,669	4,827	20,496
2035-2039	16,468	4,028	20,496
2040-2044	17,308	3,188	20,496
2045-2049	18,191	2,305	20,496
2050-2054	19,119	1,377	20,496
2055-2058	15,996	402	16,398
	<u>105,792</u>	<u>17,185</u>	<u>122,977</u>
Less: Current portion	—		
Long-term portion as of June 30, 2024	\$ <u>105,792</u>		

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(q) Proposition A

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of indebtedness by the Commission in a principal amount not to exceed \$1,628,000 to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2023, there was no commercial paper outstanding pursuant to this authorization and \$1,499,230 of bonds had been issued in fiscal years 2006, 2010, 2012, and 2021 against Prop A. The total authorization against Prop A was \$1,499,230 as of June 30, 2024.

(r) Proposition E

On November 5, 2002, the San Francisco voters passed Proposition E, which authorizes the Board of Supervisors' approval of the issuance of revenue bonds and/or other forms of indebtedness by the Commission to finance costs for the Commission's capital programs, including WSIP. As of June 30, 2024, the Board of Supervisors authorized the issuance of \$6,157,510 in revenue bonds with \$4,317,653 issued against this authorization; in September 2017 and amended in April 2023, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Enterprise's SF Westside Recycled Water Project in the amount of \$191,094 (which includes a \$15,000 grant) and in April 2022, the SFPUC entered in to an Installment Sale Agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund (DWSRF) Loan to fund the Mountain Tunnel Improvement Project in the amount of \$238,219. Additionally, \$190,000 and \$371,459 in commercial paper were outstanding pursuant to this authorization as of June 30, 2024 and 2023, respectively.

(s) 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. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. There are no events of default stated in the 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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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 D outstanding as of June 30, 2024 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:				
2025	\$ 3,402	5,652	(1,865)	3,787
2026	3,545	5,431	(1,792)	3,639
2027	3,695	5,201	(1,716)	3,485
2028	3,852	4,961	(1,637)	3,324
2029	4,013	4,710	(1,555)	3,155
2030-2034	22,762	19,369	(6,393)	12,976
2035-2039	28,071	11,157	(3,682)	7,475
2040-2042	19,892	1,972	(651)	1,321
Total	89,232	58,453	(19,291)	39,162
Less: Current portion	(3,402)			
Long-term portion as of June 30, 2024	\$ 85,830			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidy on the 2009 Series D bonds is reduced by 5.7%, or a total reduction of \$1,166, due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(t) Events of Default and Remedies

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

(8) Revenue Pledge

The Enterprise has pledged future revenues to repay various revenue bonds and State Revolving Fund loans. Proceeds from the revenue bonds and State Revolving Fund loans provided financing for various capital construction projects, and to refund previously issued bonds. The bonds and State Revolving Fund loans are payable solely from revenues of the Enterprise through the fiscal year ending 2058.

The outstanding amount of revenue bonds and State Revolving Funds loan, total principal and interest remaining, principal and interest paid during fiscal years 2024 and 2023, applicable net revenues and funds available for debt service are as follows:

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

	<u>2024</u>	<u>2023</u>
Bonds issued with revenue pledge	\$ 4,634,065	4,459,365
Principal and interest remaining due at the end of the year	7,714,756	7,193,317
Clean Water State Revolving Fund (CWSRF) loans with revenue pledge	259,970	163,627
Principal and interest paid net of capitalized interest and BAB subsidy during the year	306,369	307,062
Net revenues for the year ended June 30	337,985	372,689
Funds available for debt service*	555,585	566,764

* Includes other available funds budgetary balances that are non GAAP

(9) Leases

Water Enterprise as Lessee

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

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

	Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Right-to-use assets:					
Land	\$ 605	-	(605)	-	-
Building/Facility	7,603	-	(592)	-	7,011
Total lease assets	<u>8,208</u>	<u>-</u>	<u>(1,197)</u>	<u>-</u>	<u>7,011</u>
Less accumulated amortization:					
Right-to-use assets:					
Land	(580)	(55)	605	-	(30)
Building/Facility	(3,685)	(1,154)	592	-	(4,247)
Total accumulated amortization	<u>(4,265)</u>	<u>(1,209)</u>	<u>1,197</u>	<u>-</u>	<u>(4,277)</u>
Total lease assets, net	<u>\$ 3,943</u>	<u>(1,209)</u>	<u>-</u>	<u>-</u>	<u>2,734</u>
	Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Right-to-use assets:					
Land	\$ 605	-	-	-	605
Building/Facility	5,041	149	-	2,413	7,603
Total lease assets	<u>5,646</u>	<u>149</u>	<u>-</u>	<u>2,413</u>	<u>8,208</u>
Less accumulated amortization:					
Right-to-use assets:					
Land	(383)	(197)	-	-	(580)
Building/Facility	(2,451)	(1,234)	-	-	(3,685)
Total accumulated amortization	<u>(2,834)</u>	<u>(1,431)</u>	<u>-</u>	<u>-</u>	<u>(4,265)</u>
Total lease assets, net	<u>\$ 2,812</u>	<u>(1,282)</u>	<u>-</u>	<u>2,413</u>	<u>3,943</u>

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

	Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
Water lease liabilities \$	4,010	-	-	(1,189)	2,821	1,028
Total	\$ 4,010	-	-	(1,189)	2,821	1,028

	Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
Water lease liabilities \$	2,863	149	2,413	(1,415)	4,010	1,189
Total	\$ 2,863	149	2,413	(1,415)	4,010	1,189

Future annual lease payments for fiscal years 2024 and 2023 are as follows:

Year ending June 30:	Principal amount	Interest amount	Total
2025	\$ 1,028	55	1,083
2026	546	32	578
2027	135	26	161
2028	122	23	145
2029	85	21	106
2030-2034	418	77	495
2035-2039	436	29	465
2040-2044	51	1	52
	<u>2,821</u>	<u>264</u>	<u>3,085</u>
Less: current portion	(1,028)		
Long-term portion as of June 30, 2024	\$ <u>1,793</u>		

Year ending June 30:	Principal amount	Interest amount	Total
2024	\$ 1,189	81	1,270
2025	1,028	55	1,083
2026	546	32	578
2027	135	26	161
2028	122	23	145
2029-2033	416	86	502
2034-2038	445	39	484
2039-2043	129	3	132
	<u>4,010</u>	<u>345</u>	<u>4,355</u>
Less: current portion	(1,189)		
Long-term portion as of June 30, 2023	\$ <u>2,821</u>		

Variable lease payments

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from 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.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Certain facility rental leases require the Enterprise to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$79 and \$263 during the year ended June 30, 2024 and 2023, respectively.

Water Enterprise as Lessor

The Enterprise has leased facilities, easements, communication site and equipment to various tenants. The terms and conditions for these leases vary, which range between 1- 65 years.

Variable payments include percentage of sales, or payments depended on an index made by the lessee; these amounts are generally determined periodically. The Enterprise did not incur revenue related to residual value guarantees or lease termination penalties. The total amounts for lease revenue, interest revenue, and other lease-related revenues recognized during the years ended June 30, 2024 and 2023 were \$1,742 and \$1,161, respectively.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Principal and interest requirements to maturity for the lease receivable on June 30, 2024 and 2023 are as follows:

Year ended June 30	Principal	Interest	Total
2025	\$ 3,246	807	4,053
2026	2,676	748	3,424
2027	2,409	695	3,104
2028	2,423	645	3,068
2029	2,215	595	2,810
2030-2034	10,897	2,348	13,245
2035-2039	8,246	1,280	9,526
2040-2044	363	921	1,284
2045-2049	-	1,056	1,056
2050-2054	-	1,224	1,224
2055-2059	240	1,179	1,419
2060-2064	898	748	1,646
2065-2069	1,291	617	1,908
2070-2074	1,778	433	2,211
2075+	2,381	181	2,562
	<u>\$ 39,063</u>	<u>13,477</u>	<u>52,540</u>

Year ended June 30	Principal	Interest	Total
2024	\$ 3,521	869	4,390
2025	3,610	821	4,431
2026	3,046	756	3,802
2027	2,721	698	3,419
2028	2,423	645	3,068
2029-2033	10,951	2,571	13,522
2034-2038	9,941	1,477	11,418
2039-2043	828	914	1,742
2044-2048	-	1,027	1,027
2049-2053	-	1,191	1,191
2054-2058	117	1,263	1,380
2059-2063	832	768	1,600
2064-2068	1,208	647	1,855
2069-2073	1,676	475	2,151
2074+	2,756	250	3,006
	<u>\$ 43,630</u>	<u>14,372</u>	<u>58,002</u>

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(10) Subscription-Based Information Technology Arrangements

Water Enterprise as Subscriber

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

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

		Balance July 1, 2023	Increases	Decreases	Remeasurements	Balance June 30, 2024
Subscription assets	\$	2,450	-	(1,590)	-	860
Less accumulated amortization:		(1,755)	(384)	1,590	-	(549)
Total subscription assets, net	\$	<u>695</u>	<u>(384)</u>	<u>-</u>	<u>-</u>	<u>311</u>

		Balance July 1, 2022	Increases	Decreases	Remeasurements	Balance June 30, 2023
Subscription assets	\$	2,450	-	-	-	2,450
Less accumulated amortization:		(873)	(882)	-	-	(1,755)
Total subscription assets, net	\$	<u>1,577</u>	<u>(882)</u>	<u>-</u>	<u>-</u>	<u>695</u>

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

		Balance July 1, 2023	Additions	Remeasurements	Deductions	Balance June 30, 2024	Amounts Due Within One Year
SBITA liabilities	\$	708	-	-	(400)	308	153
Total	\$	<u>708</u>	<u>-</u>	<u>-</u>	<u>(400)</u>	<u>308</u>	<u>153</u>

		Balance July 1, 2022	Additions	Remeasurements	Deductions	Balance June 30, 2023	Amounts Due Within One Year
SBITA liabilities	\$	1,556	-	-	(848)	708	400
Total	\$	<u>1,556</u>	<u>-</u>	<u>-</u>	<u>(848)</u>	<u>708</u>	<u>400</u>

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

Year ending June 30:		Principal amount	Interest amount	Total
2025	\$	153	4	157
2026		155	2	157
		308	6	314
Less: current portion		(153)		
Long-term portion as of June 30, 2024	\$	<u>155</u>		

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Year ending June 30:		Principal amount	Interest amount	Total
2024	\$	400	8	408
2025		153	4	157
2026		155	2	157
		708	14	722
Less: current portion		(400)		
Long-term portion as of June 30, 2023	\$	308		

(11) Wholesale Balancing Account

Water Supply Agreement

From 1984-2009, the Enterprise provided water service pursuant to the terms of the 1984 Water Settlement Agreement and Master Water Sales Contract, which established the basis for water rates to be charged to those customers (Wholesale Customers). The Master Water Sales Contract expired on June 30, 2009. The Commission and the Wholesale Customers approved a Water Supply Agreement (WSA) effective July 1, 2009 (the contract was most recently restated and amended in January 2023). The WSA has a 25-year term from July 1, 2009, with two options for five-year extensions. The existing 184 million gallons per day (mgd) Supply Assurance continues under the WSA and no increase in the Supply Assurance will be considered before December 31, 2028. During the period from 2009 to 2028, the WSA limits the quantity of water delivered to Retail Customers and Wholesale Customers from the watersheds to 265 mgd. Under the WSA, annual operating expenses, including debt service on bonds sold to finance regional system improvements and regional capital projects funded from revenues, will be allocated between Retail Customers and Wholesale Customers on the basis of proportionate annual water use. The original WSA stated the Wholesale Customers' share of net book value of existing regional assets as of June 30, 2009 would be recovered on level annual payment over the 25-year term of the WSA at an interest rate of 5.13%. The 25-year term repayment obligation was settled in February 2013. The Wholesale Customers made an early repayment to the Enterprise of the outstanding balance of \$356,139 as allowed by Section 5.03 of the WSA. The WSA continues much of the rate setting, accounting, and dispute resolution provisions contained in the expired contract, and has emergency and drought-pricing adjustment provisions.

Pursuant to the terms of the WSA, the Enterprise is required to establish water rates applicable to the Wholesale Customers annually. The wholesale water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Article V of the WSA (the Wholesale Revenue Requirement (WRR)). During fiscal years ending in 2024 and 2023, the WRR, net of adjustments, charged to such wholesale customers was \$334,261 and \$300,502, respectively. Such amounts are subject to final review by the Wholesale Customers, along with a trailing wholesale balancing account compliance audit of the WRR calculation.

Pursuant to Article VII, Section 7.02 of the WSA, the Enterprise is required to re-compute the WRR after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenues earned during the year and the "actual" WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if the wholesale revenues exceed the WRR) or owed to the City (if the WRR exceeds the wholesale revenues paid). In accordance with Article VI of the WSA, the amount recorded in the Balancing Account shall earn interest at a rate equal to the average rate received by the City during the year on the invested pooled funds of the City

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Treasury and shall be taken into consideration in the determination of subsequent wholesale water rates. The Wholesale Customers owed the Enterprise \$26,121 as of June 30, 2024. The Wholesale Customers owed the Enterprise \$10,052 as of June 30, 2023. Refer to the compliance audit report for the final balancing account available at <https://sfpuc.gov/about-us/reports/audited-financial-statements-annual-financial-reports>.

(12) Employee Benefits

(a) Pension Plan

The Enterprise participates in a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). 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. Contributions are recognized in the period in which they are due pursuant to legal requirements. 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.

Replacement Benefits Plan – Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Plan. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

GASB Statements No. 68 and 73 require that the SFERS Plan and RBP reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Fiscal Year 2024	
Valuation Date (VD)	July 1, 2022 updated to June 30, 2023
Measurement Date (MD)	June 30, 2023
Measurement Period (MP)	July 1, 2022 to June 30, 2023
Fiscal Year 2023	
Valuation Date (VD)	July 1, 2021 updated to June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

The City is an employer of the plan with a proportionate share of 94.85% as of June 30, 2023 (measurement date), and 94.87% as of June 30, 2022 (measurement date), 0.02% decrease from prior year. The Enterprise's allocation percentage was determined based on the Enterprise's employer contributions divided by the City's total employer contributions for fiscal years 2023 and 2022. The Enterprise's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on the Enterprise's allocated percentage. The Enterprise's allocation of the City's proportionate share was 4.34% as of June 30, 2023, and 4.27% as of June 30, 2022 (measurement dates).

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Replacement Benefits Plan – The Enterprise’s allocation percentage was determined based on the Enterprise’s total pension liability divided by the City’s total headcount for fiscal year 2023. The Enterprise’s total pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Enterprise’s allocated percentage. The Enterprise’s allocation of the City’s proportionate share was 1.95% as of June 30, 2023, and 2.31% as of June 30, 2022 (measurement dates).

SFERS Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The 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 Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System’s website at <https://mysfers.org> or by writing to the San Francisco City and County Employees’ Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

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

- a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- b) Sheriff’s Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff’s department, and miscellaneous safety employees hired on and after January 7, 2012.
- c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the 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 CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient “excess” investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Proposition A passed on November 8, 2022 making members who retired before November 6, 1996 (Pre96 Retirees) eligible for a Supplemental COLA, even if SFERS is not fully

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

funded based on the market value of assets. Also, Pre96 Retirees' base retirement allowances were adjusted to account for Supplemental COLAs not received in 2013, 2014, 2017, 2018, and 2019 due to the full funding requirement. Effective with Proposition A, Pre96 Retirees receive the same Supplemental COLAs as the after November 6, 1996 and before January 7, 2012 members. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy

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

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2023 and 2022 (measurement period) were \$638,003 and \$729,578, respectively. The Enterprise's allocation of employer contributions for fiscal years 2023 and 2022 (measurement period) was \$27,925 and \$31,151, respectively.

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid \$4,614 replacement benefits in the year ended June 30, 2024.

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

Fiscal Year 2024

As of June 30, 2024, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan and total pension liability of RBP of \$3,588,819. The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2023 (measurement date), and the total pension liability for the SFERS Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022 rolled forward to June 30, 2023 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

of the net pension liability for the SFERS Plan as of June 30, 2024 (reporting year) was \$150,060. The Enterprise's allocation of total pension liability for the RBP as of June 30, 2024 was \$2,583.

For the year ended June 30, 2024, the City's recognized pension expense was \$667,276 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 \$26,330. Pension expense increased from the prior year, largely due to the amortization of deferrals.

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

Fiscal Year 2024 Schedule of Deferred Outflows and Inflows of Resources				
	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 27,653	—	—	—
Differences between expected and actual experience	16,124	—	222	657
Changes in assumptions	19,421	8,861	202	532
Net difference between projected and actual earnings on pension plan investments	28,399	—	—	—
Change in employer's proportion	1,033	2,262	472	993
Total	\$ 92,630	11,123	896	2,182

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

Fiscal Years	SFERS Plan	Replacement Benefits Plan
2025	\$ (340)	(366)
2026	(9,299)	(550)
2027	55,297	(384)
2028	8,196	14
Total	\$ 53,854	(1,286)

On June 30, 2024, the Enterprise reported \$27,653 as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net pension liability in the reporting year ending June 30, 2025.

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan and net pension liability of RBP of \$2,708,927. The City's NPL/net pension assets (NPA) for each of its cost-sharing plans is measured as a proportionate share of the plans' net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Enterprise's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30,

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

2023 (reporting year) was \$111,743. The Enterprise's allocation of total pension liability for the RBP as of June 30, 2023 was \$3,600.

For the year ended June 30, 2023, the City's recognized pension expense was \$1,771 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 \$6,225. Pension expense increased from the prior year, largely due to the amortization of deferrals.

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

Fiscal Year 2023 Schedule of Deferred Outflows and Inflows of Resources				
	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 27,925	—	—	—
Differences between expected and actual experience	10,200	—	475	455
Changes in assumptions	29,035	8,713	579	778
Net difference between projected and actual earnings on pension plan investments	—	13,890	—	—
Change in employer's proportion	1,869	3,138	18	1,530
Total	\$ 69,029	25,741	1,072	2,763

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/(benefits) as follows:

Fiscal Years	SFERS Plan	Replacement Benefits Plan
2024	\$ (5,899)	(283)
2025	(8,602)	(374)
2026	(17,636)	(589)
2027	47,500	(445)
Total	\$ 15,363	(1,691)

Actuarial Assumptions

Fiscal Year 2024

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions	SFERS Plan				
Valuation Date	July 1, 2022 updated to June 30, 2023				
Measurement Date	June 30, 2023				
Actuarial Cost Method	Entry-Age Normal Cost				
Expected Rate of Return	7.20% net of investment expenses				
Municipal Bond Yield	3.65% as of June 30, 2023				
	3.54% as of June 30, 2022				
	Bond Buyer 20-Bond GO Index, June 30, 2022 and June 30, 2023				
Inflation	2.50%				
Projected Salary Increases	3.25% plus merit component based employee classification and years of service				
Discount Rate	7.20% as of June 30, 2023				
	7.20% as of June 30, 2022				
Administrative Expenses	0.60% of payroll as of June 30, 2023				
	0.60% of payroll as of June 30, 2022				
				Old Police & Fire	Old Police & Fire
		Old Miscellaneous	Old Police & Fire,	Charters A8.595	Charters A8.559
Basic COLA		and All New Plans	pre 7/1/75	and A8.596	and A8.585
	June 30, 2023	2.00%	1.90%	2.50%	3.60%
	June 30, 2022	2.00%	1.90%	2.50%	3.60%

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

Changes of Assumptions Replacement Benefits Plan – Both discount rate for the measurement period ended June 30, 2023 and the municipal bond yield increased from 3.54% to 3.65%.

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

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

Fiscal Year 2023

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions		SFERS Plan				
Valuation Date		July 1, 2021 updated to June 30, 2022				
Measurement Date		June 30, 2022				
Actuarial Cost Method		Entry-Age Normal Cost				
Expected Rate of Return		7.20% net of investment expenses				
Municipal Bond Yield		3.54% as of June 30, 2022				
		2.16% as of June 30, 2021				
		Bond Buyer 20-Bond GO Index, June 30, 2022				
Inflation		2.50%				
Projected Salary Increases		3.25% plus merit component based employee classification and years of service				
Discount Rate		7.20% as of June 30, 2022				
		7.40% as of June 30, 2021				
Administrative Expenses		0.60% of payroll as of June 30, 2022				
		0.60% of payroll as of June 30, 2021				
		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	
Basic COLA						
	June 30, 2022	2.00%	1.90%	2.50%	3.60%	
	June 30, 2021	2.00%	1.90%	2.50%	3.60%	
Key Actuarial Assumptions		Replacement Benefits Plan				
Valuation Date		July 1, 2021 updated to June 30, 2022				
Measurement Date		June 30, 2022				
Actuarial Cost Method		Entry-Age Normal Cost				
Municipal Bond Yield		3.54% as of June 30, 2022				
		Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022				
Inflation		2.50%				
Projected Salary Increases		3.25% plus merit component based employee classification and years of service				
Discount Rate		3.54% as of June 30, 2022				
Administrative Expenses		0.60% of payroll as of June 30, 2022				
		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	
Basic COLA						
	June 30, 2022	2.00%	1.90%	2.50%	3.60%	
	June 30, 2021	2.00%	1.90%	2.50%	3.60%	

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

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

Discount Rate

Fiscal Year 2024

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

rate was 7.20% as of June 30, 2023 (measurement date) and 7.20% June 30, 2022 (measurement date).

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

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

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

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

<u>Fiscal Years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or</u>	
		<u>After Prop C</u>	
2025+	0.75 %	0.50 %	

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

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

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.65% as of June 30, 2023. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 30, 2022 and June 29, 2023. These are the rates used to determine the total pension liability as of June 30, 2023.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of \$265 was used for the 2023 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2024, City's membership in the RBP had a total of 227 active members and 149 retirees and beneficiaries currently receiving benefits. The Enterprise has 6 active members and 4 retirees and beneficiary currently receiving benefits.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

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

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

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

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

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

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

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

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

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.54% as of June 30, 2022. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 30, 2022. This is the rate used to determine the total pension liability as of June 30, 2022.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of \$245 was used for the 2022 measurement date.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2023, City's membership in the RBP had a total of 327 active members and 160 retirees and beneficiaries currently receiving benefits. The Enterprise has 7 active members and 6 retirees and beneficiary currently receiving benefits.

Sensitivity of Proportionate Share of the Net Pension Liability (NPL) to Changes in the Discount Rate – The following presents the Enterprise's allocation of the employer's proportionate share of the net pension liability/(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 2024

Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Water	\$ 351,972	150,060	(16,414)

Fiscal Year 2023

Employer	1% Decrease Share of NPL @ 6.20%	Share of NPL @ 7.20%	1% Increase Share of (NPA) @ 8.20%
Water	\$ 305,993	111,743	(48,394)

The allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits Plan, calculated using the discount rate, as well as what the Enterprise's allocation of the employer's proportionate share of the total pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2024

Employer	1% Decrease @ 2.65%	Measurement Date @ 3.65%	1% Increase @ 4.65%
Water	\$ 3,060	2,583	2,207

Fiscal Year 2023

Employer	1% Decrease @ 2.54%	Measurement Date @ 3.54%	1% Increase @ 4.54%
Water	\$ 4,270	3,600	3,072

(b) Other Postemployment Benefits

The Enterprise participates in a 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. It provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other postemployment benefit plan.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

San Francisco Health Service System Retiree Plan - Single-Employer

Fiscal year 2024	
Valuation Date (VD)	June 30, 2022 updated to June 30, 2023
Measurement Date (MD)	June 30, 2023
Measurement Period (MP)	July 1, 2022 to June 30, 2023
Fiscal year 2023	
Valuation Date (VD)	June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

The Enterprise's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2023 and June 30, 2022. The Enterprise's net Other Postemployment Benefits (OPEB) liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Enterprise's allocated percentage. The Enterprise's proportionate share of the City's OPEB elements as of June 30, 2023 and 2022 measurement dates was 4.03% and 3.97%, respectively.

Benefits

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

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

¹ Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012 under Charter Section 8.603.

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

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

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

Contributions

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

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

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

For the fiscal years ended June 30, 2024 and 2023, funding was based on “pay-as-you-go” plus a contribution of \$48,779 and \$45,241 to the Retiree Healthcare Trust Fund, respectively. The “pay-as-you-go” portion paid by the City was \$229,922 for a total contribution of \$278,701 for the fiscal year ended June 30, 2024, and \$215,408 for a total contribution of \$260,649 for the fiscal year ended June 30, 2023. The Enterprise’s proportionate share of the City’s contributions for fiscal year 2024 was \$11,241, and for fiscal year 2023 was \$10,339, and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

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

Fiscal Year 2024

As of June 30, 2024, the City reported net OPEB liability related to the Plan of \$3,924,832. The Enterprise’s proportionate share of the City’s net OPEB liability as of June 30, 2024 was \$158,301.

For the year ended June 30, 2024, the City’s recognized OPEB expense was \$261,158. Amortization of the City’s deferred outflows and inflows is included as a component of OPEB expense. The Enterprise’s proportionate share of the City’s OPEB expense was \$13,394.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 11,241	\$ -
Differences between expected and actual experience	6,801	18,351
Changes in assumptions	4,602	-
Net difference between projected and actual earnings on plan investments	1,212	-
Change in proportion	6,118	3,983
Total	<u>\$ 29,974</u>	<u>\$ 22,334</u>

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

Year ending June 30:

2025	\$ (531)
2026	(459)
2027	(877)
2028	(2,223)
2029	489
Total	<u>\$ (3,601)</u>

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liability related to the Plan of \$3,746,270. The Enterprise's proportionate share of the City's net OPEB liability as of June 30, 2023 was \$148,601.

For the year ended June 30, 2023, the City's recognized OPEB expense was \$256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Enterprise's proportionate share of the City's OPEB expense was \$20,381.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 10,339	\$ -
Differences between expected and actual experience	3,299	24,740
Changes in assumptions	6,344	-
Net difference between projected and actual earnings on plan investments	2,392	-
Change in proportion	6,242	2,335
Total	<u>\$ 28,616</u>	<u>\$ 27,075</u>

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

Year ending June 30:

2024	\$ (2,253)
2025	(2,213)
2026	(720)
2027	(1,132)
2028	<u>(2,480)</u>
Total	<u><u>\$ (8,798)</u></u>

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2024

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

Key Actuarial Assumptions

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

Non-Annuityants

	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.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

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

Key Actuarial Assumptions

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

Non-Annuityants

	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.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

Fiscal Year 2024

Employer	-1.00%	Healthcare Cost Trend Rate	1.00%
Water	\$ 134,621	\$ 158,301	\$ 187,684

Fiscal Year 2023

Employer	-1.00%	Healthcare Cost Trend Rate	1.00%
Water	\$ 127,125	\$ 148,601	\$ 175,238

Discount Rate

Fiscal Year 2024

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

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

The following presents the Enterprise's proportionate share of the City's net OPEB liability 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:

1% Decrease	Discount Rate	1% Increase
6.00%	7.00%	8.00%
\$ 185,275	\$ 158,301	\$ 136,180

Fiscal Year 2023

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

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:

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

1% Decrease	Discount Rate	1% Increase
6.00%	7.00%	8.00%
\$ 173,000	\$ 148,601	\$ 128,583

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

(13) Related Parties

Various common costs incurred by the Commission are allocated among the Enterprise, Hetch Hetchy Water and Power and CleanPowerSF Enterprise, and the Wastewater 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 \$59,952 or 48.1% and \$55,121 or 48.2% were allocated to the Enterprise for the years ended June 30, 2024 and 2023, respectively.

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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

The Enterprise purchases water from Hetch Hetchy Water. The amounts, totaling \$46,266 and \$49,636 for the years ended June 30, 2024 and 2023, respectively, have been included in the services provided by other departments in the accompanying financial statements.

The Enterprise purchases electricity from Hetch Hetchy Power at market rates. The amounts, totaling \$10,256 and \$11,398 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

The Enterprise sold water to the Wastewater Enterprise at retail rates. This amount, totaling \$1,736 and \$1,552 for the years ended June 30, 2024 and 2023, respectively, has been included in charges for services in the accompanying financial statements.

Since fiscal year 2008, the Enterprise has charged City departments for water usage except for fire hydrants, which are used for general public safety. In fiscal years 2024 and 2023, the Enterprise delivered water for fire hydrant purposes totaling \$5 and \$9, respectively, based on metered usage and applicable water rates, and the amount has been excluded from operating revenues in the accompanying financial statements.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling \$20,925 and \$18,690 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

During the fiscal year ended June 30, 2024, the Enterprise transferred \$1,167 to the Arts Commission for the arts enrichment fund, \$42 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and \$32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program. During the fiscal year ended June 30, 2023, the Enterprise transferred \$20,000 to Hetch Hetchy Water to fund various Mountain Tunnel Improvement projects, and \$32 to the Office of the City Administrator for the Enterprise's contribution to the Surety Bond Program.

As of June 30, 2024, the Enterprise had interfund receivables of \$102 from DPW relating to custom work projects. As of June 30, 2023, the Enterprise had interfund receivables of \$115 from DPW relating to custom work projects.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Park Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. The total payment under this agreement is \$6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2024, the Enterprise's allocable shares of expenses and prepayment were \$46 and \$3,174, respectively; and as of June 30, 2023, the Enterprise's allocable shares of expenses and prepayment were \$45 and \$3,220, respectively.

The Enterprise had a \$0 and \$2,440 payable to San Francisco Municipal Transportation Agency for a settlement payable relating to the Van Ness Corridor Transit Improvement project as of June 30, 2024 and 2023, respectively.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(14) Risk Management

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

Risk	Coverage Approach
(a) General Liability	Self-Insured
(b) Workers' Compensation	Self-Insured through Citywide 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

(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, 2024 and 2023 are as follows:

Fiscal years	Beginning of year	Claims	Claims paid and changes changes in estimates	End of year
2024	\$ 19,625	18,823	(15,675)	22,773
2023	36,069	1,898	(18,342)	19,625
2022	36,723	452	(1,106)	36,069

(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

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

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

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

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
2024	\$	9,735	4,336	(3,069)	11,002
2023		8,973	3,984	(3,222)	9,735
2022		8,828	2,793	(2,648)	8,973

(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.

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

(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.

(15) Commitments and Litigation

(a) Commitments

As of June 30, 2024 and 2023, the Enterprise has outstanding commitments with third parties of \$248,510 and \$220,706, respectively, for various capital projects and other purchase agreements for materials and services.

(b) Grants

Grants that the Enterprise receives 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 those legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the Enterprise.

(d) Environmental Issue

As of June 30, 2024 and 2023, the pollution remediation liability of \$1,271 is related to the Pacific Rod & Gun Club site construction projects for the full value of construction.

(16) Subsequent Events

(a) Water Enterprise Interim Funding Program

On July 16, 2024 the SFPUC entered into an Amended and Restated Revolving Credit Agreement with U.S. Bank National Association to provide a revolving line of credit in the

SAN FRANCISCO WATER ENTERPRISE
Notes to Financial Statements
June 30, 2024 and 2023
(Dollars in thousands, unless otherwise stated)

principal amount of up to \$100,000. The commitment expiration date under the Revolving Credit Agreement is July 16, 2027.

(b) Water Enterprise Interim Funding Program

On July 16, 2024 the SFPUC entered into a Second Amendment to Reimbursement Agreement, together with an Omnibus Amendment and Extension of Stated Expiration Date to the Irrevocable Letter of Credit with Barclays Bank PLC that, among other things, amends the Stated Expiration Date of the A-3 LOC to July 15, 2027.

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

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

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

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2024



Our mission

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



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

Cover photo: Calaveras Reservoir:
Outlet Tower

Back cover photo: Hetch Hetchy
Reservoir Waterfall

Photos by: Robin Scheswohl

Date of Publication:
November 2024

SFPUC Financial Services
525 Golden Gate Avenue, 4th Floor
San Francisco, CA 94102-3220
sfpuc.gov

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

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

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

\$ _____
**Public Utilities Commission
of the City and County of San Francisco
San Francisco Water Revenue Bonds
2025 Series ABC**

\$ _____
**2025 Sub-Series A
(Refunding) (WSIP)
(Green Bonds)**

\$ _____
**2025 Sub-Series B
(Refunding)
(Regional Water and Local Water)**

\$ _____
**2025 Sub-Series C
(Refunding)
(Hetch Hetchy Water)**

Ladies and Gentlemen:

We have acted as bond counsel to the Public Utilities Commission of the City and County of San Francisco (the “Commission”), a commission duly constituted under the Charter (the “Charter”) of the City and County of San Francisco (the “City”), in connection with the issuance by the Commission of its San Francisco Water Revenue Bonds, 2025 Series ABC, in the aggregate principal amount of \$ _____, consisting of \$ _____ principal amount of 2025 Sub-Series A (Refunding) (WSIP) (Green Bonds) (the “2025 Sub-Series A Bonds”), \$ _____ principal amount of 2025 Sub-Series B (Refunding) (Regional Water and Local Water) (the “2025 Sub-Series B Bonds”), and \$ _____ principal amount of 2025 Sub-Series C (Refunding) (Hetch Hetchy Water) (the “2025 Sub-Series C Bonds” and, together with the 2025 Sub-Series A Bonds and the 2025 Sub-Series B Bonds, the “Bonds”).

The Bonds are being issued pursuant to authority granted by the Charter of the City, Resolution No. 25-_____, adopted by the Commission on March 11, 2025 (the “Resolution”) and an Amended and Restated Indenture, dated as of August 1, 2002, by and between the Commission and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”), as previously amended and supplemented (the “Original Indenture”), and as further supplemented by a Forty-Seventh Supplemental Indenture (the “Forty-Seventh Supplemental Indenture”), with respect to the 2025 Sub-Series A Bonds, a Forty-Eighth Supplemental Indenture (the “Forty-Eighth Supplemental Indenture”), with respect to the 2025 Sub-Series B Bonds, and a Forty-Ninth Supplemental Indenture (the “Forty-Ninth Supplemental Indenture”), with respect to the 2025 Sub-Series C Bonds. The Forty-Seventh Supplemental Indenture, the Forty-Eighth Supplemental Indenture and the Forty-Ninth Supplemental Indenture, each dated as of April 1, 2025, together with the Original Indenture are referred to herein as the “Indenture.”

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto in the Indenture.

In our capacity as bond counsel, we have reviewed the Indenture, certifications of the Commission, the Trustee and others, opinions of counsel to the Commission and the Trustee, and such other documents, opinions and instruments as we have deemed necessary to render the opinions set forth herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy and completeness of, certificates and letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the Commission and the City, counsel for the Commission, the City and others.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities and counties in the State of California. In addition, the imposition of certain fees and charges by the Commission relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion, under existing law, that:

(1) The Bonds have been duly authorized, executed and delivered by, and constitute the valid and binding special limited obligations of, the Commission.

(2) The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Commission. The Indenture creates a valid pledge of the Revenues of the Enterprise and certain other amounts held by the Trustee under the Indenture to secure the payment of the principal of and interest on the Bonds, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

(3) The Bonds are special limited obligations of the Commission and are payable exclusively from and are secured by a pledge of the Revenues of the Enterprise and certain amounts held under the Indenture. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or the interest thereon. The Commission has no taxing power. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or of the Commission or any of its income or receipts, except the Revenues.

(4) Bonds and other parity debt of the Commission have been, and from time to time hereafter may be, issued under the Indenture which are payable from Revenues of the Enterprise on a parity basis with the Bonds.

(5) Assuming continuing compliance by the Commission with certain covenants in the Indenture, the Tax Certificate (hereafter described) and other documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986 regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not included in the gross income of the owners of the Bonds for purposes of federal income taxation.

(6) Interest on the Bonds is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax on individuals. We express no opinion regarding the applicability of the corporate alternative minimum tax to the adjusted financial statement income of any owner of the Bonds.

(7) Interest on the Bonds is exempt from personal income tax imposed by the State of California.

Our opinion in paragraph 5 above is rendered in reliance on representations and certifications of the Commission made in a Tax Certificate dated the date hereof pertaining to the use, expenditure and investment of the proceeds of the Bonds. Except as stated in paragraphs 5, 6 and 7 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of, or the receipt or accrual of interest on, the Bonds. Further, certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate or in other documents pertaining to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

The opinions expressed and the statements made herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions and statements may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of such actions or events or for any other reason.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions in this letter are limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
**PUBLIC UTILITIES COMMISSION OF
THE CITY AND COUNTY OF SAN FRANCISCO**
San Francisco Water Revenue Bonds, 2025 Series ABC

\$ _____ 2025 Sub-Series A (Refunding) (WSIP) (Green Bonds)	\$ _____ 2025 Sub-Series B (Refunding) (Regional Water and Local Water)	\$ _____ 2025 Sub-Series C (Refunding) (Hetch Hetchy Water)

[Closing Date]

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by the Public Utilities Commission of the City and County of San Francisco (the “**SFPUC**”) in connection with the issuance of the water revenue bonds captioned above (the “**2025ABC Bonds**”). The 2025ABC Bonds are being issued pursuant to an Amended and Restated Indenture, dated as of August 1, 2002, between the SFPUC and U.S. Bank Trust Company, National Association, as trustee (the “**Trustee**”), as amended and supplemented, including as amended and supplemented by a Forty-Seventh Supplemental Indenture, a Forty-Eighth Supplemental Indenture and a Forty-Ninth Supplemental Indenture, each dated as of April 1, 2025, by and between the SFPUC and the Trustee (collectively, the “**Indenture**”).

The SFPUC covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the SFPUC for the benefit of the Holders and Beneficial Owners of the 2025ABC Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the “**S.E.C.**”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by the SFPUC pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“**Beneficial Owner**” shall mean any person that: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2025ABC Bonds (including persons holding 2025ABC Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any 2025ABC Bonds or to dispose of ownership of any 2025ABC Bonds; or (b) is treated as the owner of any 2025ABC Bonds for federal income tax purposes.

“**Dissemination Agent**” shall mean the SFPUC, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the SFPUC and which has filed with the SFPUC a written acceptance of such designation.

“**Financial Obligation**” means, for purposes of the Listed Events set out in Section 5(a)(15) and Section (5)(a)(16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“**Holder**” shall mean either the registered owners of the 2025ABC Bonds, or, if the 2025ABC Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“**Listed Events**” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“**Official Statement**” shall mean the final Official Statement, dated _____, 2025, prepared in connection with the sale and offering of the 2025ABC Bonds.

“**Participating Underwriters**” shall mean any of the original underwriters or purchasers of the 2025ABC Bonds required to comply with the Rule in connection with the offering of the 2025ABC Bonds.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The SFPUC shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing with the report for Fiscal Year 2024-25 (which is due not later than March 31, 2026), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the SFPUC, the SFPUC shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. However, if the audited financial statements of the SFPUC are not available by the date required above for the filing of the Annual Report, the SFPUC shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the SFPUC’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) If the SFPUC is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the SFPUC shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the SFPUC) file a report with the SFPUC certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

SECTION 4. Content of Annual Reports. The SFPUC’s Annual Report shall contain or incorporate by reference the following information:

(a) Audited financial statements of the Water Enterprise for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles applicable to the SFPUC from time to time. If the SFPUC’s audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) An update for the prior Fiscal Year of the table in the Official Statement entitled “TABLE 8, HISTORICAL WHOLESALE AND RETAIL WATER SALES”;

(c) An update for the prior Fiscal Year of the table in the Official Statement entitled “TABLE 17, HISTORICAL AND ADOPTED PERCENTAGE INCREASES (DECREASES) IN WHOLESALE WATER RATES,” provided that such update need include rate increases (decreases) through the end of the prior Fiscal Year;

(d) An update for the prior Fiscal Year of the table in the Official Statement entitled “TABLE 20, HISTORICAL AND ADOPTED PERCENTAGE INCREASES (DECREASES) IN RETAIL WATER RATES,” provided that such update need include rate increases (decreases) through the end of the prior Fiscal Year;

(e) An update for the prior Fiscal Year of the table in the Official Statement in the section entitled “OBLIGATIONS PAYABLE FROM REVENUES – Outstanding Parity Revenue Bonds” showing all bonds of the SFPUC secured by Revenues; and

(f) An update for the prior Fiscal Year of the table in the Official Statement entitled “TABLE 25, HISTORICAL REVENUES, OPERATING & MAINTENANCE EXPENSES AND DEBT SERVICE COVERAGE.”

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the SFPUC or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The SFPUC shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The SFPUC shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2025ABC Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2025ABC Bonds, or other material events affecting the tax status of the 2025ABC Bonds;
7. Modifications to rights of Holders, if material;
8. Optional, unscheduled or contingent bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the 2025ABC Bonds, if material;
11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the SFPUC;
13. The consummation of a merger, consolidation, or acquisition involving the SFPUC or the sale of all or substantially all of the assets of the SFPUC, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the SFPUC, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the SFPUC, any of which affect Holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the SFPUC, any of which reflect financial difficulties.

Note: For the purposes of the event identified in subsection (a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the SFPUC in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the SFPUC, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the SFPUC.

(b) Whenever the SFPUC obtains knowledge of the occurrence of a Listed Event in subsection (a), the SFPUC shall, or shall cause the Dissemination Agent (if not the SFPUC) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of a Listed Event described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2025ABC Bonds under the Indenture.

(c) The SFPUC intends to comply with the Listed Events described in subsection (a)(15) and subsection (a)(16) and the definition of “Financial Obligation” in Section 2, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the S.E.C. in Release No. 34-83885 dated August 20, 2018 (the “**2018 Release**”), and any further amendments or written guidance provided by the S.E.C. or its staff with respect to the amendments to the Rule effected by the 2018 Release.

SECTION 6. Termination of Reporting Obligation. The SFPUC’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2025ABC Bonds. If such termination occurs prior to the final maturity of the 2025ABC Bonds, the SFPUC shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The SFPUC may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the SFPUC may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2025ABC Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney of the City and County of San Francisco or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2025ABC Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the 2025ABC Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the SFPUC shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the SFPUC. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the SFPUC from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the SFPUC chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the SFPUC shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the SFPUC to comply with any provision of this Disclosure Certificate, any Participating Underwriters, Holder or Beneficial Owner of the 2025ABC Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the SFPUC to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or State court located in the City and County of San Francisco, State of California. Failure by the SFPUC to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the SFPUC to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the SFPUC, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2025ABC Bonds, and shall create no rights in any other person or entity.

Dated as of the date first written above.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
General Manager

Approved as to Form:

DAVID CHIU
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE

EXHIBIT A

**FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Public Utilities Commission of the City and County of San Francisco

Name of Issue: San Francisco Water Revenue Bonds, 2025 Series ABC
2025 Sub-Series A (Refunding) (WSIP) (Green Bonds)
2025 Sub-Series B (Refunding) (Regional Water and Local Water)
2025 Sub-Series C (Refunding) (Hetch Hetchy Water)

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the SFPUC has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Public Utilities Commission of the City and County of San Francisco, dated [Closing Date]. The SFPUC anticipates that the Annual Report will be filed by _____.

Dated: _____

PUBLIC UTILITIES COMMISSION OF THE CITY
AND COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]
Title: _____

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APPENDIX F

SECURITIES DEPOSITORY AND THE BOOK-ENTRY SYSTEM

The information in this Appendix F has been obtained from DTC for use in securities offering documents, and the SFPUC takes no responsibility for the accuracy or completeness thereof. The SFPUC cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the 2025ABC Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2025ABC Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

As used in this Appendix F, “Securities” means the 2025ABC Bonds, “Issuer” means the SFPUC, and “Agent” means the Trustee.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that SFPUC believes to be reliable, but the SFPUC takes no responsibility for the accuracy thereof.



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



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APPENDIX B

FORM OF PRICING NOTICE

RELATING TO THE
INVITATION TO TENDER BONDS FOR PURCHASE DATED MARCH 17, 2025
made by
PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
to the Bondholders described herein of all or any portion of certain maturities of its

TAXABLE TARGET BONDS

SAN FRANCISCO WATER REVENUE BONDS,

2019 Series ABC, 2019 Sub-Series A Bonds
(Refunding – Federally Taxable) (WSIP)
(Green Bonds)

2019 Series ABC, 2019 Sub-Series B Bonds
(Refunding – Federally Taxable) (Hetch Hetchy)

2019 Series ABC, 2019 Sub-Series C Bonds
(Refunding – Federally Taxable) (Local Water Main)

2020 Series EFGH, 2020 Sub-Series E Bonds
(Refunding – Federally Taxable) (WSIP)
(Green Bonds)

2020 Series EFGH, 2020 Sub-Series F Bonds
(Refunding – Federally Taxable) (Non-WSIP)

2020 Series EFGH, 2020 Sub-Series G Bonds
(Refunding – Federally Taxable) (Local Water)

2020 Series EFGH, 2020 Sub-Series H Bonds
(Refunding – Federally Taxable) (Hetch Hetchy Water)

TAX-EXEMPT TARGET BONDS

SAN FRANCISCO WATER REVENUE BONDS,

2016 Series AB, 2016 Sub-Series A Bonds
(Refunding)

2017 Series DEFG, 2017 Sub-Series D Bonds (Refunding)
(Green Bonds)

The purpose of this Pricing Notice, dated March 24, 2025 (the “Pricing Notice”) is to set forth the Offer Purchase Prices for the Tax-Exempt Target Bonds and the Fixed Spreads for the Taxable Target Bonds subject to the Invitation. All other terms relating to the Invitation (hereinafter defined) remain unchanged.

Pursuant to the Invitation to Tender Bonds for Purchase dated March 17, 2025 (as it may be amended or supplemented, the “**Invitation**”), the Public Utilities Commission of the City and County of San Francisco (the “**Commission**”), invited offers to tender Target Bonds for cash at the applicable Offer Purchase Prices (i) as set forth in this Pricing Notice for the Tax-Exempt Target Bonds and (ii) based on a Fixed Spread to be added to the yield on the relevant Benchmark U.S. Treasury Security for the Taxable Target Bonds set forth in this Pricing Notice, plus, in each case, Accrued Interest on the Target Bonds purchased to but not including the Settlement Date. All terms used herein and not otherwise defined are used as defined in the Invitation.

As set forth in the Invitation, the Commission retains the right to extend the Invitation, or amend the terms of the Invitation (including a waiver of any term) in any material respect, provided, that the Commission shall provide notice of any such extension or amendment no less than five (5) business days prior to the Expiration Date, as it may be extended. In such event, any offers submitted with respect to the affected Target Bonds prior to such change will remain in full force and effect and any Bondholder of such affected Target Bonds as applicable, wishing to revoke their offer to tender such Target Bonds for purchase must affirmatively withdraw such offer prior to the Expiration Date, as extended.

The Invitation, including the Preliminary Official Statement relating to the Commission's San Francisco Water Revenue Bonds, 2025 Series ABC, 2025 Sub-Series A (Refunding) (WSIP) (Green Bonds), 2025 Sub-Series B (Refunding) (Regional Water and Local Water) and 2025 Sub-Series C (Refunding) (Hetch Hetchy Water) (collectively, the **"2025 Refunding Bonds"**) is available: (i) at the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at <http://emma.msrb.org>, using the CUSIP numbers for the Target Bonds, and (ii) on the website of the Information Agent and Tender Agent at <https://www.globic.com/sfpuc>.

Any questions are to be directed to the Information Agent and Tender Agent at (212) 227-9622.

TENDER OFFER – FIXED SPREADS (TAXABLE TARGET BONDS)

Pursuant to the Invitation, the Fixed Spreads for the Taxable Target Bonds are listed below. The Offer Purchase Price excludes Accrued Interest on the Taxable Target Bonds to be purchased, which interest will be paid to but not including the Settlement Date in addition to the Offer Purchase Price. [There has been no change in the Indicative Fixed Spreads listed in pages (i) and (ii) of the Invitation / the Indicative Fixed Spreads listed on pages (i) and (ii) of the Invitation have been revised.]

<u>Series and Subseries</u>	<u>CUSIP No.¹</u>	<u>Maturity Date (November 1)</u>	<u>Average Life Date²</u>	<u>Outstanding Principal Amount</u>	<u>Interest Rate</u>	<u>Benchmark U.S. Treasury Security³</u>	<u>Fixed Spread</u>

The yields on the Benchmark U.S. Treasury Securities will be determined at approximately 10:00 AM on Wednesday, April 2, 2025, and the Notice of Taxable Target Bonds Offer Purchase Prices will be made available on that date in accordance with the Invitation.

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP information herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the Commission, the Dealer Manager, the Information Agent and Tender Agent nor their respective agents or counsel assumes responsibility for the accuracy of such numbers.

² Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life date.

³ Except for the 30-Year Benchmark U.S. Treasury Security which will be the “old long bond” (maturity date November 15, 2054, 4.500% CUSIP 912810UE6) each Benchmark U.S. Treasury Security will be the most recently auctioned “on-the-run” United States Treasury Security for the maturity indicated as of the date that the Offer Purchase Prices for the Taxable Target Bonds is set, expected to be April 2, 2025.

**ILLUSTRATIVE OFFER PURCHASE PRICE CALCULATIONS:
TREASURY SECURITY YIELDS AS OF [____], 2025 (TAXABLE TARGET BONDS)**

The tables below provide an example of the Offer Purchase Price for the Taxable Target Bonds realized by a Bondholder that submits an offer based on the following yields for the Benchmark U.S. Treasury Securities as of [____], 2025 and the Fixed Spreads. This example is being provided for convenience only and is not to be relied upon by a Bondholder as an indication of the Purchase Yield or Offer Purchase Price for any Taxable Target Bonds that may be paid by the Commission. Based on these Treasury Security Yields, the following Offer Purchase Prices for the Taxable Target Bonds would be derived:

<u>Series and Subseries</u>	<u>CUSIP No.¹</u>	<u>Maturity Date (November 1)</u>	<u>Average Life Date²</u>	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Benchmark U.S. Treasury Security³</u>	<u>Fixed Spread</u>	<u>Illustrative Treasury Security Yield</u>	<u>Illustrative Purchase Yield*</u>	<u>Illustrative Purchase Price*</u>

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP information herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the Commission, the Dealer Manager, the Information Agent and Tender Agent nor their respective agents or counsel assumes responsibility for the accuracy of such numbers.

² Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life date.

³ Except for the 30-Year Benchmark U.S. Treasury Security which will be the “old long bond” (CUSIP _____) each Benchmark U.S. Treasury Security will be the most recently auctioned “on-the-run” United States Treasury Security for the maturity indicated as of the date that the Offer Purchase Prices for the Taxable Target Bonds is set, expected to be April 2, 2025.

* Preliminary, subject to change.

ILLUSTRATIVE OFFER PURCHASE PRICE CALCULATIONS: INTEREST RATE SENSITIVITY (TAXABLE TARGET BONDS)

As a measure of the sensitivity of the Offer Purchase Price for the Taxable Target Bonds to changes in the yield on the Benchmark U.S. Treasury Security, the following table shows the impact on the Offer Purchase Price of a 0.10% (10 basis point) movement in the yield on the Benchmark U.S. Treasury Security.

Series and Subseries	CUSIP No. ¹	Maturity Date	Illustrative Purchase Yield Based on Treasury Security Yields as of [], 2025*	Illustrative Offer Purchase Prices*		
				Assuming a 0.10% Increase in Treasury Security Yields	Current Treasury Security Yield	Assuming a 0.10% Decrease in Treasury Security Yields

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP information herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the Commission, the Dealer Manager, the Information Agent and Tender Agent nor their respective agents or counsel assumes responsibility for the accuracy of such numbers.

*Preliminary, subject to change.

TENDER OFFER – OFFER PURCHASE PRICES (TAX-EXEMPT TARGET BONDS)

Pursuant to the Invitation, the Offer Purchase Prices for the Tax-Exempt Target Bonds are listed in the table below. [There has been no change in the Indicative Offer Purchase Prices listed on pages (i) and (ii) of the Invitation / the Indicative Offer Purchase Prices listed on page (i) and (ii) of the Invitation have been revised].

[INSERT TABLES]