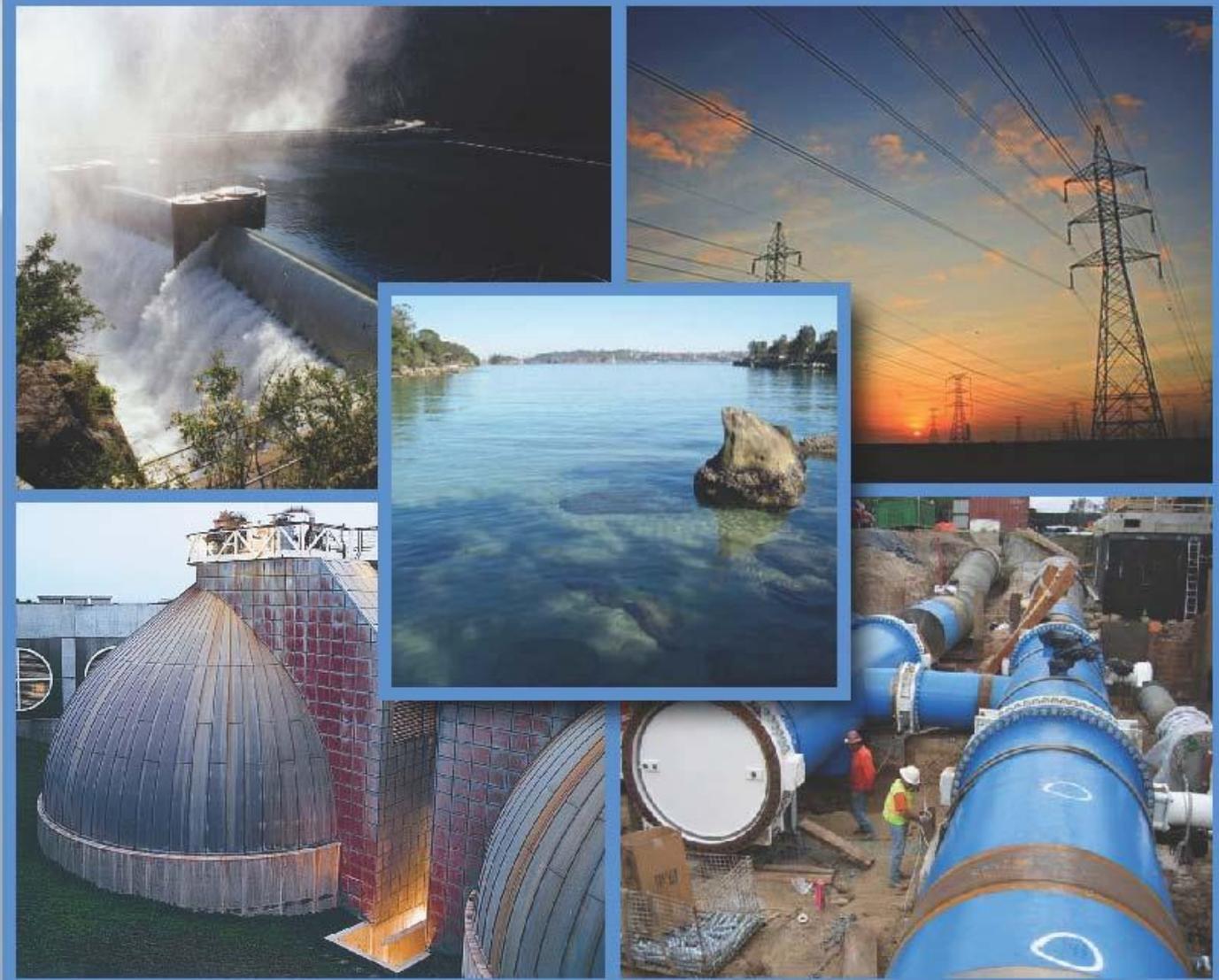


# The San Francisco Public Utilities Commission

A Department of the City and County of  
San Francisco, California



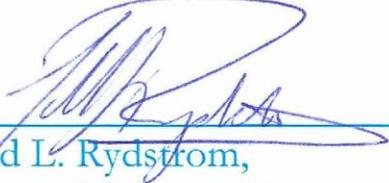
**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2009**

# The San Francisco Public Utilities Commission

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2009



Prepared by SFPUC Financial Services

  
\_\_\_\_\_  
Todd L. Rydstrom,  
Assistant General Manager &  
Chief Financial Officer



The San Francisco Public Utilities Commission

**TABLE OF CONTENTS**

| <b>INTRODUCTORY SECTION</b>   | <u>Page</u>  |
|---|--------------|
| <b>General Manager’s Transmittal Letter</b> .....                     | <b>1-12</b>  |
| The Reporting Entity.....   | 2-3          |
| SFPUC Strategic Plan.....   | 4            |
| San Francisco’s Economy and Employment.....                           | 4            |
| SFPUC Major Accomplishments, Financial Foundation, & Initiatives..... | 4-8          |
| San Francisco Budgetary Process & Next Year’s Budgets.....            | 8-10         |
| Rates.....  | 10-11        |
| Financial Policies.....   | 11           |
| Accounting Systems, Policies & Internal Controls.....                 | 11-12        |
| Conclusion.....   | 12           |
| <b>Mission Statement</b> .....  | <b>13</b>    |
| <b>SFPUC Organization Chart and Structure</b> .....                   | <b>14-15</b> |
| <b>SFPUC Long-Term Strategic Plan</b> .....                           | <b>16-18</b> |
| <b>SFPUC Long-Term Financial Plan</b> .....                           | <b>19</b>    |
| <b>Financial Authority and Policies</b> .....                         | <b>20-24</b> |
| <b>Debt Management Policies</b> .....                                 | <b>24-34</b> |

(Continued)

| <b>FINANCIAL SECTION</b>   | <u>Page</u>    |
|--|----------------|
| <b>Independent Auditors' Report</b> .....  | <b>35-36</b>   |
| <b>Management's Discussion and Analysis</b> .....  | <b>37-70</b>   |
| <b>Basic Financial Statements</b> .....  | <b>71-126</b>  |
| Statements of Net Assets – Business-Type Activities.....   | 71-72          |
| Statements of Activities.....  | 73             |
| Statements of Cash Flows – Business-Type Activities.....   | 74-75          |
| Statements of Net Assets – Proprietary Funds.....  | 76-77          |
| Statements of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.....   | 78             |
| Statements of Cash Flows – Proprietary Funds.....  | 79-80          |
| Notes to Basic Financial Statements.....   | 81-126         |
| <b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters<br/>Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing<br/>Standards</i></b> ..... | <b>127-128</b> |
| <b>Supplementary Information</b> .....   | <b>129-131</b> |
| <br><b>STATISTICAL SECTION</b>   |                |
| <b>Financial Trends</b> .....  | <b>132-147</b> |
| Comparative Highlights of Revenue and Expense.....   | 132-134        |
| Summary of Changes in Net Assets.....  | 135-140        |
| Summary of Net Assets by Component.....  | 141-144        |
| Investments in Capital Assets.....   | 145-147        |
| <b>Revenue Capacity</b> .....  | <b>148-154</b> |
| Water and Wastewater Historical Average Rate Adjustments.....  | 148            |
| Water, Wastewater, & Power Rates History.....  | 149-151        |
| Net Revenue & Debt Service Coverage.....   | 152-154        |

(Continued)

|   | Page           |
|---|----------------|
| <b>Debt Capacity</b> .....  | <b>155-161</b> |
| Debt Ratings.....   | 155            |
| Summary of Debt Outstanding.....                                    | 156-157        |
| History of Outstanding Debt by Type.....                            | 158            |
| Principal and Interest Payments for Debt Issues.....                | 159-161        |
| <b>Demographic &amp; Economic Information</b> .....                 | <b>162-180</b> |
| City and County of San Francisco Economy & General Information..... | 162-170        |
| Summary of Accounts by Type of Customer.....                        | 171-173        |
| Water Accounts and Billings.....                                    | 174            |
| Historical Water Sales in Hundred Cubic Feet.....                   | 175            |
| Historical Water Sales in Millions of Gallons.....                  | 176            |
| Historical Water Sales in Millions of Gallons per Day.....          | 177            |
| Water and Wastewater Accounts and Billings by Type of Customer..... | 178-179        |
| Hetch Hetchy Historical Electric Sales in Megawatt Hours.....       | 180            |
| <b>Operating Information</b> .....                                  | <b>181-189</b> |
| Full-time Equivalent (FTEs) Employees by Division.....              | 181            |
| Operating & Capacity Indicators.....                                | 182-183        |
| Major Customer Accounts by Revenue.....                             | 184-186        |
| Performance Measures.....   | 187-189        |
| <b>Glossary of Terms</b> .....                                      | <b>190-208</b> |

Page Left Intentionally Blank



## **INTRODUCTORY SECTION**

### **General Manager's Transmittal Letter**

The Reporting Entity

SFPUC Strategic Plan

San Francisco's Economy and Employment

SFPUC Major Accomplishments, Financial Foundation, & Initiatives

San Francisco's Budgetary Process & Next Year's Budgets

Rates

Financial Policies

Accounting Systems, Policies & Internal Controls

### **Mission Statement**

### **SFPUC Organization Chart and Structure**

### **SFPUC Long-Term Strategic Plan**

### **SFPUC Long-Term Financial Plan**

### **Financial Authority & Policies**

### **Debt Management Policies**

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**  
**A DEPARTMENT OF THE CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**

Page Left Intentionally Blank



## GENERAL MANAGER'S TRANSMITTAL LETTER

December 18, 2009

Dear Customers, Stakeholders and Commissioners,

We are pleased to present the San Francisco Public Utilities Commission's (SFPUC) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. SFPUC staff remains committed to reach and maintain the highest possible standards in financial reporting now and in the future.



This report was prepared by the SFPUC's Financial Services Bureau Accounting Department in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Recommended guidelines by the Government Finance Officers Association (GFOA) of the United States and Canada were also followed.

The SFPUC's management is responsible for both the accuracy of the data presented and the completeness and fairness of its presentation, including all disclosures. The existing comprehensive structure on internal controls in the City and SFPUC provides reasonable assurance that the financial statements are free of any material misstatements. We believe the report presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the SFPUC, and that the included disclosures enable the reader to gain the maximum understanding of the SFPUC's financial activities.

The SFPUC's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the SFPUC for the fiscal year ended June 30, 2009 are fairly presented in conformity with GAAP, and are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor rendered an unqualified "clean" opinion on the SFPUC's financial statements for the fiscal year ended June 30, 2009. The independent auditors' report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MD&A) is presented after the independent auditor's report, and provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

**GAVIN NEWSOM**  
MAYOR

**F.X. CROWLEY**  
PRESIDENT

**FRANCESCA VIETOR**  
VICE PRESIDENT

**ANN MOLLER CAEN**  
COMMISSIONER

**JULIET ELLIS**  
COMMISSIONER

**ANSON B. MORAN**  
COMMISSIONER

**ED HARRINGTON**  
GENERAL MANAGER

# The San Francisco Public Utilities Commission

## Key Report Sections

This report (CAFR) describes the SFPUC's financial activities, condition and services as a whole. As such, the report covers information about its history, organizational structure, and financial data. This report is divided into three sections: Introductory, Financial, and Statistical.

The **Introductory Section**, which is not audited, includes information about the organizational structure of the SFPUC, a list of Commission members and senior management, a history of governance and operations, its mission statement and strategic plan; a discussion of the City's economy; highlights of SFPUC's major accomplishments, financial foundation, and key initiatives; a summary of the budget process, and rates; and an outline of accounting standards and internal controls.

The **Financial Section** includes the MD&A, Basic Financial Statements for fiscal years 2009 and 2008, notes to the Basic Financial Statements, and supplementary information. The Basic Financial Statements include the financial statements that report on financial operations. The independent auditor's report on the Basic Financial Statements is also included.

The **Statistical Section**, which is not audited, presents selected financial and operating indicators of the SFPUC, and includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting. This section may be of special interest to prospective investors in our bonds.

## The Reporting Entity - Profile of the San Francisco Public Utilities Commission

### Organization and Business

The San Francisco Public Utilities Commission (SFPUC) is a department of the City and County of San Francisco (CCSF) that is responsible for the maintenance, operation, and development of three utility enterprises, the Water, Wastewater, and Hetch Hetchy Water and Power. The San Francisco Public Utilities Commission was established in 1932. Until August 1, 2008, the Commission consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the Commission, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four year terms for members. The Commission is responsible for providing operational oversight and is responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The SFPUC has three Enterprise funds: Water, Wastewater, and Hetch Hetchy Water and Power. These funds support the operations, facilities maintenance, and capital needs of the entities. The SFPUC also includes the Bureaus and Infrastructure, which provide support and oversight services to the Enterprises. The Bureaus' budgets are funded through an allocation model that recovers costs of services to the Enterprises. Infrastructure's budget is funded through various capital projects.

The SFPUC provides these distinct utility services: Water (both regional and local), Wastewater (local collection, treatment and disposal), and Power. SFPUC supplies water to 2.5 million people in San Francisco and the San Francisco Bay Area. One-third of the water is supplied directly to retail customers

## The San Francisco Public Utilities Commission

primarily in San Francisco (including residential, industrial and commercial customers), and the remaining two-thirds is supplied to wholesale customers through a contractual agreement. Wastewater services are provided within the City of San Francisco, as well as to three neighboring districts, including the San Mateo Sanitation District, Bayshore Sanitary District, and the City of Brisbane. Power is primarily supplied to municipal customers and their tenants within the City and County of San Francisco.

**The Water Enterprise Fund** accounts for the activities of SFPUC's Water Enterprise. The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas. The Enterprise collects, transmits, treats, and distributes high quality drinking water to a total population of approximately 2.5 million people, including retail customers in the City and wholesale customers located in San Mateo, Santa Clara, and Alameda Counties. The Water Enterprise delivered approximately 86,986 million gallons in the year ended June 30, 2009. Approximately two-thirds of the water delivered by the Water Enterprise is to wholesale customers. Retail customers include residential, commercial, industrial, and governmental users, and the Enterprise recovers cost of service through user fees. Wholesale customers, totaling 27, include cities, water districts, one private utility, and one nonprofit university. Service to these customers is provided pursuant to the Master Water Sales Contract which establishes the basis for determining the costs of wholesale service. The current contract expired June 30, 2009 and a new agreement had been negotiated, commencing on July 1, 2009.

**The Wastewater Enterprise Fund** accounts for the activities of the SFPUC's Wastewater Enterprise. The Wastewater Enterprise was created after San Francisco voters approved a proposition in 1976 authorizing the city to issue \$240 million in bonds for the purpose of acquiring, constructing, improving, and financing improvements to the City's municipal sewage treatment and disposal system. The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows generated within the City for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3 (Daly City), Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers cost of service through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 150,000 residential accounts, which discharge about 19.0 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 9.2 million units of sanitary flow per year.

**The Hetch Hetchy Water and Power Fund** accounts for the activities of SFPUC's Hetch Hetchy Water and Power. Hetch Hetchy Water and Power was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. Hetch Hetchy Water and Power is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately 79% of the electricity generated by Hetch Hetchy Water and Power is used by the City's municipal customers (including the San Francisco Municipal Railway, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport Commission, San Francisco General Hospital, City street lights, Moscone Center, as well as SFPUC's own Water and Wastewater Enterprises). The majority of remaining 21% of electricity generated is sold to other publicly owned utilities, such as the Turlock and Modesto Irrigation Districts. Hetch Hetchy Water and Power includes a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines, carrying water and power more than 165 miles from the Sierra Nevada to customers in the City and portions of the surrounding San Francisco Bay Area. The SFPUC's Power Enterprise is wholly contained in Hetch Hetchy Water and Power.

## SFPUC Strategic Plan

The Charter also requires the SFPUC to create, update, and adopt a Strategic Plan, which is a performance matrix designed to be used among senior managers to chart progress on four key goals:

- Provide High Quality Services
- Promote a Green and Sustainable City
- Expand Outreach and Communications
- Invest in People and Communities

The Strategic Plan serves as key guidance in planning day-to-day operational deployments as well as project implementations.

## San Francisco's Economy

The City is the economic center of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (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 retail and entertainment, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology, and higher education.

According to the City's Economic Barometer in June 2009, signs of a leveling-off are beginning to appear in two segments of the City's economy: residential real estate and airport travel. June 2009 data showed the third consecutive month of rises in median home sale prices in San Francisco, providing further evidence of a potential bottom in the local residential real estate market. Domestic air traffic continued to rise in June, posting gains both on a month-to-month and annual basis, up 1.2% over prior year.

### **Employment:**

San Francisco has and benefits from a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the California Employment Development Department, the unemployment rate for the City was 9.1% for March 2009 compared with an unadjusted unemployment rate of 11.5% for the State. The City's unemployment rate rose to 9.9% in June 2009, continuing its rise in line with state and national trends. According to the San Francisco Business Times, Book of Lists 2008, the City and County of San Francisco with its 26,657 employees, was the largest employer in the City as of December 2008. More recently, some Bay Area employers had announced layoffs, a trend consistent with the rising unemployment discussed earlier.

## SFPUC Major Accomplishments, Financial Foundation, and Initiatives

SFPUC reached four major and inter-related financial milestones in FY 2008-09. These included:

- The Board of Supervisors approval of a \$1.9 billion supplemental appropriation for the Water System Improvement Program (WSIP), which established new approved scopes and schedules for the program to assure a clean unfiltered water source and a reliable gravity driven system;

## The San Francisco Public Utilities Commission

- The Water and Wastewater Enterprise Rates were reviewed and updated, and five-year rates were approved by the Commission; a ten-year financial plan was developed for each Enterprise in support of long-term capital planning and asset management priorities;
- The Water Enterprise negotiated the terms of new Water Supply Agreement (WSA) between the City and County of San Francisco and the Wholesale Customers. The new Agreement has a 25-year term (with provisions for two, five-year extensions); and
- A new state-of-the-art Customer Service Billing system was implemented, replacing the 20-year-old system allowing greater levels of customer service.

These four major accomplishments together enhance the already established solid financial foundation at the SFPUC. The adopted FY 2009-10 budget is based on this enhanced foundation and also supports the mission of the SFPUC to provide its customers with high quality, efficient and reliable water, wastewater, and power services in a manner that is inclusive of environmental and community interests, and that sustains the resources entrusted to the SFPUC's care. The FY 2009-10 budget aligns with achieving the SFPUC's long-term strategic goals and objectives, outlined in the SFPUC Long-Term Strategic Plan. The FY 2009-10 SFPUC budget is relatively flat compared to the prior year's budget. Along with cost-cutting, the slight increase of only 1.1 percent adjusts funding where necessary to support the critical priorities of the organization. Across the SFPUC, the key areas of focus and commitment during FY 2009-10 are continuous improvement of business operations and the timely and cost-effective completion of capital projects.

### **Infrastructure Improvements Require Rate Increases**

As the Water and Wastewater Enterprises' infrastructure have aged, reliability and service levels have deteriorated. In response, the SFPUC initiated the Water System Improvement Program (WSIP) and the Interim Capital Improvement Program (Interim CIP) for the wastewater collection and treatment system. To adequately fund these large infrastructure programs, the SFPUC approved annual retail water increases of 15.0%, 15.0%, 12.5%, 12.5%, and 6.5% over the next five years. The water rate increase is required to fund the WSIP. Wastewater average rates have also been approved to increase 7.0%, 7.0%, 5.0%, 5.0%, and 5.0% over the next five years. The wastewater rate increase approved for FY 2009-10 will expand the Interim CIP that began in 2005, while at the same time support planning and design work to continue on development of a long-term Sewer System Improvement Program (SSIP).

### **Hetch Hetchy Power, Clean and Renewable**

The Power Enterprise relies on power generation at the Hetch Hetchy Water and Power hydroelectric powerhouses, solar generation, and third-party purchases, to deliver low-cost, reliable electricity to its customers. In accordance with requirements of City policies and directives relating to renewable energy and goals to reduce greenhouse gases, the Power Enterprise continuously researches, develops, and implements new electricity generation resources to provide clean, local generation where it is needed; and ensures reliable power services. This includes both renewable energy projects and strengthening local electric reliability. The Power Enterprise has entered into a Power Purchase Agreement and a corresponding lease for the deployment of solar energy at Sunset Reservoir. Other sites are also being examined for larger scale development of solar energy at SFPUC-owned land at Tesla and Sunol. The model for development is long-term power purchase agreements, where the Hetch Hetchy Power agrees to purchase power and the developer designs, permits, installs, owns and operates the system, thereby minimizing the upfront capital costs. Also, design-build photovoltaic (PV) projects underway include the following facilities: Ways and

## The San Francisco Public Utilities Commission

Structures, Woods Coach, Chinatown Public Health Center, City Hall (part of the Sustainable Energy District), and Davies Symphony Hall.

Energy efficiency investments are an important component of an electric utility's portfolio. Energy efficiency reduces facility operating costs and electric bills for customers, improves system functionality, and reduces the environmental impact of energy use. The Power Enterprise's FY 2009-10 budget includes \$9.5 million in energy efficiency programs targeting the City's General Fund departments, including the planning, design, and construction of a green energy district in Civic Center, and implementation of energy efficiency projects (lighting, heating, and ventilation, energy management system and demand response projects). The GoSolarSF Program was developed by the San Francisco Solar Task Force to encourage the installation of photovoltaic systems on residents and businesses within the City. The GoSolarSF solar incentive program was approved by the Commission in January 2008. The Board of Supervisors passed ordinances establishing a long-term Solar Energy Incentive Program and a Solar Energy Incentive Pilot Program in June 2008. The program was launched on July 1, 2008. The San Francisco GoSolarSF Incentive Program is budgeted at \$5.0 million in the FY 2009-10 budget.

### **Asset Management Planning and Improved Performance**

The SFPUC is embarking on a long-term effort to improve the management of its capital assets. This effort is aimed at identifying and evaluating capital, repair and replacement (R&R), and maintenance needs. The plan includes development of asset management objectives, standards, policies and procedures. It focuses on continuous assessment of work processes to identify improvement opportunities, develop recommendations, and improve asset performance. In FY 2009-10, \$1.0 million has been budgeted for this focused Asset Management function. Early asset management efforts are being focused on: the upgrade to Maximo 7.15, the latest version of the SFPUC's computerized maintenance management system; integrating Maximo and GIS data with asset financial data; standardizing inventory control procedures; establishing budget policy for R&R projects; and developing a unified approach for the replacement of local water and wastewater pipes.

### **Sustainability Planning**

Consistent with the requirements of San Francisco City Charter, Article VIII B, section 8B.123 (A) (3), the SFPUC has completed a comprehensive Sustainability Plan. The Plan was published in December 2008 and is available on the SFPUC website. Plan creation was the result of a three-year effort undertaken through a collaborative process involving the leadership, staff and stakeholders of the SFPUC. The Plan provides a baseline assessment that scores the SFPUC's performance and sets out specific strategies and initiatives, with targets to begin improving sustainability performance in priority areas. The Plan sets in motion this integrated, systematic and long-term approach to sustainability at the SFPUC, whereby the SFPUC will continue to track and monitor performance, assess results, implement a useful reporting protocol, and take needed actions to improve strategic management and decision-making. The FY 2009-10 Sustainability Plan budget is \$0.4 million to facilitate continued work on this front.

### **Water Enterprise: Infrastructure and Water Conservation**

Aging infrastructure makes the need for increased reliability the highest priority for the Water Enterprise. The infrastructure is not limited to the water supply and delivery infrastructure, but also to the information management infrastructure. Consequently, major focus areas for the Water Enterprise include: progress on the WSIP; the Automated Water Meter Reading System, which allows the Water Enterprise to fully

## **The San Francisco Public Utilities Commission**

understand the demand and usage of water; and the Customer Information System (CIS), which provides more current billing, revenue collection, and usage information, allowing more timely response to water conservation requests. Three years of drought have put strain on California water agencies and have made the Water Conservation Program a continued, high priority for the SFPUC and our nearly 2.5 million customers.

The major and newer initiatives are listed below, starting with the WSIP being the single largest component of the capital program:

### **Water System Improvement Program (WSIP)**

The Water Enterprise has embarked on a \$4.6 billion dollar, multi-year program to upgrade its Regional and Local Water Systems, known as the Water System Improvement Program (WSIP). The WSIP will deliver capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high quality drinking water to our 27 wholesale customers and regional retail customers in Alameda, Santa Clara and San Mateo Counties, and to 800,000 retail customers in San Francisco, in an environmentally sustainable manner. The program is structured to cost effectively meet water quality requirements, improve seismic and delivery reliability, and meet water supply objectives for the year 2030.

The total estimated cost for the WSIP is \$4.6 billion; this includes \$4.1 billion for capital projects and the balance of \$0.5 billion for net financing costs. To date, \$2.9 billion has been appropriated for the WSIP, and the program expended \$743.0 million as of June 30, 2009. The remaining appropriation and bond authorization requests to fund the balance of the program will be presented to the Commission and the Board of Supervisors during the latter part of FY 2009-10. Additional details regarding the WSIP are available in the WSIP Annual Reports as well as the Quarterly Updates, published on the SFPUC's website at [www.sfwater.org](http://www.sfwater.org).

### **Automated Water Meter Reading System**

Over the next three years, the SFPUC is implementing the Automated Water Meter Reading System that will largely eliminate manual meter reading field visits, improve customers' access to hourly usage information, facilitate the timely detection of tampering, theft, and leaks, and enhance usage or flow tracking. The total estimated capital cost of this project is \$58.7 million, with implementation beginning in FY 2009-10, and completion projected in February 2012.

### **Customer Information System**

The SFPUC has relied on an outdated, mainframe-based billing system that was over 20 years old. The Customer Information System (CIS) replacement project replaced the mainframe system with state-of-the-art web-based software. Implementation of more fully featured customer care software that is integrated with other SFPUC systems will enable the SFPUC to enhance customer care and enable features such as mobile computing, automated meter reading, and web self-service. The budget for FY 2009-10 includes \$0.8 million for further technical enhancements and implementation are planned. The new system went live early July 2009.

## Water Conservation

The SFPUC, in partnership with the 27 water agencies that purchase water from the SFPUC's Water Enterprise and that are represented by the Bay Area Water Supply and Conservation Agency (BAWSCA), has requested that over 2.5 million Bay Area customers continue voluntary conservation efforts. Last year, these efforts were effective in reducing water consumption by 11.0 percent. Continued voluntary cutbacks in water usage are again necessary through FY 2009-10 to help avoid mandatory consumption limits and rationing at a later time. The Water Enterprise will continue to engage our customers in water conservation efforts. For example, the Water Saving Hero advertising campaign highlights simple and effective steps Bay Area residents can take to conserve water. San Francisco residents will continue to be eligible for rebates for water-efficient toilets and high-efficiency washing machines, as well as free low-flow showerheads. The FY 2009-10 budget, of \$3.7 million for water conservation infrastructure, includes \$1.2 million for a pilot program aimed at reducing water usage by replacing 3,500 high-use toilets with high-quality, high-efficiency models for low-income customers will begin in FY 2009-10.

## Wastewater Enterprise Developing a Sewer System Improvement Program (SSIP)

San Francisco's sewer system is well operated, but aging infrastructure, funding constraints, deferred maintenance, and a vision for a more sustainable system are drivers for a new Sewer System Improvement Program (SSIP). The Program evaluates the current treatment and collection system and provides long-term strategies for wastewater and stormwater management. The Program determines present and future needs to ensure reliable service, meeting all regulatory requirements, and identifies future operational and capital programs to meet these needs. Currently in development through a series of public workshops, it is anticipated the SSIP will be formally approved by the Commission in late FY 2009-10. The goals of the SSIP are to: 1) develop a long-term vision and strategy for the management of the City's wastewater and stormwater; 2) provide a detailed capital planning roadmap for improvements needed; 3) estimate the funds to implement these improvements; 4) address specific challenges facing the system; and 5) maximize system reliability and flexibility. The Wastewater Enterprise has budgeted \$44.5 million on the SSIP since its inception in August 2004 through FY 2009-10. The budget for FY 2009-10 is \$19.0 million. Upon full completion, it is anticipated that the SSIP will cost over \$3 billion to upgrade system reliably for current as well as the next generation of users.

## San Francisco's Budgetary Process

The City adopts annual budgets for all government funds on a budget basis using a current financial resources measurement focus and a modified accrual basis of accounting. Typically capital project funds and certain debt service funds adopt project-length budgets. The budget of the City is the City's single largest policy document and is a detailed operating plan that identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year; (2) the estimated resources (inflows) available for appropriation; and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

## Next Year's Budgets

### *Operating Budget*

The SFPUC operating programs include the regular operating costs and maintenance of utility facilities and lands and support services, (including management, business services, planning and regulatory compliance, and communication) debt service and lease costs for each of the individual Enterprises. The operating budget is financed by both wholesale and retail rates, service charges, and other non-operating revenues, including rents and interest earnings.

### **Water Enterprise**

The Water Enterprise's FY 2009-10 operating budget at \$225.4 million funds the operation and maintenance of the SFPUC water system. The budget also includes \$70.2 million in debt service payments for previously issued revenue bonds to fund its capital needs. Compared to the \$220.2 million approved for FY 2008-09, the budget is increasing by \$5.2 million. New funding includes increases in benefit costs, expansion of the water conservation program and the transfer of thirteen positions from the San Francisco Fire Department to support the Auxiliary Water Supply System (AWSS). These costs are offset by reductions in general administration primarily.

### **Wastewater Enterprise**

The Wastewater Enterprise FY 2009-10 operating budget totals \$205.1 million and funds the operations and maintenance of the SFPUC's sewer system. Compared to the FY 2008-09 approved budget of \$209.8 million, the FY 2009-10 budget decreased by \$4.7 million. The budget also includes \$66.8 million for payment of revenue bonds and State Revolving Fund loans. New funding includes increases to fund employee benefit costs, and new positions to support asset and project contract management and biofuel programs. The increases are partially offset by the reduction in general administration primarily.

### **Hetch Hetchy Water and Power**

Hetch Hetchy Water and Power's FY 2009-10 operating budget totals \$117.9 million and funds the operations and maintenance of the SFPUC's water and power systems, including all Power Enterprise activities. Compared to the FY 2008-09 approved budget of \$105.3 million, the FY 2009-10 budget increased by \$12.7 million for annual power requirements, services related to rate agreements and regulatory requirements, as well as new positions to support maintenance, energy efficiency retrofits and power generation projects.

### *Capital Budget*

The SFPUC capital programs are intended to reconstruct, replace, expand, repair, or improve facilities that are under the SFPUC's jurisdiction. The annual capital budgets are supported by the multi-year Capital Improvement Programs (CIP) and Long-Term Financial Plan (LTFP). The issuance of revenue bonds, other forms of indebtedness, and the execution of governmental loans are provided for under the San Francisco City Charter to finance the SFPUC's capital programs. The repayment of this indebtedness is provided for under the annual rates and revenues of the particular Enterprise that incurs the debt, categorized as debt service in the budgets.

# The San Francisco Public Utilities Commission

## Water Enterprise

The major capital investment for the Water Enterprise is the WSIP, the \$4.6 billion dollar, multi-year capital program to rebuild the water system. The program will enhance the SFPUC's ability to provide reliable, affordable, high-quality water to its 2.5 million customers through environmentally sustainable means. The FY 2009-10 annual budget includes another \$47.1 million includes \$14.7 million in regional projects (storage, watershed, and rights of way, treatment facilities and conveyance); \$26.6 million for local projects (conveyance and distribution; security and Treasure Island); and \$5.8 million for programmatic projects. The additional WSIP capital appropriations will be requested from the Commission and the Board of Supervisors in late FY 2009-10.

## Wastewater Enterprise

FY 2009-10 marks the fifth year of the Interim CIP to reduce the frequency and severity of flooding and to mitigate the environmental hazard of sewage overflow. The Interim CIP provides funding for projects that address the most critical needs of the aging wastewater system, improving the capacity of sewer mains, upgrading treatment facilities and reducing wastewater odors. Projects included in the Interim CIP are: Odor Control Improvements, Electrical and Mechanical Equipment Replacement, Security Emergency Response Improvements, and Solids Handling and Coating Improvements. The Wastewater Enterprise has budgeted \$219.4 million on the Interim CIP since its inception in July 2005 to FY 2009-10, including the recently approved \$119.8 million supplemental in August 2009. The budget for FY 2009-10 includes an additional \$24.3 million of capital funding. The Interim CIP is intended to address the Enterprise's capital needs until the SSIP has been implemented.

## Hetch Hetchy Water and Power

Hetch Hetchy Water and Power's Annual Capital Program for FY 2009-10 is \$64.9 million. Hetch Hetchy Water's capital investment is \$36.4 million in the following areas: communication and security; reservoir and dams; transmission and power infrastructure; roads and rights-of-way building and improvements; and programmatic projects. These investments benefit the delivery of both water and power to all of its customers. The core business of Hetch Hetchy Power is to provide an adequate and reliable supply of electric power to meet the electricity needs of its customers. In promoting energy efficiency, Hetch Hetchy Power is following policy guidance for carrying on energy efficiency work in municipal facilities. It focuses energy efficiency programs on the largest municipal consumers and is building a program to provide support to City design teams to integrate energy efficiency into municipal facilities capital projects. The FY 2009-10 capital investment of \$53.2 million will be funded with revenues.

## Rates

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. A rate study was undertaken in the Spring of 2009 to examine the future revenue requirements and cost of service of both the Water and Wastewater Enterprises and was used to set the retail rates for the next five years, including FY 2009-10 through FY 2013-14. SFPUC adopted a five-year rate proposal that includes increases sufficient to meet project costs and debt coverage requirements. The average rate increases are shown below.

## The San Francisco Public Utilities Commission

### Approved Retail Rate Adjustments

| Water                   | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|-------------------------|---------|---------|---------|---------|---------|
| Annual Rate Adjustments | 15.0%   | 15.0%   | 12.5%   | 12.5%   | 6.5%    |
| Cumulative Adjustments  | 15.0%   | 32.3%   | 48.8%   | 67.4%   | 78.3%   |
| Wastewater              | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
| Annual Rate Adjustments | 7.0%    | 7.0%    | 5.0%    | 5.0%    | 5.0%    |
| Cumulative Adjustments  | 7.0%    | 14.5%   | 20.2%   | 26.2%   | 32.5%   |

### Hetch Hetchy Power

No future retail power rate increases have been adopted by the Commission at this time. In FY 2008-09, Power Enterprise charged the General Fund departments 3.75 cent per kilowatt hour. The other City enterprise departments are being charged at a rate comparable to PG&E rate for similar services. Wholesale service customers, such as Modesto Irrigation District (MID) and Turlock Irrigation District (TID), are charged at rates pursuant to terms of power supply contracts mainly based on our power cost production.

### Wholesale Water Rates

In the Spring of 2009, the SFPUC successfully negotiated a new Water Supply Agreement (WSA) with our Wholesale Water Customers. The new contract took effect on July 1, 2009 and changes the rate basis by which the wholesale rates and revenues are determined from a “utility basis” to a “cash basis” resulting in the repayment of cost-of-capital over the life of the debt rather than the life of the asset. SFPUC adopted the FY 2009-10 wholesale rates under the new contract in May 2009. For FY 2009-10, the wholesale water rate was increased 15.7 percent, effective July 1, 2009. Wholesale rates are reset annually to cover costs as mandated in the new 25-year Water Supply Agreement.

### Financial Policies

The SFPUC has adopted a financial policy which states the purpose and source for each of its designated reserves within its major funds of operating, construction, debt service, and trust. These guidelines enable restricting funds for future infrastructure needs; replacement of aging facilities; bond reserves; and various operating reserves to mitigate unexpected occurrences. These reserves are critical to the SFPUC’s financial strength and high bond ratings.

### Accounting Systems, Policies and Internal Controls

In developing and maintaining the accounting systems, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets. For the fiscal year ended June 30, 2009, the Auditor noted no matters involving internal control over financial reporting and its operation that would be considered a material weakness.

The Finance Department is responsible for providing the financial services for the utility enterprises, including support for financial accounting and reporting, accounts payable, billing and collection of water, wastewater, and power charges, and other revenues. The SFPUC’s financial statements and records are maintained on an enterprise basis using full accrual to ensure the timely matching of revenues against the costs of providing services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.

## The San Francisco Public Utilities Commission

The SFPUC management is responsible for establishing and maintaining a system of internal controls designed to safeguard the enterprises' assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that these objectives are met.

### Conclusion

In FY 2009-10, the SFPUC will continue to invest in programs and projects to support its long-term capability to provide high quality, efficient, and reliable water, wastewater, and power services. Our direction and mandate is to continuously improve our delivery of services and develop more efficient procedures.

In August, 2009, Water sold \$412 million in 2009 Series A Bonds with a true fixed interest cost of 4.82% to finance a portion of the WSIP projects and refund existing commercial paper. 2009 Series B Bonds in the amount of \$412 million were sold in September 2009, with a true fixed interest cost of 4.54%. Outstanding revenue bonds for Water now total \$1.757 billion as of September 30, 2009.

The City & County of San Francisco issued \$167.67 million in fixed rate Certificates of Participation Series 2009 C and D on September 23, 2009 to fund the future headquarters of the SFPUC at 525 Golden Gate Avenue. These series had a true interest cost of 4.17% after factoring in the impact of the Build America Bonds direct-pay subsidy. The 2009 C series were issued for \$38.12 million on a tax-exempt basis, and the 2009 D series were issued for \$129.55 million as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act.

The SFPUC is on track to complete the Wastewater Enterprise Interim CIP and begin a new multi-billion dollar infrastructure improvement program on a scale similar to the WSIP that will strive to leverage resources, talent, and lessons learned once approved by the Commission. All of our capital programs will provide enhancements and new facilities that will improve the SFPUC's ability to provide high quality services at the same time as fostering environmental, economic, and social sustainability for San Francisco and the San Francisco Bay Region.

I would like to express my appreciation to the entire SFPUC Finance Team whose professionalism, dedication, and efficiency are responsible for the preparation of this report. I would also like to thank KPMG LLP for their invaluable professional efforts into the CAFR. Finally, I want to thank the Mayor, the Board of Supervisors and the SFPUC Commission for their continued interest and support towards achieving excellence in financial management and planning for our utilities, customers, and stakeholders.

Respectfully submitted,



Ed Harrington  
General Manager



## Mission, Vision, and Values

The mission of the San Francisco Public Utilities Commission is to provide our customers with high quality, efficient and reliable water, power and wastewater services in a manner that values environmental and community interests and sustains the resources entrusted to the SFPUC's care. The SFPUC is a sustainable utility leader, recognized for superior results in service, value, environmental stewardship and innovation.

## 2009 San Francisco Mayor and Public Utilities Commission Members

GAVIN NEWSOM  
MAYOR

F.X. CROWLEY  
PRESIDENT

FRANCESCA VIETOR  
VICE PRESIDENT

ANN MOLLER CAEN  
COMMISSIONER

JULIET ELLIS  
COMMISSIONER

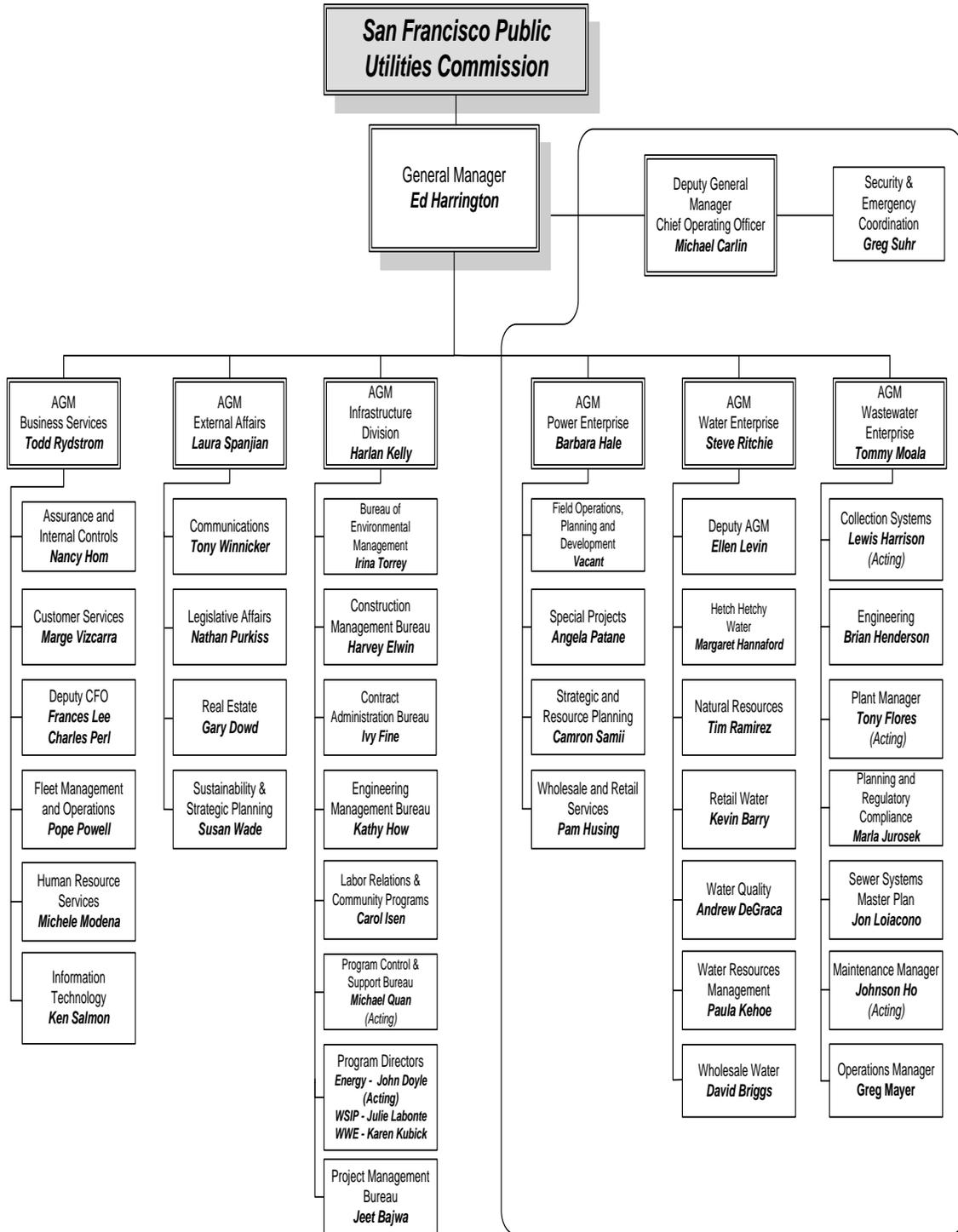
ANSON B. MORAN  
COMMISSIONER

The SFPUC's values include the following:

- **Communication:** Communicate honestly and openly.
- **Equal Opportunity:** Provide opportunities to all staff to contribute and reach their potential. To achieve this, the SFPUC must be a learning organization.
- **Excellence:** Strive for personal and professional excellence, and recognize exemplary performance as the Commission seeks continuous improvement.
- **Service:** Focus on customer needs and satisfaction.
- **Inclusiveness:** Provide access and transparency to stakeholders and community members.
- **Respect:** Understand and appreciate the inherent value of the SFPUC staff, customers and community.
- **Safety:** Take the health and safety of the SFPUC's employees, customers and communities seriously.
- **Stewardship:** Be accountable for and responsibly manage and conserve the human, financial and environmental resources entrusted to the SFPUC's care.
- **Teamwork:** Support a cooperative work environment; the SFPUC team is strengthened by the diversity and contributions of its members.
- **Trust:** Act with honesty, integrity and fairness.

# The San Francisco Public Utilities Commission

## SFPUC Organization Chart



## Structure

The SFPUC is comprised of three Enterprises, Bureaus (including the Office of the General Manger, Business Services, and External Affairs), along with Infrastructure that support and oversee SFPUC-wide operations. The three Enterprises are the Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water and Power. The Bureaus provide critical support services and oversight to the Enterprises and are comprised of the Office of the General Manager, Business Services, External Affairs, and Infrastructure. Business Services includes seven Bureaus: Business Services Administration, Financial Services, Information Technology Services (ITS), Human Resource Services, Customer Services, Assurance & Internal Control, and Fleet Management Operations. External Affairs includes three Bureaus: Communications, Governmental Affairs, and Real Estate Services.

SFPUC Long Term Strategic Plan

Goal: Provide High Quality Services

| Strategies   | Action  | Measures   |
|--|---|--|
| Ensure effective water and wastewater quality monitoring and maintenance of permits                          | ▪ Manage California Department of Public Health permit  | ▪ Numbers of violations; completion of water quality study update  |
|  | ▪ Manage wastewater discharge permits   | ▪ Number of violations   |
|  | ▪ Treasure Island National Pollutant Discharge Elimination System permit  | ▪ Adopted by State Water Resources Control Board   |
|  | ▪ New Oceanside National Pollutant Discharge Elimination System permit  | ▪ Adopted by State Water Resources Control Board   |
|  | ▪ Biosolids Land Application in Solano County   | ▪ Adopted by Solano County Supervisors   |
| Build Water System Improvement Program (WSIP) on schedule  | ▪ Planning Design; Construction; Closeout; Completion   | ▪ Quarterly report shows on-time performance   |
|  | ▪ Coordinate/secure Board of Supervisor and other approvals for WSIP projects   | ▪ All approvals secured  |
|  | ▪ Awarding of critical professional service contracts   | ▪ Meeting schedules within engineering estimates   |
| Prepare Sewer System Improvement Program (SSIP)  | ▪ Complete written Draft Report   | ▪ Complete written Draft Report  |
|  | ▪ EIR in progress for the Digester/Solids Handling facility   | ▪ EIR in progress for the Digester/Solids Handling facility  |
| Optimize Resources to meet municipal power needs   | ▪ Keep apprised of and manage within electric regulatory marketplace changes  | ▪ No penalties imposed by California Independent Systems Operator (ISO); Forecast of Purchase of Power accurate  |
|  | ▪ Meet developer schedules for electric infrastructure and service needs  | ▪ Construct infrastructure on time; Forecast of Customer Demand accurate   |
|  | ▪ Develop/procure renewable resources   | ▪ Increase development/procurement in step with load increase  |
|  | ▪ Identify and implement energy efficiency improvements and demand reduction program  | ▪ Municipal load decrease or reduction in anticipated load   |
|  | ▪ Identify and maintain streetlight portfolio   | ▪ SFPUC and Board of Supervisors approval of pedestrian and street lighting policy                               |
| Maintain Capital Plant Assets  | ▪ Continue to improve baseline metering technology and Meter Data Management functionality  | ▪ Positive California ISO audits of Verification, Edit, Estimation and Meter Data Management Agent functionality |
|  | ▪ Annually update 10-Year Capital Plan for use in budget preparation  | ▪ Updated Capital Plan completed on time   |
|  | ▪ Develop and implement asset management control program  | ▪ Percent of assets managed under an Asset Management Plan   |
| Update emergency plan; communicate plan and train personnel regarding their role as Disaster Service Workers | ▪ Offer mandatory Service Disaster Service Worker training to new and existing SFPUC employees  | ▪ Number of employees who complete Disaster Service Worker training  |
|  | ▪ Development of SFPUC tabletop exercises   | ▪ Number of tabletop exercises executed  |
|  | ▪ Ensure appropriate executive staff have completed TEEX disaster training courses  | ▪ Number of executive staff who have completed TEEX disaster training  |
|  | ▪ Task Orders for EOP/Field Operations Guide and Water Quality Emergency Response Plan Trainings; Request for proposal (RFP) issued for contract for Plan/Field Operations Guide training and plan updating | ▪ Completion of Task Order and issuance of Notice to Proceed; Issuance of RFP                                    |

# The San Francisco Public Utilities Commission

## Goal: Foster a Green City

| Strategies                                  | Action  | Measures  |
|---|---|---|
| Increase water efficiency and recycle usage | <ul style="list-style-type: none"> <li>▪ New recycled water plant at Golden Gate park; agreement with Daly City; build recycled water plants</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Environment review on schedule; community outreach</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>▪ Promote Green Water efforts; groundwater and recycled water development, WUCA, water conservation, bottled water ban</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Various</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ Implement Green ordinance/moving forward with “gray water” usage</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Create local guidelines and standards with Department of Building Inspection</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>▪ Develop and promote Third Annual “Water Saving Hero” water conservation campaign</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Create messages for billboards, cable TV, radio, print and transit ads</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>▪ Secure approval for “Retrofit on Resale” legislation</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Stakeholder and Board of Supervisors support for approved legislation</li> </ul>   |
| Promote energy efficiency and conservation  | <ul style="list-style-type: none"> <li>▪ Promote Green Power efforts: GoSolarSF and municipal solar development, Community Choice Aggregation (CCA), energy efficiency, light-emitting diode (LED) street lights</li> </ul> | <ul style="list-style-type: none"> <li>▪ Various</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ Launch Municipal Energy Efficiency Campaign</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Create outreach materials/tools; Percent of power saved</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ Procure and install smart electric meters at Hunters Point, Treasure Island/Yerba Buena Island, other redevelopment areas</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Meters procured 2010; meters installed 2011 for Hunters Point</li> </ul>   |
| Avoid Wastewater flows                      | <ul style="list-style-type: none"> <li>▪ Promote Green Wastewater efforts: SFGreasecycle, biofuel creation, low impact development, rainwater harvesting</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Various</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ Secure approval for “Fats, Oil &amp; Grease (FOG)” and “Construction Site Runoff Control” ordinances</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Stakeholder and Board of Supervisors support for approved legislation</li> </ul>   |
| Coordinate and publicize green efforts      | <ul style="list-style-type: none"> <li>▪ Promote/Coordinate Civic Center Sustainability District and Platinum Level SFPUC Headquarters</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Various</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ Inter Agency Outreach/Education</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Presentations to government and water agencies</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>▪ Publicize all of the SFPUC’s greening efforts</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Create/implement press releases and conferences; radio, print and transit ads/materials; social media materials; public outreach events</li> </ul> |

## Goal: Expand Outreach and Communications

| Strategies                            | Action  | Measures   |
|---------------------------------------|---|--|
| Develop branding plan                 | <ul style="list-style-type: none"> <li>▪ Develop new name, logo and core branding</li> </ul>                      | <ul style="list-style-type: none"> <li>▪ Employee/Commission support for new name, logo, core branding</li> </ul>          |
| Develop water/wastewater rate package | <ul style="list-style-type: none"> <li>▪ Education/Public Outreach for 2009/2010 Rate Settling package</li> </ul> | <ul style="list-style-type: none"> <li>▪ Stakeholder and Board of Supervisors support for approved rate package</li> </ul> |

# The San Francisco Public Utilities Commission

## Goal: Invest in People

| Strategies  | Action   | Measures  |
|---|--|---|
| Recruit and retain highly qualified people  | <ul style="list-style-type: none"> <li>Create centralized, accessible list of professional organization websites to ensure announcements are reaching targets</li> </ul> | <ul style="list-style-type: none"> <li>Validate list on a yearly basis; perform yearly research to identify new organizations</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Implement On-Boarding software to facilitate hiring process</li> </ul>  | <ul style="list-style-type: none"> <li>Survey new employees to determine level of engagement upon hiring</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Launch satisfaction survey</li> </ul>   | <ul style="list-style-type: none"> <li>Survey creates a baseline and provides data that will drive Human Resource Services decisions</li> </ul>   |
| Facilitate employees' development for internal and external promotion                     | <ul style="list-style-type: none"> <li>Create a forum in senior management to define the leadership qualities the SFPUC seeks</li> </ul>                                 | <ul style="list-style-type: none"> <li>Create a vision statement for leadership that is adopted SFPUC-wide</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Provide <i>case study</i> leadership training for SFPUC employees</li> </ul>  | <ul style="list-style-type: none"> <li>Ensure that at least 50% of senior managers and supervisors attend leadership training, and 50% of non-supervisory staff attend general leadership training</li> </ul> |
|   | <ul style="list-style-type: none"> <li>Launch e-learning in conjunction with training needs assessment</li> </ul>  | <ul style="list-style-type: none"> <li>Additional course offerings listed through Learning Management System (LMS); attendance monitored through LMS</li> </ul>   |
| Ensure employees have clear expectations for performance and understand appraisal process | <ul style="list-style-type: none"> <li>Offer training to managers regarding effective performance appraisals usage and completion</li> </ul>                             | <ul style="list-style-type: none"> <li>Employee engagement surveys indicating higher rate of satisfaction; higher number of completed performance evaluations</li> </ul>                                      |
|   | <ul style="list-style-type: none"> <li>Ensure managers complete appraisals as required</li> </ul>  | <ul style="list-style-type: none"> <li>Number of employees for whom scheduled performance appraisals were completed</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Acquire updated performance appraisal forms with the City's Department of Human Resources</li> </ul>                              | <ul style="list-style-type: none"> <li>90% of managers use correct form</li> </ul>  |
| Ensure the well-being and continued professional development of staff                     | <ul style="list-style-type: none"> <li>Provide high value educational opportunities for employees</li> </ul>   | <ul style="list-style-type: none"> <li>Percent of employees who receive at least eight hours of job related training per year</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Recognize employee contributions and ensure satisfaction</li> </ul>   | <ul style="list-style-type: none"> <li>Percent of employees who rate the SFPUC as a good place to work</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Facilitate employees' development for internal and external promotion</li> </ul>  | <ul style="list-style-type: none"> <li>Percent of employees who receive internal or external promotions</li> </ul>  |

## SFPUC Long-Term Financial Plan

The SFPUC prepares a ten-year Financial Plan as part of the budget deliberations process. It is also required by the City and County of San Francisco Charter Section 8B.123. The Plan includes a ten-year financial summary (FY 2009-10 through FY 2018-19) for each Enterprise, describing projected sources and uses, resulting fund balances and associated financial reserve ratios. Projected costs and revenues are estimates and subject to variations inherent in all such projections. Consequently, the estimates should not be viewed as precise predictions but rather as indications of expected trends given certain expenditure, receipt, and financing assumptions. These assumptions are based on current Board of Supervisors (BOS) and Commission policies, goals, and objectives representing management's best estimates at the time.

Although each Enterprise has its own Long-Term Financial Plan, there are similarities; these are:

- Sources reflect approved rate increases, where applicable, or are otherwise projected based on projected demand, and revenue requirements to ensure indenture covenants are maintained;
- Operations and Maintenance and Repair and Replace projects are financed from rates and service charges;
- Debt Service is financed from annual rates and service charges;
- Capital programs are generally financed by debt including revenue bonds, commercial paper, State Revolving Loans, and lease financing; in some cases Federal or State grants may finance capital projects;
- A minimum revenue bond coverage ratio of 1.25 times on an indenture basis (which includes available fund balances) and 1.00 times on a current operations basis (which excludes available fund balance) will be maintained.

The Financial Plan largely assumes debt financing of capital needs over the next ten-year period for the Water and Wastewater Enterprises. The Water System Improvement Program (WSIP) will require approximately \$4.6 billion in net financing for the program, authorized by the voters under Propositions A and E in November 2002. The Sewer System Improvement Program (SSIP), currently in development, also will require significant debt financing and is authorized under Proposition E.

The SFPUC LTFP assumes a financing strategy that utilizes short-term financing via the existing Commercial Paper (CP) program to calibrate financing needs with project spending. Long-term (30-year) fixed-rate debt issuance is assumed to periodically refund the CP program at an interest rate of 5.0% for the Water Enterprise and 5.25% for the Wastewater Enterprise. The CP program facilitates short-term financing typically at lower interest rates than longer term debt, which minimizes costs. The authorized CP program for the Water and Wastewater Enterprises are \$500 million and \$150 million respectively.

## FINANCIAL AUTHORITY AND POLICIES

### General

The City and County of San Francisco is a Charter City under the California Constitution, and as a result, the Charter is the guiding document for financial authority and policies for City Departments. The SFPUC is the department of the City responsible for the maintenance, operation and development of three utility enterprises: the Water Enterprise, the Wastewater Enterprise and Hetch Hetchy Water and Power. Each of the SFPUC's Enterprise's funds are operated and managed as a separate financial entity and separate Enterprise funds are maintained.

Below are specific sections of the Charter which pertain to the requirements and parameters of activities in which the SFPUC engages, including the development, content, and approvals of budgets, rates, debt, contracts and Capital Investment Plans (CIP).

### Financial Authority\*

#### *PUBLIC UTILITIES COMMISSION. (SEC. 8B.121.)*

- (a) Notwithstanding Charter section 4.112, the Public Utilities Commission shall have exclusive charge of the construction, management, supervision, maintenance, extension, expansion, operation, use and control of all water, clean water and energy supplies and utilities of the City as well as the real, personal and financial assets, that are under the Commission's jurisdiction or assigned to the Commission under Section 4.132.
- (b) The Public Utilities Commission may enter into Joint Powers Agreements with other public entities in furtherance of the responsibilities of the Commission.
- (c) Except to the extent otherwise provided in this Article, the Public Utilities Commission shall be subject to the provisions of Charter sections 4.100 et seq. generally applicable to boards and commissions of the City and County.
- (d) The General Manager shall have the authority to organize and reorganize the department. The General Manager shall adopt rules and regulations governing all matters within the jurisdiction of the department subject to section 4.102 as applicable.
- (e) Ownership or control of any public utility or any part thereof under the jurisdiction of the Public Utilities Commission may not be transferred or conveyed absent approval by the Public Utilities Commission and approval by a vote of the electors of the City at the election next ensuing not less than 90 days after the adoption of such ordinance, which shall not go into effect until ratified by a majority of the voters voting thereon. Voter approval shall not be required for sales or transfers of real property declared surplus to the needs of any utility by the Public Utilities Commission or to leases or permits for the use of utility real property approved by the Public Utilities Commission.

(Added November 2002)

#### *GOALS AND OBJECTIVES RELATED TO WATER AND CLEAN WATER [WASTEWATER] (SEC. 8B.122.)*

- (a) SFPUC shall develop, periodically update and implement programs to achieve goals and objectives consistent with the following:

## The San Francisco Public Utilities Commission

- (1) Provide water and clean water services to San Francisco and water service to its wholesale customers while maintaining stewardship of the system by the City;
- (2) Establish equitable rates sufficient to meet and maintain operation, maintenance and financial health of the system;
- (3) Provide reliable water and clean water services and optimize the systems' ability to withstand disasters;
- (4) Protect and manage lands and natural resources used by SFPUC to provide utility services consistent with applicable laws in an environmentally sustainable manner. Operate hydroelectric generation facilities in a manner that causes no reasonably anticipated adverse impacts on water service and habitat;
- (5) Develop and implement priority programs to increase and to monitor water conservation and efficiency system-wide;
- (6) Utilize state-of-the-art innovative technologies where feasible and beneficial;
- (7) Develop and implement a comprehensive set of environmental justice guidelines for use in connection with its operations and projects in the City;
- (8) Create opportunities for meaningful community participation in development and implementation of SFPUC's policies and programs; and
- (9) Improve drinking water quality with a goal of exceeding applicable drinking water standards if feasible.

(Added November 2002)

### **Financial Policies**\*

#### ***MISSION-DRIVEN BUDGET. (SEC. 9.114.)***

Each departmental budget shall describe each proposed activity of that department and the cost of that activity. In addition, each department shall provide the Mayor and the Board of Supervisors with the following details regarding its budget:

1. The overall mission and goals of the department;
2. The specific programs and activities conducted by the department to accomplish its mission and goals;
3. The customer(s) or client(s) served by the department;
4. The service outcome desired by the customer(s) or client(s) of the department's programs and activities;
5. Strategic plans that guide each program or activity;
6. Productivity goals that measure progress toward strategic plans;
7. The total cost of carrying out each program or activity; and
8. The extent to which the department achieved, exceeded or failed to meet its missions, goals, productivity objectives, service objectives, strategic plans and spending constraints identified in subsections (1) through (6) during the prior year.

Departmental budget estimates shall be prepared in such form as the Controller, after consulting with the Mayor, directs in writing.

#### ***PLANNING AND REPORTING. (SEC. 8B.123.)***

##### **(a) Planning and Reporting**

The Public Utilities Commission shall annually hold public hearings to review, update and adopt:

- (1) A Long-Term Capital Improvement Program, covering projects during the next 10-year period; including cost estimates and schedules.
- (2) A Long-Term Financial Plan, for a 10-year period, including estimates of operation and maintenance expenses, repair and replacement costs, debt costs and rate increase requirements.

# The San Francisco Public Utilities Commission

- (3) A Long-Term Strategic Plan, setting forth strategic goals and objectives and establishing performance standards as appropriate.

\* From the City and County of San Francisco 1996 Charter, Codified through Ordinance 102-09, File No. 090543, approved June 23, 2009 (supplement No. 23)

The Capital Improvement Program and Long-Term Financial Plan shall serve as a basis and supporting documentation for SFPUC's capital budget, the issuance of revenue bonds, other forms of indebtedness and execution of governmental loans under this Charter.

(b) Citizens' Advisory Committee

The Board of Supervisors, in consultation with the General Manager of the Public Utilities Commission, shall establish by ordinance a Citizens' Advisory Committee to provide recommendations to the General Manager of the Public Utilities Commission, the Public Utilities Commission and the Board of Supervisors.

(Added November 2002)

## *WATER AND CLEAN WATER [WASTEWATER] REVENUE BONDS. ( SEC. 8B.124.)*

Notwithstanding, and in addition to, the authority granted under Charter Section 9.107, the Public Utilities Commission is hereby authorized to 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 Public Utilities Commission.

Any legislation authorizing the issuance of revenue bonds (except for refunding bonds) under this section shall be subject to the referendum requirements of Section 14.102 of this Charter. The ordinance authorizing the issuance of such revenue bonds shall not become effective until 30 days after its adoption.

Notwithstanding any other provision of this Charter or of any ordinance of the City and County, the Board of Supervisors may take any and all actions necessary to authorize, issue and repay such bonds, including, but not limited to, modifying schedules of rates and charges to provide for the payment and retirement of such bonds, subject to the following conditions:

- (a) Certification by an independent engineer retained by the Public Utilities Commission that:
  - (1) the projects to be financed by the bonds, including the prioritization, cost estimates and scheduling, meet utility standards; and
  - (2) that estimated net revenue 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 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 Public Utilities Commission funded with such bonds will comply with applicable requirements of the California Environmental Quality Act.

Except as expressly provided in this Charter, all revenue bonds may be issued and sold in accordance with state law or any procedure provided for by ordinance of the Board of Supervisors.

(Added November 2002)

# The San Francisco Public Utilities Commission

## *RATES. (SEC. 8B.125.)*

Notwithstanding Charter sections 2.109, 3.100 and 4.102 or any ordinance (including, without limitation, Administrative Code Appendix 39), the Public Utilities Commission shall 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 shall become effective without further action.

In setting retail rates, fees and charges SFPUC shall:

- (a) 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 water customers' share of the debt service on bonds and operating expenses of any state financing authority such as the Regional Water System 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;
  1. Retain an independent rate consultant to conduct rate and cost of service studies for each utility at least every five years;
  2. Set retail rates, fees and charges based on the cost of service;
  3. Conduct all studies mandated by applicable state and federal law to consider implementing connection fees for water and clean water facilities servicing new development;
  4. Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws;
  5. Adopt annually a rolling 5-year forecast of rates, fees and other charges; and
  6. Establish a Rate Fairness Board consisting of seven members: the City Administrator or his or her designee; the Controller or his or her designee; the Director of the Mayor's Office of Public Finance or his or her designee; two residential City retail customers, consisting of one appointed by the Mayor and one by the Board of Supervisors; and two City retail business customers, consisting of a large business customer appointed by the Mayor and a small business customer appointed by the Board of Supervisors.

The Rate Fairness Board may:

- i. Review the five-year rate forecast;
- ii. Hold one or more public hearings on annual rate recommendations before the Public Utilities Commission adopts rates;
- iii. Provide a report and recommendations to the Public Utilities Commission on the rate proposal; and
- iv. In connection with periodic rate studies, submit to the Public Utilities Commission rate policy recommendations for the Commission's consideration, including recommendations to reallocate costs among various retail utility customer classifications, subject to any outstanding bond requirements.

These provisions shall be effective January 3, 2003 for the setting of retail rates, fees and charges related to the clean water system. If the voters approve bonds for the Public Utilities Commission's Capital Improvement Program at the November 5, 2002 election then the provisions of this section shall take effect on July 2, 2006 for the setting of retail rates, fees and charges related to the water system. If the voters do not approve such bonds then this section will take effect on January 3, 2003.

(Added November 2002)

## *CONTRACTING AND PURCHASING. (SEC. 8B.127.)*

Notwithstanding Charter Section 9.118 or any ordinance, the Public Utilities Commission shall have the sole authority to enter into agreements for the purchase of water; the sale of water to wholesale customers; and agreements necessary to implement Joint Powers Agreements with any wholesale water customer.

In order to promote labor stability and to ensure the Capital Improvement Program is completed expeditiously and efficiently, the Public Utilities Commission is authorized, to the extent legally appropriate, to enter into project labor agreements, with appropriate Building Construction and Trades Councils, covering significant capital projects.

<sup>1</sup> The City and County of San Francisco 1996 Charter, Codified through Ordinance 102-09, File No. 090543, approved June 23, 2009 (supplement No. 23)

## **Debt Management Policies**

### **I. Scope and Application**

The SFPUC has established these Debt Management Policies and Procedures for debt financings for enterprises under the jurisdiction of the SFPUC as a department of the City and County of San Francisco, including for the Water and Wastewater Enterprises (which are the same for each Enterprise, unless otherwise noted. The policies may be expanded to include those rate policies that may be applicable or unique to Hetch Hetchy Water and Power.). These policies are intended to enable the SFPUC to more effectively manage its debt issuance and debt management practices.

### **II. SFPUC's Debt Management Mission**

SFPUC's debt management mission is to serve, within the financial objectives and parameters established by the Commission, the capital financing needs of the respective enterprises in a cost effective, low risk and flexible manner, through the implementation of sound financial decision making and the use of appropriate financing tools.

### **III. Debt Management Objectives**

- a. Finance capital projects of SFPUC's enterprises in a timely and cost-effective manner.
- b. Effectively manage debt within Commission objectives and parameters.
- c. Achieve and maintain the highest practicable credit ratings to lower the cost of SFPUC debt.
- d. Retain maximum financial flexibility.

### **IV. Types and Purposes of Debt**

The SFPUC may issue revenue bond obligations to finance long-term capital projects for the respective enterprises. Debt is issued to finance the acquisition and/or construction of capital improvements, unless otherwise decreed by court order or adjudicated settlement. Debt financings are not used to fund SFPUC operating costs.

- a. SFPUC revenue bonds are secured by a pledge of net revenues of the applicable enterprise to generate revenues sufficient to pay the principal of and interest on the bonds.
- b. The SFPUC may issue the following types of debt:
  - i. Fixed rate bonds - long-term securities with serial and term maturities. Interest rates are determined when the bonds are sold and are fixed to maturity.
  - ii. Variable rate bonds - long-term securities that bear interest at variable rates adjusted at agreed upon intervals, such as daily, weekly or monthly. The holder of the variable rate security may be allowed to "put" the security to a liquidity provider retained by the SFPUC.

## The San Francisco Public Utilities Commission

- iii. Commercial paper - short-term (1-270 days) security with fixed interest rates. Customarily, commercial paper is secured by a junior pledge of net revenues and a letter of credit. Commercial paper is designed to provide flexible, low-cost financing for capital projects and is ultimately refunded with the issuance of long-term revenue bonds.
- iv. Refunding Bonds - issued to realize debt service savings, or for other debt restructuring purposes. Absent significant non-economic factors, the Commission's policy is that refunding transactions should produce net debt service savings of at least 3% of the par value of the refunded bonds, calculated using the refunding issue's true interest cost (TIC) as the discount rate.
- v. State Revolving Fund Loan program - managed by the State Water Resources Control Board, provides alternative capital financing for certain facilities of the Wastewater Enterprise. Existing loans are deemed to be senior in priority of payment and future loans may be deemed to be on parity with or senior to outstanding revenue bond indebtedness. Such a loan program may be available in the future for the Water Enterprise through the Drinking Water Program of the State Department of Health.
- vi. Other <reserved>

### V. Debt Authorization

#### a. Charter

- i. Section 9.107 permits the issuance of revenue bonds with approval of a majority of the voters and BOS approval.
  - Proposition A, approved by the voters in November 2002, authorizes the SFPUC, subject to BOS approval, to issue up to \$1.628 billion in revenue bonds or other forms of indebtedness to finance the acquisition and construction of improvements to the City's water system.
- ii. Section 9.109 authorizes the issuance of refunding bonds that achieve net debt service savings on a present value basis without voter approval. Refunding bonds must be approved by the BOS.
- iii. Section 9.111-1 authorizes the SFPUC to incur "environmental protection" loans, subject to BOS approval.
- iv. Section 8B (Proposition E passed by the voters in November 2002) authorizes the SFPUC to issue revenue bonds or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities when authorized by ordinance approved by a two-thirds vote of the BOS.

#### b. Commercial Paper Authorization

- i. Section 8B (Proposition E) authorizes the issuance of revenue bonds or other forms of indebtedness, including commercial paper, with a two-thirds vote of the BOS.
- ii. San Francisco Administrative Code – Article V of Chapter 43 of Part I enacted by Ordinance No. 203-98 adopted on June 8, 1998 by the BOS and signed by the Mayor on June 19, 1998 – establishes a procedure for the SFPUC to issue commercial paper.

### VI. Approval Process

- a. Commission approval in the form of a resolution is required for all SFPUC financings.
- b. Capital Improvement Advisory Committee (CIAC) – Pursuant to the City's Administrative Code, Section 3.22, all proposed new long-term (greater than one year) financing transactions for capital improvements shall be reviewed by the City's CIAC.
- c. BOS approval in the form of a resolution or ordinance is required for SFPUC financings, as follows:
  - i. If pursuant to voter-approved debt (e.g., Proposition A), a resolution passed by a majority of the BOS is required.
  - ii. If pursuant to Charter Section 8B (Proposition E), an ordinance passed by two-thirds vote of the BOS is required and is subject to referendum requirements of Charter Section 14.102. The ordinance does not become effective until 30 days after its adoption.

# The San Francisco Public Utilities Commission

- d. Voter Authorization and Ballot Procedure – SFPUC may, pursuant to Charter Section 9.107, seek voter approval for revenue bond issuance. Prior to placing any measure on the ballot, the SFPUC must submit the item to the CIAC for its review. Legislation requesting the submission of a proposal for the issuance of revenue bonds to the voters of the City must be submitted in the form of a resolution by the SFPUC at a regularly scheduled BOS meeting in sufficient time prior to the due date to the Department of Elections to account for a 30-day review period at the BOS and BOS Finance Committee meetings.
- e. Any financing-related item submitted to the BOS must first be reviewed and analyzed by the Budget Analyst who prepares a report and recommendation for the BOS.

## VII. Debt Limitations

- a. The Commission has adopted financial policies that effectively limit the amount of debt that can be issued. These include:
  - i. Debt service coverage target: net revenues equal to at least 125% of annual debt service.
  - ii. O&M reserve: an O&M reserve equal to 25% of annual O&M expenses.
  - iii. Rate policy: predictable and financially prudent rate increase policy.
- b. Current SFPUC financing documents require that net revenues plus unappropriated fund balance equal 1.25 times annual debt service. From time to time, utility user rates may have to be increased to comply with financing document covenants.
- c. To issue additional bonds, SFPUC financing documents require an independent certification that debt coverage of 1.25 will be maintained for three years after issuance of additional bonds.
- d. The Commission and the BOS must approve any additional indebtedness.

## VIII. Methods of Sale

- a. General -
  - i. Marketing – Bond sales shall be advertised as broadly as possible and receive a rating from at least one nationally recognized rating agency. The financial advisors for each transaction shall undertake to market the bonds to prospective bidders and investors as appropriate or relevant.
  - ii. Amendments – Terms of the bonds shall be subject to amendment as late as practicable in the issuance process.
- b. Competitive – New money and refunding fixed-rate revenue bonds should be issued by competitive sale unless (i) there is significant deterioration in the SFPUC’s overall credit rating or outlook, (ii) there are issues specific to a transaction that are outside of the SFPUC’s customary credit profile including market issues such as threat of war or changes in taxation or sector risks, (iii) or other factors which militate against the use of the competitive sale process. The SFPUC may take bids in person, by facsimile or by electronic means.
  - i. Cancellation – Bond sales shall be subject to cancellation at any time prior to the time bids are to be received.
    - 1. Award – The bonds shall be awarded to the bidder whose conforming bid represents the lowest true interest cost (TIC) to the SFPUC. The SFPUC’s financial advisor will confirm the calculation of the TIC before any bonds are awarded. The SFPUC may then restructure the bonds in accordance with the Official Notice of Sale. The SFPUC shall reserve the unfettered right to reject all bids or waive bid irregularities.
    - 2. The General Manager or his/her designee shall award the sale of revenue bonds.
- c. Negotiated Sale – Variable rate bonds, including variable rate demand notes, auction rate securities, commercial paper, etc. may be issued by negotiated sale. The SFPUC may retain more than one dealer or remarketing agent for each issuance of variable rate indebtedness. The SFPUC shall reserve the right to replace a dealer or remarketing agent with notice at any time for any reason in its sole discretion.

# The San Francisco Public Utilities Commission

## IX. Debt Structuring Policies

a. Standard terms – The following terms will apply to the SFPUC’s transactions, as appropriate. Individual terms may change as dictated by the marketplace and/or by the unique characteristics of a given transaction.

i. Fixed Rate Revenue Bonds

- |                                |  |
|--------------------------------|--|
| 1. Term                        | Up to 30 years per issue   |
| 2. Maximum interest rate       | Not to exceed 12%  |
| 3. Maximum premium or discount | Case by case as recommended by SFPUC’s financial advisor(s)  |
| 4. Payment dates               | Water: November 1 for annual principal and semi-annual interest; May 1 for semi-annual interest<br>Wastewater: October 1 for annual principal and semi-annual interest; April 1 for semi-annual interest<br>The first payment may be extended beyond the first November or October after the bond sale if it is advantageous |
| 5. Call provisions             | Shortest possible optional call consistent with optimal pricing; no more than 30 days notice   |
| 6. Structure of debt           | Level debt service unless an alternative structure is advantageous – principal payments may be serial and/or term bonds  |
| 7. Reserve funds               | The greater of what is permitted pursuant to indenture requirements or current tax law   |
| 8. Capitalized interest        | Up to three years or whatever else may be legally permissible and advantageous   |
| 9. Good faith deposit          | 1% of par amount which may be satisfied by cash, surety or equivalent  |

ii. Variable Rate Obligations – The SFPUC may elect to issue variable rate obligations, including variable rate demand obligations, auction rate securities and commercial paper.

- |                          |  |
|--------------------------|--|
| 1. Purpose               | Lower net borrowing costs; match assets and liabilities; diversify debt portfolio          |
| 2. Portfolio allocation  | No more than 25% of each enterprise’s outstanding debt shall be variable rate              |
| 3. Term                  | Up to 30 years per issue, except commercial paper which has a maximum maturity of 270 days |
| 4. Maximum interest rate | 12%  |
| 5. Monitoring            | SFPUC will monitor all variable  |

# The San Francisco Public Utilities Commission

- |                                     |  |
|-------------------------------------|--|
|                                     | rate bonds on a regular basis and shall determine, from time to time, whether to change modes, alter hedging strategies and/or replace a dealer or remarketing agent   |
| 6. Budgeting                        | SFPUC will recommend an annual budget of debt service on any variable rate obligations at 1.5 times the rolling 3-year average of the Bond Market Association index, or other appropriate index over a similar time frame.                           |
| 7. Remarketing inventory obligation | SFPUC may require that remarketing or dealer agreements contain a provision requiring that the dealer or agent, in the event of a failed remarketing, inventory the securities, at prevailing interest rates, for up to 30 days.                     |
| 8. Call/Conversion provision        | On any date without penalty; no more than 10 days notice.  |
| 9. Liquidity                        | A liquidity or letter of credit will be obtained for all variable rate obligations as market conditions may require; Liquidity or letter of credit providers will maintain the highest short-term ratings and long-term ratings of a least double A. |
| 10. Mode                            | Variable rate obligations, with the exception of commercial paper, may be issued as “multi-modal”.   |

## X. Derivatives Policy – See following Derivatives Policy Section

## XI. Permitted Investments

- a. All investments of bond proceeds shall be limited to the City’s Investment Policy approved periodically by the County Treasurer Oversight Committee.
- b. Investment of bond proceeds that are held by the Trustee must further be limited to those permitted in the financing documents or agreements.
- c. Investment agreements which may be entered into from time to time. Investment shall have the following general limitations:
  1. Purpose  
Maximize interest earnings thereby reducing net borrowing costs  
Match assets and liabilities, and/or Hedging
  2. Counterparty  
Minimum rating of AA from at

# The San Francisco Public Utilities Commission

|                          |  |
|--------------------------|--|
|                          | least one major credit rating agency   |
| 3. Mandatory termination | Limited to credit-related events and non-payment.                                      |
| 4. Cure provisions       | Timelines on SFPUC's obligations to cure must be adequate to accommodate City process. |
| 5. Priority of payment   | Termination payments shall be subordinate to related debt payments                     |
| 6. Procurement           | Award based on best bid as defined in bid form   |
| 7. Term                  | <reserved>   |

## XII. Professional Assistance

- a. Financial Advisors –SFPUC shall utilize the services of independent financial advisors in connection with financing-related issues. The financial advisors shall be selected via a competitive RFP process and the services to be provided shall be documented by contract and compensation shall be capped.
- b. City Attorney's Office – SFPUC shall utilize the services of the City Attorney's Office (CAO) when appropriate for legal support on financing-related matters.
- c. Bond Counsel – SFPUC, with the CAO's recommendation, shall select bond counsel for each transaction.
- d. Dealers, Auction Agents and Remarketing Agents – Such firms shall be selected on a competitive Request for Proposals (RFP) basis and performance will be monitored regularly. SFPUC shall retain the right to replace any such firm with due notice at any time.
- e. Trustees – Trustee shall have a combined capital and surplus of at least \$50 million and be subject to supervision or examination by relevant federal or state regulatory bodies.
- f. Letter of credit or liquidity providers – Selected via competitive RFP and subject to negotiations of its terms.
- g. Investment agreement counterparties – Selected from pool approved by Mayor's Office of Public Finance and in accordance with indenture and City's investment policies.
  - i. In general, uncollateralized investment agreements shall be executed with counterparties rated at least "AAA" with collateral required upon a downgrade below "AAA".
  - ii. Repurchase agreements or forward delivery agreements shall be executed with counterparties rated at least "AA" with downgrade provisions requiring assignment or collateral upon a rating downgrade below the "A" level.
- h. Other professional assistance may be secured as necessary or desirable.

## XIII. Ongoing Debt Administration

- a. Continuing Disclosure – In connection with financings, it is SFPUC's goal to provide timely information to the marketplace.
  - i. Ongoing disclosure requirements established per continuing disclosure certificates and other financing documents and agreements shall be promptly complied with. See Summary of Disclosure Requirements Section.
  - ii. Annual disclosure report – SFPUC covenants to provide its annual disclosure report no later than 270 days following the end of the fiscal year. However, SFPUC shall use its best efforts to issue the Annual Disclosure Report as soon as practical following the issuance of the City's annual Comprehensive Annual Financial Report (CAFR). The SFPUC will use its best efforts to issue the Annual Disclosure Report electronically, to post it on its web site, at the Main Library and on file with the Commission, the Mayor's Office of Public Finance, the City Treasurer, the City Controller, and the Clerk of the Board of Supervisors. The

## The San Francisco Public Utilities Commission

- report shall include CUSIPs, trustee and issuer contacts, and all other information as required pursuant to continuing disclosure certificates.
- iii. Material event – The SFPUC will issue a material event notice in accordance with the provisions of SEC Rule 15c2-12. Prior to the issuance of any material event notice, the SFPUC will convene a meeting of the Commission, the Mayor’s Office of Public Finance, the City Treasurer, the City Controller, the City Attorney and outside professionals as appropriate, to discuss the materiality of the event and the process for equal, timely and appropriate disclosure to the public and investment community.
  - iv. Voluntary disclosure –
    - 1. The SFPUC will provide annual disclosure for all variable rate indebtedness with a stated maturity greater than 3 years.
    - 2. Subject to the inclusion of appropriate legal language, the SFPUC will post all financial statements, official statements and related documents on its web site in a timely manner.
  - v. Official Statements – Official statements shall contain a summary of the continuing disclosure obligations, which may exceed obligations enumerated in SEC Rule 15c2-12.
- b. Arbitrage Rebate Compliance – The SFPUC shall calculate arbitrage annually in each year that the related construction fund (or equivalent) has had an outstanding balance. Thereafter, the SFPUC shall calculate arbitrage on the fifth anniversary of the bond issuance in accordance with IRS recommended practices.
- c. Credit Ratings – SFPUC’s policy is to secure underlying ratings on all newly issued obligations from at least one nationally recognized rating agency. The SFPUC may choose to obtain ratings from more than one credit rating agency as appropriate and acceptable in the marketplace.
- i. Annual Meetings – The SFPUC will meet (or formally communicate) with credit rating agencies at least annually unless such meeting is deemed unnecessary by the rating agencies.
  - ii. Reporting – The SFPUC will promptly make available to rating agency the following documents:
    - 1. Annual audited financial statements
    - 2. Annual adopted budgets
    - 3. Other relevant documents
  - iii. Citywide Ratings Notification – Any changes in ratings will be promptly noticed to the Commission, the Mayor, the Mayor’s Office of Public Finance, the Mayor’s Finance (or Budget) Director and Press Secretary, the City Controller, City Treasurer, President of the Board of Supervisors, Chair of the Finance Committee of the Board of Supervisors, as relevant.
- d. Public Utilities Revenue Bond Oversight Committee (RBOC) - Pursuant to the City’s Administrative Code Chapter 5A (Proposition P, passed by the voters in November 2002), the RBOC provides oversight to ensure that the proceeds from revenue bonds authorized by the BOS and/or the voters after November 2002 are expended in accordance with the authorizing bond resolution and applicable law.

The RBOC reports at least annually to the Mayor, the BOS and the Commission regarding the SFPUC’s expenditure of revenue bond proceeds. Such reports are filed with the Commission, the Clerk of the BOS and the Main Library.

If, after conducting all appropriate reviews and independent audit of actual expenditures of revenue bond proceeds, the RBOC, after consultation with the City Attorney, determines that proceeds are being or have been expended for purposes not authorized by the authorizing bond resolution or otherwise amount to an illegal expenditure of such proceeds, the RBOC may, by majority vote of all its members, prohibit the further issuance or sale of authorized revenue bonds which have yet to be issued or sold. Any such determination by the RBOC may be appealed to the BOS within 30 days of

# The San Francisco Public Utilities Commission

the RBOC's decision. The BOS may overturn the decision of the RBOC by resolution approved by two-thirds vote of all its members.

To the extent permitted by law, one-twentieth of one percent of revenue bond proceeds may fund the costs of the RBOC, except that costs associated with clerical, technical and administrative assistance in furtherance of its purposes and any compensation due the members are to be paid by the BOS.

## *Derivatives Policy*

- I. Derivatives (including swaps, swaptions, caps, floors and collars) – Purpose and Objectives
  - a. To achieve significant savings as compared to a product available in the bond market.
  - b. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the SFPUC's balance sheet.
  - c. To achieve more flexibility in meeting overall financing objectives.
  - d. Generate an increased net investment return.
  
- II. Derivative Approval Process
  - a. Commission approval - The Commission, prior to SFPUC entering into a derivative product, shall approve the transaction. If a proposed derivative product meets the objectives of the SFPUC as described herein, SFPUC shall provide to the Commission for their review and approval, an analysis and evaluation of the proposal including risk factors.
    - i. Risk/benefit analysis – Identification and evaluation of proposed benefit and potential risks and any mitigations thereto. Such potential risks shall include:
      1. Market or interest rate risk – Risk of exposure to fluctuations in interest rates.
      2. Tax law risk – Risk of rate adjustments, extraordinary payments, termination or other adverse consequences in the event of a future change in federal income tax policy.
      3. Termination risk – Risk of termination by the counterparty in an adverse market (other than at the option of the SFPUC). Mitigation is the maintenance of sufficient liquidity to cover this exposure.
      4. “Put” risk – Risk of a future financing that is dependent upon third party participation. Mitigation is to obtain commitment that can be or have been secured for such participation.
      5. Legal authority risk – Risk of removal of any party's legal authority to participate in the transaction.
      6. Counterparty credit risk – Risk of credit-worthiness of the counterparty. Mitigation is to include provisions in the documents that protect SFPUC from exposure to adverse changes in counterparty's credit standing.
      7. Ratings risk – Risk that the transaction could impact the SFPUC's current credit ratings or its desired future ratings and that the transaction is in conflict with rating agency recommended practices.
      8. Basis risk – Risk that the payments that SFPUC would make or receive would not match the payments that it seeks to hedge.
      9. Tax-exemption of SFPUC debt risk – Risk that the transaction is not in compliance with all federal tax law requirements with respect to the SFPUC's outstanding tax-exempt bonds.
      10. Accounting risk – Risk that the transaction is not compatible with internal accounting procedures and reporting practices. Related risk is the impact on SFPUC's rate covenant calculation or compliance.
      11. Administrative risk – Risk of SFPUC's failure to administer and monitor transactions consistent with the policies herein.

# The San Francisco Public Utilities Commission

12. Subsequent business conditions – Risk of dependence on the continuation or realization of specific industry or business conditions.
  - ii. Savings analysis – Independent analysis of potential savings from proposed transaction.
  - iii. Rate exposure – Fixed versus variable rate and swap exposure on a project and for a counterparty before and after proposed transaction.
  - iv. Market net termination exposure – Termination exposure on a per transaction and per counterparty basis for all existing and proposed transactions.
  - v. Notional value – Total notional value of derivative products before and after proposed transaction.
  - b. BOS approval – Under certain circumstances, BOS approval may be required.
- III. Inappropriate Use of Derivative Products – SFPUC shall never enter into a derivative transaction for the following purposes or if certain conditions exist.
- a. Speculative purposes, including potential trading gains.
  - b. To achieve extraordinary leverage.
  - c. Liquidity is insufficient to protect against early termination.
  - d. Insufficient price “transparency” wherein SFPUC is unable to reasonably value the instrument.
- IV. Methods of Soliciting and Procuring Derivatives – Regardless of the method of procurement, the SFPUC shall obtain an independent finding that the terms and conditions of any derivative product entered into reflect a fair market value as of the date of its execution.
- a. Competitive – SFPUC would pre-qualify prospective bidders and reserve the right to select one or more bidders for the transaction in addition to the winning bidder if deemed in SFPUC’s best interest.
  - b. Negotiated – SFPUC may determine that negotiating a transaction is in its best interest if:
    - i. Due to size or complexity of the transaction, a negotiated process would result in the most favorable pricing or terms in which case an independent financial advisor would be assigned to assist in the process.
    - ii. Doing so will advance SFPUC’s interests by encouraging and rewarding innovation and/or the substantial commitment of time and resources by a counterparty.
- V. Counterparty Requirements
- a. Minimum rating – At least one Aa3 or AA- from one of the rating agencies or an institution utilizing a non-terminating AAA subsidiary
  - b. Minimum capitalization –
    - i. \$250 million or credit enhancement in one of the following forms:
      1. Contingent credit support or enhancement.
      2. Collateral held by a 3<sup>rd</sup> party trustee and marked to market monthly.
      3. Ratings downgrade triggers.
  - c. Demonstrated record –
    - i. Successful track record and reputation for executing and performing derivative transactions.
    - ii. Creating and implementing innovative ideas in the derivative market.
- VI. Standard Terms for Swaps and Derivatives
- a. Term – Consistent with the purpose for which the derivative product is used while taking into account the call dates for the related debt. In no event shall the term extend beyond the existing debt (or other obligation being hedged).
  - b. Events of default – An event of default by the counterparty shall lead to termination of the agreement with the termination payment being calculated on the side of the bid-offered spread most beneficial to SFPUC. Events of default of a counterparty include:
    - i. Failure to make payment when due.

## The San Francisco Public Utilities Commission

- ii. Material breach of representations and warranties.
  - iii. Failure to comply with downgrade provisions.
  - iv. Failure to comply with any other provision of the agreement after a specified notice period.
- c. Termination provisions
- i. Optional – All derivative transactions shall contain provisions granting the SFPUC the right to optionally terminate an agreement at any time over the term of the agreement.
  - ii. Mandatory – A termination payment to or from the SFPUC may be required in the event of termination of an agreement ONLY in the case of credit-related and non-payment events. Prior to entering into an agreement or making any such termination payment, as appropriate, SFPUC shall evaluate whether it would be financially advantageous for the SFPUC to enter into a replacement transaction as a means of offsetting any such termination payment or obtaining insurance to guarantee performance of the counterparty. Any termination payment due from the SFPUC shall be made from available SFPUC monies.
  - iii. Available liquidity - SFPUC shall consider the extent of the SFPUC's exposure to termination payment liability in connection with each transaction, and the availability of sufficient liquidity to make any such payments that may become due.
  - iv. Cure provisions - Timelines on SFPUC's obligations to cure must provide for adequate time to affect the cure.
  - v. Payment - Payments may be structured on a monthly, quarterly, semi-annual or annual basis.
  - vi. Security – The agreement shall identify the security attributable to the derivative.
  - vii. Collateral -
    - 1. Required - The SFPUC shall require collateral or other credit enhancement to be posted by each counterparty if the credit rating of the counterparty or its guarantor falls below the “AA” category any of the three nationally recognized rating agencies (Moody's, Standard & Poor's and Fitch).
    - 2. Value –
      - a. The amount of collateral posted shall be equal to the positive termination value of the agreement to the SFPUC.
      - b. SFPUC will determine reasonable threshold limits for the initial deposit and for increments of collateral posted thereafter.
    - 3. Features of Collateral –
      - a. Cash, U.S. Treasury securities and U.S. Agency securities. The market value of the collateral shall be determined on at least a monthly basis.
      - b. Deposited with a custodian, acting as agent for the SFPUC, or as mutually agreed upon between the SFPUC and the counterparty.
      - c. The SFPUC shall determine on a case-by-case basis whether other forms of collateral are more beneficial to the SFPUC.
- VII. Monitoring and Reporting - SFPUC shall report to the Commission at least annually and as requested.
- a. Agreements –
    - i. A summary of each swap agreement, including but not limited to: the type of swap; the rates and dollar amounts paid by the SFPUC and received by the SFPUC; the rate and amounts that were required to be paid and received; and current market value.
    - ii. Highlights of all material changes to the agreements or new agreements since the last report.
    - iii. Sensitivity analysis with net impact to the SFPUC of a 25 basis point movement (up or down) in the appropriate swap index or curve.
    - iv. Actual collateral posting by each counterparty, if any, under each agreement and in total by that counterparty.

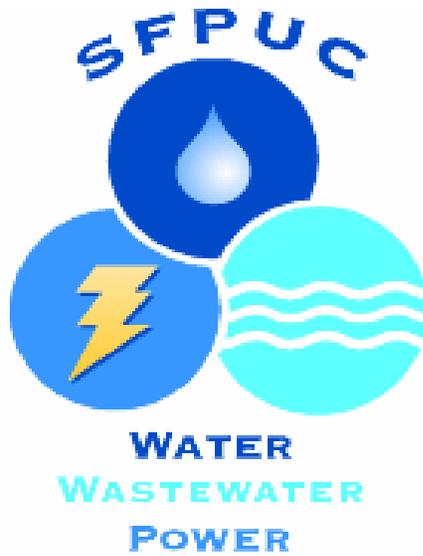
## The San Francisco Public Utilities Commission

- v. Information concerning any default by a counterparty under a swap agreement with the SFPUC, and the results of the default, including but not limited to the financial impact to the SFPUC, if any.
- vi. A summary of any agreements that were terminated.
- vii. A summary of key terms of outstanding agreements, including notional amounts, interest rates, maturity and method of procurement.
- viii. Values of early termination, shortening or lengthening the term to certain benchmarks, sale or purchase of options.
- ix. Discussion of other risks associated with each transaction.
- b. Counterparties –
  - i. Full name, description and credit ratings of each counterparty and credit enhancer insuring payments, if any.
  - ii. For each counterparty, the SFPUC shall provide the total notional amount position, the average life of each agreement, the available capacity to enter into a transaction, and the remaining term of each agreement.
  - iii. Listing of any credit enhancement, liquidity facility or reserves and accounting of all costs and expenses associated with the credit enhancement, liquidity facility or reserves.
  - iv. Aggregate marked to market value for each counterparty and relative exposure compared to other counterparties.
  - v. Calculation of SFPUC's net termination exposure for each counterparty.
- c. Future transactions - A summary of any planned transactions and the projected impact of such transactions on the SFPUC.

### VIII. Payments

- a. Budgeting - Termination payment risk shall be determined annually and offset by a hedge or reserve to a predetermined limit.
- b. Priority of payment –
  - i. Swap payments - no greater than parity
  - ii. Termination payments - subordinate to related debt payments
- c. Swap counterparty termination exposure limit –
  - i. AAA Counterparties: \$40 million maximum collateralized net termination exposure; \$40 million maximum uncollateralized net termination exposure; \$40 million maximum total net termination exposure
  - ii. AA Counterparties: \$40 million maximum collateralized net termination exposure; \$10 million maximum uncollateralized net termination exposure; \$40 million maximum total net termination exposure
  - iii. Counterparties Below AA: \$30 million maximum collateralized net termination exposure; \$0 million maximum uncollateralized net termination exposure; \$40 million maximum total net termination exposure
  - iv. Disclosure and documentation –
    - 1. Disclosure - Derivatives will be disclosed in the related Official Statement, if relevant, and in the SFPUC's annual financial statements in accordance with generally accepted accounting principles and in the Annual Disclosure Report.
    - 2. Documentation – International Swaps and Derivative Association approved documents.
    - 3. <reserved>

(Last updated and approved, March 2004)



## **FINANCIAL SECTION**

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Report on Internal Control over Financial Reporting

Supplementary Information

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**  
**A DEPARTMENT OF THE CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**

Page Left Intentionally Blank



**KPMG LLP**  
55 Second Street  
San Francisco, CA 94105

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the San Francisco Public Utilities Commission (SFPUC), a department of the City and County of San Francisco, California, (the City), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the SFPUC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the SFPUC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SFPUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of SFPUC are intended to present 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 SFPUC. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009 and 2008, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the San Francisco Public Utilities Commission, as of June 30, 2009 and 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the SFPUC'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 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 internal control over financial reporting or

on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 37 through 70 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the SFPUC's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information included on pages 129 through 131 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**KPMG LLP**

December 18, 2009

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of the San Francisco Public Utilities Commission's (SFPUC) financial condition and activities as of and for the years ended June 30, 2009 and 2008. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to SFPUC's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All amounts, unless otherwise noted, are expressed in thousands of dollars.

The information in this MD&A is presented under the following headings:

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

### Organization and Business

The San Francisco Public Utilities Commission (SFPUC) 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, Wastewater and Hetch Hetchy Water and Power.

The Water Enterprise (Water) collects, transmits, treats, and distributes high-quality drinking water to a total population of approximately 2.5 million people, including retail customers in the City and wholesale customers located in San Mateo, Santa Clara, and Alameda Counties. Approximately 86,986 million gallons were delivered in the year ended June 30, 2009. Approximately two-thirds of the water delivered is to wholesale customers. Retail customers include residential, commercial, industrial, and governmental users, and the costs of service are recovered through user fees. Wholesale customers include cities, water districts, one private utility, and one nonprofit university. Service to these customers is provided pursuant to the Master Water Sales Contract which establishes the basis for determining the costs of wholesale service. The current contract expired June 30, 2009 and a new agreement has been negotiated, commencing on July 1, 2009.

The Wastewater Enterprise (Wastewater) collects, transmits, treats, and discharges sanitary and storm water flows generated within the City for the protection of public health and environmental safety. In addition, on a contractual basis certain municipal customers located outside of the City limits are served, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. Costs of service are recovered through user fees based on the volume and strength of sanitary flow. Approximately 150,000 residential accounts are served, which discharge about 19.0 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 9.2 million units of sanitary flow per year.

Hetch Hetchy Water and Power was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. Hetch Hetchy Water and Power is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately 79% of the

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

electricity generated is used by the City's municipal customers (including the San Francisco Municipal Railway, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport Commission, San Francisco General Hospital, City street lights, Moscone Center, Water, and Wastewater). The majority of remaining 21% of electricity generated is sold to other publicly owned utilities, such as the Turlock and Modesto Irrigation Districts. The system includes reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines, carrying water and power more than 165 miles from Sierra Nevada to customers in the City and portions of the surrounding San Francisco Bay Area.

### Overview of the Financial Statements

#### Department-wide Financial Statements

The Department's financial statements include:

*Statements of Net Assets* present information on the Department's assets and liabilities as of year-end, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

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

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

The *Notes to Basic 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.

#### Fund Financial Statements

The Department has three enterprise funds (Water, Wastewater, and Hetch Hetchy Water and Power) which are individually represented by its proprietary fund.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

### Financial Analysis

#### *Financial Highlights for Fiscal Year 2009*

##### **Business-Type Activities**

- Total assets exceeded total liabilities by \$1,917,281.
- Net assets increased by \$50,879 or 2.7% during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$281,591 or 9.7 % to \$3,169,822.
- During the fiscal year, charges for services, excluding interest and investment income, rental income, other operating and non-operating revenues, increased by \$37,765 or 7.2% to \$562,024.
- Operating expenses, which exclude interest expense and other non-operating expenses, increased by \$16,110 or 3.2% to \$513,843.

##### **Water**

- Total assets exceeded total liabilities by \$462,300.
- Net assets increased by \$967 or 0.2% during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$233,266 or 18.4 % to \$1,501,260.
- During the fiscal year, charges for services, excluding interest and investment income, rental income, other operating and non-operating revenues, increased by \$30,845 or 14.2% to \$247,664.
- Operating expenses, which exclude interest expense and other non-operating expenses, increased by \$25,263 or 11.3% to \$248,315.

##### **Wastewater**

- Total assets exceeded total liabilities by \$1,010,604
- Net assets increased by \$26,691 or 2.7%, during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$34,062 or 2.5%, to \$1,394,923.
- During the fiscal year, charges for services, excluding interest and investment income and other operating and non-operating revenues, increased by \$11,522 or 6.1%, to \$199,332.
- Operating expenses, which exclude interest and non-operating expenses, increased by \$4,055 or 2.5% to \$169,300.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

### Hetch Hetchy Water and Power

- Total assets exceeded total liabilities by \$444,377.
- Net assets increased by \$23,221 or 5.5% during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$14,263 or 5.5% to \$273,639.
- During the fiscal year, charges for services, excluding interest and investment income, rental income and other non-operating revenues, decreased by \$4,602 or 3.8% to \$115,028.
- Operating expenses, which exclude interest expense and other non-operating expenses, decreased by \$13,208 or 12.1% to \$96,228.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

***Financial Position***

**Table 1**  
**Business-Type Activities**  
**Comparative Condensed Net Assets**  
 June 30, 2009, 2008, and 2007

|   | <u>2009</u>         | <u>2008</u>      | <u>2007</u>      | <u>2009 – 2008</u><br><u>change</u> | <u>2008 – 2007</u><br><u>change</u> |
|---|---------------------|------------------|------------------|-------------------------------------|-------------------------------------|
| Current and other assets                        | \$ 624,517          | 595,007          | 791,556          | 29,510                              | (196,549)                           |
| Capital assets, net of accumulated depreciation | <u>3,169,822</u>    | <u>2,888,231</u> | <u>2,688,545</u> | <u>281,591</u>                      | <u>199,686</u>                      |
| Total assets                                    | <u>3,794,339</u>    | <u>3,483,238</u> | <u>3,480,101</u> | <u>311,101</u>                      | <u>3,137</u>                        |
| Revenue and capital appreciation bonds          | 1,234,752           | 1,289,263        | 1,342,010        | (54,511)                            | (52,747)                            |
| State revolving fund loans                      | 75,339              | 89,383           | 102,438          | (14,044)                            | (13,055)                            |
| Commercial paper                                | 329,600             | 50,000           | 50,000           | 279,600                             | —                                   |
| Other liabilities                               | <u>237,367</u>      | <u>188,190</u>   | <u>151,984</u>   | <u>49,177</u>                       | <u>36,206</u>                       |
| Total liabilities                               | <u>1,877,058</u>    | <u>1,616,836</u> | <u>1,646,432</u> | <u>260,222</u>                      | <u>(29,596)</u>                     |
| Net assets:                                     |                     |                  |                  |                                     |                                     |
| Invested in capital assets, net of related debt | 1,595,057           | 1,524,069        | 1,480,929        | 70,988                              | 43,140                              |
| Restricted for debt service                     | 29,259              | 28,750           | 57,303           | 509                                 | (28,553)                            |
| Restricted for capital projects                 | 11,967              | 214              | —                | 11,753                              | 214                                 |
| Unrestricted                                    | <u>280,998</u>      | <u>313,369</u>   | <u>295,437</u>   | <u>(32,371)</u>                     | <u>17,932</u>                       |
| Total net assets                                | \$ <u>1,917,281</u> | <u>1,866,402</u> | <u>1,833,669</u> | <u>50,879</u>                       | <u>32,733</u>                       |

***Business-Type Activities***

A detailed discussion follows for each proprietary fund.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

**Table 1A**  
**Proprietary Fund - Water**  
**Comparative Condensed Net Assets**  
 June 30, 2009, 2008, and 2007

|   | 2009              | 2008             | 2007             | 2009 – 2008<br>change | 2008 – 2007<br>change |
|---|-------------------|------------------|------------------|-----------------------|-----------------------|
| Current and other assets                        | \$ 269,975        | 259,432          | 440,895          | 10,543                | (181,463)             |
| Capital assets, net of accumulated depreciation | 1,501,260         | 1,267,994        | 1,074,255        | 233,266               | 193,739               |
| Total assets                                    | <u>1,771,235</u>  | <u>1,527,426</u> | <u>1,515,150</u> | <u>243,809</u>        | <u>12,276</u>         |
| Revenue and capital appreciation bonds          | 936,506           | 961,790          | 980,759          | (25,284)              | (18,969)              |
| Commercial paper                                | 229,600           | —                | —                | 229,600               | —                     |
| Other liabilities                               | 142,829           | 104,303          | 95,817           | 38,526                | 8,486                 |
| Total liabilities                               | <u>1,308,935</u>  | <u>1,066,093</u> | <u>1,076,576</u> | <u>242,842</u>        | <u>(10,483)</u>       |
| Net assets:                                     |                   |                  |                  |                       |                       |
| Invested in capital assets, net of related debt | 349,629           | 324,091          | 300,996          | 25,538                | 23,095                |
| Restricted for debt service                     | 27,899            | 27,434           | 56,196           | 465                   | (28,762)              |
| Restricted for capital projects                 | 841               | 214              | —                | 627                   | 214                   |
| Unrestricted                                    | 83,931            | 109,594          | 81,382           | (25,663)              | 28,212                |
| Total net assets                                | <u>\$ 462,300</u> | <u>461,333</u>   | <u>438,574</u>   | <u>967</u>            | <u>22,759</u>         |

### ***Water - Fiscal Year 2009***

For the year ended June 30, 2009, assets exceeded liabilities by \$462,300, representing an increase of \$967 or 0.2% from the prior year (see Table 1A). The growth in net assets is the result of an additional \$243,809 in total assets offset by a \$242,842 increase in total liabilities. Invested in capital assets, net of related debts represents the largest portion of net assets (\$349,629 or 75.6%). The increase of \$25,538 represents the excess of capital asset book values over debt-financed construction and acquisition costs. Unrestricted net assets declined \$25,663 due to higher planned expenses than revenue growth.

Current and other assets is primarily comprised of restricted and unrestricted balances of cash, receivables for water deliveries and services, interfund receivables due from other governmental agencies, and inventory. This section also includes a receivable which represents cumulative amounts due from the Suburban Purchasers to match revenues with costs of providing service (the "Balancing Account") in accordance with the provisions set forth in the Master Water Sales Agreement which expired on June 30, 2009.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

During the fiscal year 2009, current and other assets increased by \$10,543 or 4.1%, as a result of an \$11,107 increase in current assets, a \$234 decrease in restricted cash and investments due to declining interest rates and lower cash balances and a \$330 decrease in bond issuance costs. Current assets increased mainly due to the increase in accounts receivable from the wholesale customers under the Suburban Water Rate Agreement. Wholesale customers are billed based on the estimated costs of service and usage, which are adjusted to actual costs and usage at year end. The estimates billed for fiscal year 2008 and 2009 were less than actual, resulting in \$13,701 additional due at June 30, 2009. There was also an increase of \$4,608 in receivable balances for charges for services mainly from City retail ratepayers, net of the current year provision for uncollectible accounts, as a result of an average rate adjustment of 15% that went into effect at the beginning of the fiscal year. Part of the receivable increase was \$205 in receivables resulting from an established memorandum of understanding with the San Francisco Zoological Society for water consumption at its park facility. The increase of \$278 due from other governmental agencies was attributable to an increase in grants receivable. In addition, there was a net increase in other current assets including interest, due from other funds, advances, and inventory of \$247. Cash balances, however, declined by \$7,727 due to a decrease in interest rates and related earnings, and increases in operating expenses.

Total liabilities increased by \$242,842 or 22.8% primarily due to the issuance of \$229,600 in commercial paper. Excluding the change in commercial paper, other current liabilities increased by \$19,956 due to increases in accounts payable of \$6,384 related to large capital projects such as 525 Golden Gate of \$2,600, SCADA System of \$950, Noe Valley Transmission Line of \$589, and Ripley Control Distribution Division of \$419. In addition, current liabilities increased by \$13,281 in restricted assets, largely related to increases in payables for the Water System Improvement Program. Long-term liabilities decreased by \$6,714 due to scheduled principal payments on revenue and capital appreciation bonds outstanding of \$26,369, decreases in damage and claims liability of \$1,117 and pollution remediation obligation of \$120, offset by increases in the liability for other postemployment benefits (OPEB) of \$15,919, arbitrage rebate payable of \$4,265, workers' compensation of \$443, and accrued vacation and sick leave of \$265.

Restricted cash and investments with and outside City Treasury declined by \$234 at the end of the fiscal year 2009, due primarily to declining interest rates and lower cash balances held by City Treasury. Additionally, unrestricted cash with City Treasury was used to pay down current contractual obligations and other liabilities, thereby resulting in \$7,727 decline in unrestricted cash balance.

#### ***Water - Fiscal Year 2008***

For the year ended June 30, 2008, net assets increased by \$22,759 or 5.2% from the prior year (see Table 1A). This increase was attributable to: an increase of \$193,739 in capital assets, net of accumulated depreciation, a decrease of \$18,969 in revenue and capital appreciation bonds, a decrease of \$181,463 in current and other assets, and an increase in other liabilities of \$8,486. The decrease in current and other assets is mainly due to a reduction in restricted cash used for capital expenditures and the payment of bond principal and interest. The increase in other liabilities is primarily due to a combination of a \$15,048 increase in OPEB liability and a \$4,815 decrease in due to other City department funds. The increase in OPEB liability is a result of the adoption of the Government Accounting Standards Board (GASB) Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2008. The decrease in due to other City department funds is attributed to payment of the balance owed to the City's General Fund for the acquisition of 525 Golden Gate property.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

**Table 1B**  
**Proprietary Fund - Wastewater**  
 Comparative Condensed Net Assets  
 June 30, 2009, 2008, and 2007

|   | 2009         | 2008      | 2007      | 2009-2008<br>change | 2008-2007<br>change |
|---|--------------|-----------|-----------|---------------------|---------------------|
| Current and other assets                        | \$ 139,783   | 134,739   | 172,585   | 5,044               | (37,846)            |
| Capital assets, net of accumulated depreciation | 1,394,923    | 1,360,861 | 1,335,470 | 34,062              | 25,391              |
| Total assets                                    | 1,534,706    | 1,495,600 | 1,508,055 | 39,106              | (12,455)            |
| Revenue bonds                                   | 292,529      | 327,473   | 361,251   | (34,944)            | (33,778)            |
| State revolving fund loans                      | 75,339       | 89,101    | 102,438   | (13,762)            | (13,337)            |
| Commercial paper                                | 100,000      | 50,000    | 50,000    | 50,000              | —                   |
| Other liabilities                               | 56,234       | 45,113    | 35,116    | 11,121              | 9,997               |
| Total liabilities                               | 524,102      | 511,687   | 548,805   | 12,415              | (37,118)            |
| Net assets:                                     |              |           |           |                     |                     |
| Invested in capital assets, net of related debt | 971,789      | 940,602   | 901,113   | 31,187              | 39,489              |
| Restricted for debt service                     | 1,360        | 1,316     | 1,107     | 44                  | 209                 |
| Restricted for capital projects                 | 11,126       | —         | —         | 11,126              | —                   |
| Unrestricted                                    | 26,329       | 41,995    | 57,030    | (15,666)            | (15,035)            |
| Total net assets                                | \$ 1,010,604 | 983,913   | 959,250   | 26,691              | 24,663              |

### ***Wastewater - Fiscal Year 2009***

For the year ended June 30, 2009, total net assets increased by \$26,691 or 2.7% as a result of increases of \$31,187 in invested in capital assets, net of related debt, \$11,126 in restricted for capital projects, and \$44 in restricted for debt service, offset by a decrease of \$15,666 in unrestricted net assets (see Table 1B).

Current and other assets increased by \$5,044 or 3.7%. The increases include \$3,586 addition to inventory, \$8,642 in restricted assets – cash and investments and \$409 in receivables primarily from the San Francisco Zoological Society. The increases were offset by decreases of \$205 in miscellaneous receivables and \$7,388 in cash and investments as a result of reduction in the accounts payable outstanding balance from prior year.

Capital assets, net of accumulated depreciation, increased by \$34,062 or 2.5%, reflecting an increase in construction activities. The largest portion of net assets (\$971,789 or 96.2%) represents invested in capital assets, net of related debt.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Total liabilities increased by \$12,415 or 2.4% during the year. The increase in liabilities was due to issuance of \$50,000 in commercial paper, increases in an interfund payable to Hetch Hetchy Water and Power of \$556, refund payable to Bayshore Sanitary District of \$407, pollution remediation obligations of \$375, accounts payable and payroll related liabilities of \$3,459, damage and claim liability of \$1,316, and OPEB liability of \$5,729. These increases were offset by repayments of revenue bonds of \$35,665 and State revolving fund loans of \$13,762.

#### ***Wastewater - Fiscal Year 2008***

For the year ended June 30, 2008, total net assets increased by \$24,663 or 2.6%. The liabilities decreased by \$37,118 or 6.8% during the year. The net decrease was primarily due to repayment of bonds of \$34,500 and State revolving fund loans of \$13,337, partially offset by the OPEB liability increase of \$5,684 due to the adoption of, Governmental Accounting Standards Board (GASB) Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2008.

Total capital assets, net of accumulated depreciation, increased by \$25,391 or 1.9% reflecting an increase in the current year's construction activities. The largest portion of net assets (\$940,602 or 95.6%) represents invested in capital assets, net of related debt. Unrestricted net assets decreased by \$15,035 due to the use of revenues to fund capital projects and operating expenditures.

**Table 1C**  
**Proprietary Fund - Hetch Hetchy Water and Power**  
**Comparative Condensed Net Assets**  
June 30, 2009, 2008, and 2007

|   | 2009       | 2008    | 2007    | 2009 – 2008<br>Change | 2008 – 2007<br>Change |
|---|------------|---------|---------|-----------------------|-----------------------|
| Current and other assets                        | \$ 214,759 | 200,836 | 178,076 | 13,923                | 22,760                |
| Capital assets, net of accumulated depreciation | 273,639    | 259,376 | 278,820 | 14,263                | (19,444)              |
| Total assets                                    | 488,398    | 460,212 | 456,896 | 28,186                | 3,316                 |
| Current liabilities                             | 22,881     | 22,209  | 14,847  | 672                   | 7,362                 |
| Long-term liabilities                           | 21,140     | 16,847  | 6,204   | 4,293                 | 10,643                |
| Total liabilities                               | 44,021     | 39,056  | 21,051  | 4,965                 | 18,005                |
| Net assets:                                     |            |         |         |                       |                       |
| Invested in capital assets, net of related debt | 273,639    | 259,376 | 278,820 | 14,263                | (19,444)              |
| Unrestricted                                    | 170,738    | 161,780 | 157,025 | 8,958                 | 4,755                 |
| Total net assets                                | \$ 444,377 | 421,156 | 435,845 | 23,221                | (14,689)              |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

#### ***Hetch Hetchy Water and Power - Fiscal Year 2009***

For the year ended June 30, 2009, net assets increased by \$23,221 or 5.5% (see Table 1C). Contributing to this net increase was an addition of \$28,186 in total assets offset by an increase in total liabilities of \$4,965. The largest portion of net assets (\$273,639 or 61.6%) represents invested in capital assets, net of related debt.

Current and other assets increased by \$13,923 or 6.9% as a result of increases of \$7,484 in current assets and \$6,439 in other assets (see Table 1C). Current assets increased by \$7,484 or 4.1% mainly due to increases in unrestricted cash of \$4,265 or 2.6%, accounts receivable of \$1,751 or 18.6%, primarily related to the Modesto Irrigation District, deferred charges and other assets of \$1,358 or 64.0% due to increased energy banked with PG&E at fiscal year end, \$215 or 195.5% in current portion due from other governmental agencies (Wastewater and the Port of San Francisco for lighting retrofit and other energy conservation projects), and other current assets of \$29. The increases are offset by a decrease in current loan receivable of \$134 or 100%. Increase in unrestricted cash is attributable to net cash provided by operating activities of \$27,865 and cash provided by interest income of \$4,167, offset by cash used in capital and related financing activities of \$21,672 and noncapital financing activities of \$4. Other assets increased by \$6,439 or 38.7% mainly due to an increase of restricted cash by \$6,089 from Clean Renewable Energy Bonds (CREBs) issued in November 2008, increases of \$496 in non-current portion of the due from other governmental agencies, and \$40 of bond issuance costs. These increases are offset by a decrease in non-current loan receivable of \$188 due to repayments received and the expiration of the memorandum of understanding with the San Francisco Housing Authority.

Total liabilities increased by \$4,965 or 12.7% primarily due to \$5,717 in Clean Renewable Energy Bonds issued in November 2008, of which \$422 relates to the short term principal obligation. Accounts payable increased by \$2,127 or 16.7% due to higher expenditures compared to prior year. Deposits, advances and other liabilities decreased by \$1,331 or 58.3%, mainly due to the allocation of gas settlement proceeds to City Departments. The OPEB liability increased by \$3,076 or 113% based on actuarial estimates. Damage and claim liability decreased by \$4,990 or 32.6% due to settlement of two lawsuits filed by the U.S. Forest Service related to fires in proximity to power lines. California Energy Commission's loans payable were retired during the fiscal year in the amount of \$282 or 100%. Other liabilities of accrued payroll, vacation and sick leave, and workers compensation increased by \$648 or 11.3%.

#### ***Hetch Hetchy Water and Power - Fiscal Year 2008***

For the year ended June 30, 2008, net assets decreased by \$14,689 or 3.4% (see Table 1C). Contributing to this net decrease was an addition of \$3,316 in total assets combined with an increase in total liabilities of \$18,005. The largest portion of the net assets (\$259,376 or 61.6%) represents invested in capital assets, net of related debt.

Current and other assets increased by \$22,760 or 12.8% (see Table 1C), the most significant portion of which was an increase in cash of \$19,674 or 13.5% (see statements of cash flow for details). Interest and other receivables increased \$2,741 or 77.6%, due to additional billings for the combustion turbine project. Deferred charges and other assets increased \$2,120, from energy banked with Pacific Gas and Electric Company (PG&E) at fiscal year end. Due from other governmental agencies decreased by \$1,149 or 6.5% due to repayments received for the MECA (Mayor's Energy Conservation Account) loans. The loan receivable also decreased by \$134 or 29.4% due to repayments received from the San Francisco Housing Authority. In fiscal year 2008, all of the prior year settlement proceeds from PG&E were received, and there was no addition to the receivable in the current year, resulting in a net decrease of \$515 or 100%, in settlement receivables.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Total liabilities increased by \$18,005 or 85.5%. The increase was primarily due to an increase in estimated damage and claim liabilities of \$10,519 or 220.0%, as a result of pending litigation cases. Accounts payable increased by \$2,776 or 27.9%, due to additional expenses in the current year compared to prior year. The OPEB liability increased by \$2,723 due to the adoption of, Government Accounting Standards Board (GASB) Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2008. Deposits, advances and other liabilities also increased by \$1,917 or 523.8%, mainly for deposits from PG&E of \$1,842.

### *Results of Operations*

**Table 2**  
**Business-Type Activities**  
**Comparative Condensed Activities**  
Years ended June 30, 2009, 2008, and 2007

|  | 2009                | 2008             | 2007             | 2009 – 2008<br>change | 2008 – 2007<br>change |
|--|---------------------|------------------|------------------|-----------------------|-----------------------|
| <b>Revenues:</b>                                 |                     |                  |                  |                       |                       |
| Charges for services                             | \$ 562,024          | 524,259          | 487,140          | 37,765                | 37,119                |
| Rents and concessions                            | 9,645               | 9,870            | 10,144           | (225)                 | (274)                 |
| Other operating revenues                         | 18,040              | 22,491           | 20,882           | (4,451)               | 1,609                 |
| Interest and investment income                   | 13,240              | 22,975           | 36,774           | (9,735)               | (13,799)              |
| Other nonoperating revenues                      | 10,929              | 40,862           | 18,985           | (29,933)              | 21,877                |
| <b>Total revenues</b>                            | <b>613,878</b>      | <b>620,457</b>   | <b>573,925</b>   | <b>(6,579)</b>        | <b>46,532</b>         |
| <b>Expenses:</b>                                 |                     |                  |                  |                       |                       |
| Operating expenses                               | 513,843             | 497,733          | 449,118          | 16,110                | 48,615                |
| Interest expense                                 | 44,524              | 47,217           | 51,680           | (2,693)               | (4,463)               |
| Nonoperating expenses                            | 3,188               | 1,100            | 1,161            | 2,088                 | (61)                  |
| <b>Total expenses</b>                            | <b>561,555</b>      | <b>546,050</b>   | <b>501,959</b>   | <b>15,505</b>         | <b>44,091</b>         |
| Income (loss) before special item                | 52,323              | 74,407           | 71,966           | (22,084)              | 2,441                 |
| Special item:                                    |                     |                  |                  |                       |                       |
| Impairment loss                                  | —                   | (41,224)         | —                | 41,224                | (41,224)              |
| Income (loss) before transfers                   | 52,323              | 33,183           | 71,966           | 19,140                | (38,783)              |
| Transfers to City and County<br>of San Francisco | (1,444)             | (450)            | (9,791)          | (994)                 | 9,341                 |
| Changes in net assets                            | 50,879              | 32,733           | 62,175           | 18,146                | (29,442)              |
| Net assets at beginning of year                  | 1,866,402           | 1,833,669        | 1,771,494        | 32,733                | 62,175                |
| <b>Net assets at end of year</b>                 | <b>\$ 1,917,281</b> | <b>1,866,402</b> | <b>1,833,669</b> | <b>50,879</b>         | <b>32,733</b>         |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

### *Business-Type Activities*

A detailed discussion follows for each proprietary fund.

**Table 2A**  
**Proprietary Fund - Water**  
**Comparative Condensed Activities**  
 Years ended June 30, 2009, 2008, and 2007

|  | 2009              | 2008           | 2007           | 2009 – 2008<br>change | 2008 – 2007<br>change |
|--|-------------------|----------------|----------------|-----------------------|-----------------------|
| <b>Revenues:</b>                                 |                   |                |                |                       |                       |
| Charges for services                             | \$ 247,664        | 216,819        | 202,787        | 30,845                | 14,032                |
| Rents and concessions                            | 9,399             | 9,645          | 9,929          | (246)                 | (284)                 |
| Other operating revenues                         | 8,718             | 7,752          | 3,815          | 966                   | 3,937                 |
| Interest and investment income                   | 7,088             | 12,456         | 24,547         | (5,368)               | (12,091)              |
| Other nonoperating revenues                      | 7,202             | 29,681         | 11,798         | (22,479)              | 17,883                |
| <b>Total revenues</b>                            | <b>280,071</b>    | <b>276,353</b> | <b>252,876</b> | <b>3,718</b>          | <b>23,477</b>         |
| <b>Expenses:</b>                                 |                   |                |                |                       |                       |
| Operating expenses                               | 248,315           | 223,052        | 202,498        | 25,263                | 20,554                |
| Interest expense                                 | 28,847            | 29,750         | 34,326         | (903)                 | (4,576)               |
| Nonoperating expenses                            | 799               | 792            | 777            | 7                     | 15                    |
| <b>Total expenses</b>                            | <b>277,961</b>    | <b>253,594</b> | <b>237,601</b> | <b>24,367</b>         | <b>15,993</b>         |
| Income (loss) before transfers                   | 2,110             | 22,759         | 15,275         | (20,649)              | 7,484                 |
| Transfers to City and County<br>of San Francisco | (1,143)           | —              | (9,763)        | (1,143)               | 9,763                 |
| Changes in net assets                            | 967               | 22,759         | 5,512          | (21,792)              | 17,247                |
| Net assets at beginning of year                  | 461,333           | 438,574        | 433,062        | 22,759                | 5,512                 |
| Net assets at end of year                        | <b>\$ 462,300</b> | <b>461,333</b> | <b>438,574</b> | <b>967</b>            | <b>22,759</b>         |

### *Water - Fiscal Year 2009*

Total revenues for the year of \$280,071 increased by \$3,718 or 1.3% compared to the prior year (see Table 2A). Charges for services increased by \$30,845 or 14.2%, other operating revenue increased by \$966, offset by decreases of \$22,479 in non-operating revenues, \$5,368 in interest and investment income, and \$246 in rents and concessions.

Revenues from the sale of water to retail customers increased \$14,564 or 15.6% largely attributable to an average 15.0% increase in retail rates and a slight increase in consumption. Revenues from the sale of water to wholesale or

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

related customers increased by \$15,905 or 13.7%, as revenue collection for wholesale customers increased to \$131,831 from \$115,926 over the prior year. Water sales to suburban non-resale customers increased by \$385, and water sales to municipal customers decreased by \$9. The Balancing Account due from suburban customers increased \$13,701 from the prior year, based on the difference between revenues billed and costs of service. Interest and investment income decreased by \$5,368 or 43.1% as a result of lower average daily cash balances and lower interest rates. Other non-operating revenue decreased by \$22,479 or 75.7% primarily due to the receipt of \$24,335 from the sale of surplus land in the prior year.

Total expenses increased by \$24,367 or 9.6% to \$277,961 over prior year (see Table 2A), due to increases of \$25,263 in operating expenses, \$7 in non-operating expenses and a decrease of \$903 in interest expense. The change in operating expenses was mainly due to an increase of \$13,727 in other operating expenses such as non-capitalized project expenses, capital projects written-off, indirect cost reimbursement to the City's general fund, and pollution remediation costs. Other increases were due to \$5,405 in services provided by other departments related to Hetch Hetchy Water and Power assessment fees and fees paid to the City Attorney, \$4,636 in personal services, \$3,142 in depreciation, \$2,327 in contractual services, \$1,165 in materials and supplies, and \$88 in bad debt expense, offset by a decrease of \$5,227 in general and administrative expenses mainly due to lower judgment and claims. The effect on personal services was due to an increase in work hours in fiscal year 2009 by 3,500 hours which resulted in a \$2,500 increase in salaries and an increase in health care costs of \$1,400 in fiscal year 2009 compared to fiscal year 2008. The change in non-operating expenses represents larger investments in various community based organizations (CBOs) of \$299 in support of local water conservation and sustainability programs and interest expense from amortized refunding losses relating to the early retirement of bonds issued in 2002 and 2006.

#### ***Water - Fiscal Year 2008***

Total revenues for the year of \$276,353 increased by \$23,477 or 9.3% compared to the prior year (see Table 2A). The increase was largely attributable to a \$14,032 increase in retail and wholesale water sales. The revenue from the sale of water to retail customers increased \$6,553 or 6.9% largely attributable to a 15.0% retail rate increase. Revenue from the sale of water to wholesale customers increased \$7,479 or 6.9%. The rate charged wholesale customers increased 6.3% based on an estimate of costs and consumption, with revenue collection increasing to \$113,923 from \$106,916 over the prior year. The Balancing Account due from suburban customers increased \$2,004 from the prior year, based on the difference between revenues received and costs of service. In the prior year, revenue collection of \$106,916 for wholesale water sale was supplemented by \$1,532 added to the Balancing Account to match the wholesale cost of service. Interest and investment income decreased by \$12,091 or 49.3% due to lower average daily cash balances and lower interest earnings. Also, other non-operating revenue increased by \$17,883 or 151.6% primarily due to net gains of \$24,335 from the sale of surplus land to other government agencies.

Total expenses for the year of \$253,594 increased by \$15,993 or 6.7% over the prior year (see Table 2A). The change was attributable to an increase of \$20,554 in operating expenses partially offset by a decrease of \$4,576 in interest expense. The change in operating expenses includes increases in OPEB costs of \$15,048, depreciation of \$2,063, judgments and claims of \$3,173, and higher payments to Hetch Hetchy Water and Power for water allocation of \$1,945. The decrease in interest expense was a result of lower outstanding bond debt throughout fiscal year 2008.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

**Table 2B**  
**Proprietary Fund - Wastewater**  
 Comparative Condensed Activities  
 Years ended June 30, 2009, 2008, and 2007

|  | 2009         | 2008    | 2007    | 2009-2008<br>change | 2008-2007<br>change |
|--|--------------|---------|---------|---------------------|---------------------|
| <b>Revenues:</b>                                 |              |         |         |                     |                     |
| Charges for services                             | \$ 199,332   | 187,810 | 176,344 | 11,522              | 11,466              |
| Other operating revenues                         | 9,322        | 14,739  | 17,067  | (5,417)             | (2,328)             |
| Interest and investment income                   | 1,992        | 4,099   | 5,749   | (2,107)             | (1,650)             |
| Other nonoperating revenues                      | 1,022        | 885     | 2,986   | 137                 | (2,101)             |
| Total revenues                                   | 211,668      | 207,533 | 202,146 | 4,135               | 5,387               |
| <b>Expenses:</b>                                 |              |         |         |                     |                     |
| Operating expenses                               | 169,300      | 165,245 | 151,600 | 4,055               | 13,645              |
| Interest expense                                 | 15,677       | 17,467  | 17,354  | (1,790)             | 113                 |
| Nonoperating expenses                            | —            | 158     | 291     | (158)               | (133)               |
| Total expenses                                   | 184,977      | 182,870 | 169,245 | 2,107               | 13,625              |
| Income (loss) before transfers                   | 26,691       | 24,663  | 32,901  | 2,028               | (8,238)             |
| Transfers to City and County<br>of San Francisco | —            | —       | (28)    | —                   | 28                  |
| Changes in net assets                            | 26,691       | 24,663  | 32,873  | 2,028               | (8,210)             |
| Net assets at beginning of year                  | 983,913      | 959,250 | 926,377 | 24,663              | 32,873              |
| Net assets at end of year                        | \$ 1,010,604 | 983,913 | 959,250 | 26,691              | 24,663              |

### ***Wastewater - Fiscal Year 2009***

Total revenues for the year of \$211,668 increased by \$4,135 or 2.0% over the prior year primarily due to a rate increase partially offset by reduction in usage (see Table 2B). Sanitary flow of 27,826 ccf (100 cubic feet) for the year decreased by 531 ccf or 1.9%. Charges for services increased by \$11,522 or 6.1% due to a rate increase of 9.0% effective July 1, 2008. Other operating revenues decreased by \$5,417 or 36.8% due to reduction of \$4,858 in capacity fees revenue related to lower building permits, and \$559 reduction in charges to other City departments. Interest and investment income decreased by \$2,107 or 51.4% due to lower cash balances and interest rates. Other non-operating revenues increased by \$137 or 15.5%.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Total expenses increased by \$2,107 or 1.2% due to increase of \$4,055 in operating expenses, offset by decreases of \$1,790 in interest and \$158 in non-operating expenses. The increase in operating expenses is attributable to: increases of \$5,613 in services provided by other City departments, \$1,855 in contractual services, \$583 in general and administrative expenses which include growth in actuarially determined claims liability, \$576 in bad debt expense, and \$57 in depreciation expense. Services provided by the City's Department of Public Works increased \$3,317 for sewer repair, street cleaning, and engineering services. Contractual services increased due to a new sewer pipeline project and other ongoing repair and replacement projects. These increases were offset by decreases in materials and supplies of \$3,785, primarily due to an inventory adjustment of \$3,586, \$602 in other operating expenses, and \$242 in personal services.

Net assets increased by \$26,691 to \$1,010,604 due to revenue growth of \$4,135 offset by increase in expenses of \$2,107.

#### ***Wastewater - Fiscal Year 2008***

Total revenue for the year of \$207,533 increased by \$5,387 or 2.7%, over the prior year (see Table 2B). Revenue from service charges increased by \$11,466 or 6.5%, primarily due to a rate increase of 8.0% effective July 14, 2007. Other non-operating revenues decreased by \$2,101 or 70.4%. Interest and investment income decreased by \$1,650 or 28.7%, due to lower average monthly cash balances and lower interest earnings.

Total operating expenses increased by \$13,645 or 9.0% primarily due to a \$4,939 increase in other operating expenses, \$3,646 increase in wages, and \$5,684 increase in OPEB costs due to the adoption of GASB 45, as noted above.

The increase in revenue of \$5,387 combined with an increase in expenses of \$13,625 lead to an increase in total net assets of \$24,663, net of transfers.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

**Table 2C**  
**Proprietary Fund - Hetch Hetchy Water and Power**  
**Comparative Condensed Activities**

Years ended June 30, 2009, 2008, and 2007

|   | <b>2009</b>    | <b>2008</b>    | <b>2007</b>    | <b>2009 – 2008</b> | <b>2008 – 2007</b> |
|---|----------------|----------------|----------------|--------------------|--------------------|
|   |                |                |                | <b>Change</b>      | <b>Change</b>      |
| <b>Revenues:</b>                              |                |                |                |                    |                    |
| Charges for services                          | \$ 115,028     | 119,630        | 108,009        | (4,602)            | 11,621             |
| Rents and concessions                         | 246            | 225            | 215            | 21                 | 10                 |
| Interest and investment income                | 4,160          | 6,420          | 6,478          | (2,260)            | (58)               |
| Other nonoperating revenues                   | 2,705          | 10,296         | 4,201          | (7,591)            | 6,095              |
| <b>Total revenues</b>                         | <b>122,139</b> | <b>136,571</b> | <b>118,903</b> | <b>(14,432)</b>    | <b>17,668</b>      |
| <b>Expenses:</b>                              |                |                |                |                    |                    |
| Operating expenses                            | 96,228         | 109,436        | 95,020         | (13,208)           | 14,416             |
| Other nonoperating expenses                   | 2,389          | 150            | 93             | 2,239              | 57                 |
| <b>Total expenses</b>                         | <b>98,617</b>  | <b>109,586</b> | <b>95,113</b>  | <b>(10,969)</b>    | <b>14,473</b>      |
| Net income before transfers and special item  | 23,522         | 26,985         | 23,790         | (3,463)            | 3,195              |
| Special item:                                 |                |                |                |                    |                    |
| Impairment loss                               | —              | (41,224)       | —              | 41,224             | (41,224)           |
| Income (loss) before transfers                | 23,522         | (14,239)       | 23,790         | 37,761             | (38,029)           |
| Transfers to City and County of San Francisco | (301)          | (450)          | —              | 149                | (450)              |
| Changes in net assets                         | 23,221         | (14,689)       | 23,790         | 37,910             | (38,479)           |
| Net assets at beginning of year               | 421,156        | 435,845        | 412,055        | (14,689)           | 23,790             |
| Net assets at end of year                     | \$ 444,377     | 421,156        | 435,845        | 23,221             | (14,689)           |

***Hetch Hetchy Water and Power - Fiscal Year 2009***

Total revenues for the year of \$122,139 decreased by \$14,432 or 10.6% over the prior year (see Table 2C). Revenues from charges for services decreased by \$4,602 or 3.8%, attributable to a decrease in electricity sales of \$6,648 to Modesto Irrigation District (MID), Turlock Irrigation District (TID), and third party sales to other Municipalities and

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Governmental Agencies under Western System Power Pool (WSPP) agreements, a decrease of \$2,636 in revenue from Treasure Island Development Authority (TIDA) resulting from the reversal of the \$2,028 allowance for doubtful accounts in fiscal year 2008 per the new agreement, other Treasure Island customers, the San Francisco Port power customers and other non-City department power customers. The decreases are offset by an increase in power sales of \$2,597 to City departments and an increase in water assessment fees of \$2,085 to Water and other water customers.

Other nonoperating revenues decreased by \$7,591 or 73.7%, which is attributed primarily to the absence of one-time revenues in prior fiscal year 2008 for combustion turbine reimbursements of \$4,866 and PG&E refunds of \$3,361. Other decreases include services to other governmental agencies of \$79, proceeds from the sale of fixed assets, overhead charges and other miscellaneous items of \$253, and recognition of natural gas proceeds of \$968 in fiscal year 2009. Investment and interest income decreased by \$2,260 or 35.2% mainly due to lower interest rates.

Total operating expenses decreased by \$13,208 or 12.1% to \$96,228, primarily due to a decrease in purchased power and related costs. Power purchases from the Western System Power Pool were lower by \$10,082, resulting in lower transmission costs from PG&E. In addition, there was a decrease in general and administrative expenses of \$13,650 due to a reduction of estimated liability claims in fiscal year 2009 compared to fiscal year 2008. These decreases are offset by a \$4,126 increase in expenses attributable to: (i) professional and specialized services of \$3,692 and (ii) rents and leases services of \$402. Other increased expenses included services provided by other departments of \$776, other operating expenses of \$480, personal services of \$4,294 due to higher OPEB costs, and depreciation of \$848. Non-operating expenses increased by \$2,239 mainly due to the implementation of the new San Francisco Go-Solar incentive program, where rebate payments of \$2,232 were made in fiscal year 2009.

Overall, these changes resulted in an increase in net assets of \$23,522 before transfers.

### ***Hetch Hetchy Water and Power - Fiscal Year 2008***

Total revenues for the year of \$136,571 increased by \$17,668 or 14.9% over the prior year (see Table 2C). The majority of the increase for the year was primarily due to charges for services revenue of \$11,621 or 10.8% attributable to: an increase in electricity sales of \$3,369 to Modesto Irrigation District (MID), and Turlock Irrigation District (IID) and third party sales to other Municipalities and Governmental Agencies under Western System Power Pool (WSPP) agreements; increase in sales of \$2,785 to City departments; an increase in water assessment fees of \$2,000 to Water; and an increase of \$3,271 in revenue from the Treasure Island Development Authority (TIDA) attributable mainly to a \$2,029 reversal of the allowance for doubtful accounts.

Other nonoperating revenue increased by \$6,095 or 145.1% primarily due to: a \$1,975 increase in incentive rebates from PG&E for self-generation; a \$1,941 increase in reimbursement for the combustion turbine development costs; a \$972 increase in license fee from the Trans Bay Cable project; a \$215 increase in damage and claims collected; and a \$134 increase in overhead charges to other City departments for work performed through custom work orders.

Total operating expenses increased by \$14,416 or 15.2% to \$109,436 primarily due to an increase in general and administrative and other operating expenses of \$9,310 attributable to estimated claims. Power purchases also increased in the current year by \$3,656 due to an increase in energy market prices, which were offset by \$2,120 in costs related to power banked with PG&E. OPEB costs increased by \$2,723 due to the adoption of GASB 45, as noted previously.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

During the current fiscal year, \$41,224 from the combustion turbine project was written-off and is presented it under the special item category (see note 14(d) to the basic financial statements for details).

Overall, these changes resulted in a decrease of net assets of \$14,239 before transfers.

**Capital Assets and Debt Administration**

**Table 3**  
**Business-Type Activities**  
**Capital Assets, Net of Depreciation**  
 Years ended June 30, 2009, 2008, and 2007

|   | <b>2009</b>         | <b>2008</b>      | <b>2007</b>      | <b>2009 – 2008<br/>change</b> | <b>2008 – 2007<br/>change</b> |
|---|---------------------|------------------|------------------|-------------------------------|-------------------------------|
| Facilities, improvements, machinery,<br>and equipment | \$ 2,461,385        | 2,333,409        | 2,230,806        | 127,976                       | 102,603                       |
| Land and rights-of-way                                | 44,849              | 44,267           | 44,660           | 582                           | (393)                         |
| Construction work in progress                         | 663,588             | 510,555          | 413,079          | 153,033                       | 97,476                        |
| <b>Total</b>  | <b>\$ 3,169,822</b> | <b>2,888,231</b> | <b>2,688,545</b> | <b>281,591</b>                | <b>199,686</b>                |

***Business-Type Activities***

A detailed discussion follows for each proprietary fund.

**Table 3A**  
**Proprietary Fund - Water**  
**Capital Assets, Net of Depreciation**  
 Years ended June 30, 2009, 2008, and 2007

|   | <b>2009</b>         | <b>2008</b>      | <b>2007</b>      | <b>2009 – 2008<br/>change</b> | <b>2008 – 2007<br/>change</b> |
|---|---------------------|------------------|------------------|-------------------------------|-------------------------------|
| Facilities, improvements, machinery,<br>and equipment | \$ 935,581          | 827,045          | 744,880          | 108,536                       | 82,165                        |
| Land and rights-of-way                                | 18,386              | 17,886           | 18,277           | 500                           | (391)                         |
| Construction work in progress                         | 547,293             | 423,063          | 311,098          | 124,230                       | 111,965                       |
| <b>Total</b>  | <b>\$ 1,501,260</b> | <b>1,267,994</b> | <b>1,074,255</b> | <b>233,266</b>                | <b>193,739</b>                |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

#### ***Water System Improvement Program (WSIP)***

A multi-billion dollar, multi-year program has begun to upgrade the Regional and Local Water Systems, known as the Water System Improvement Program (WSIP). The WSIP will deliver capital improvements that enhance the ability to provide reliable, affordable, high quality drinking water to twenty-seven wholesale customers and regional retail customers in Alameda, Santa Clara and San Mateo Counties, and to 800,000 retail customers in the City and County of San Francisco, in an environmentally sustainable manner. The program is structured to cost-effectively meet water quality requirements, improve seismic and delivery reliability, and meet water supply objectives for the year 2030.

The program is on target to achieve an overall completion date of December 2015. To date, planning of the WSIP Regional Program is approximately 96% complete, whereas environmental review/permitting, design and construction efforts are about 67%, 75% and 6% complete, respectively. The transition of the WSIP's larger regional projects to the construction phase started in early 2009. As of June 30, 2009, there are two regional projects in Planning Phase, seventeen in Design Phase, ten in Bids & Award Phase, six in Construction phase, two in Close-Out phase, eight regional projects are completed, and one regional project has not yet been initiated. See table below.

| <b>Active phase</b> | <b>Regional projects<br/>Q4</b> |
|---------------------|---------------------------------|
| Planning            | 2                               |
| Design              | 17                              |
| Bid & Award         | 10                              |
| Construction        | 6                               |
| Close-Out           | 2                               |
| Completed           | 8                               |

The total estimated cost for the WSIP is \$4.6 billion, including \$4.1 billion for capital projects and \$0.5 billion for net financing costs. To date, nearly \$2.9 billion has been appropriated for the WSIP, of which approximately \$743 million has been expended through FY 2009. Over the next six years, SFPUC will require approximately \$1.7 billion in additional appropriation for the completion of the program. To help meet this funding need, additional bonds sales are planned, with the most recent sales occurring in August and September 2009. Both sales were for par value amounts of \$412 million each.

Additional details regarding the WSIP are available in the Annual Reports published on SFPUC's web site at [www.sfwater.org](http://www.sfwater.org).

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

#### ***Water - Fiscal Year 2009***

Net capital assets of \$1,501,260 were invested in a broad range of utility capital assets as of June 30, 2009 (see Table 3A). The investment in capital assets includes land, facilities, improvements, water treatment plants, aqueducts, water transmission, and distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery and equipment. This amount includes an increase of \$108,536 or 13.1% over the prior year in structures, buildings and equipment, and an increase of \$124,230 or 29.4% in construction in progress, consistent with implementation of the ten-year capital plan, including the Water System Improvement Program. Net revenue, commercial paper, and long-term debt are used to finance capital investments. During the fiscal year 2009, as part of a property transfer, a parcel of land was acquired from BART located in the City of San Bruno, California, with a value of \$500.

As of June 30, 2009, \$12,669 was invested in development costs and \$9,900 in site acquisition for an office building located at 525 Golden Gate Avenue. The site was acquired by the City from the State of California in 2000, and was transferred to the Commission in 2006. The site comprises a 0.5-acre portion of the block bounded by Polk Street, McAllister Street, Golden Gate Avenue and Van Ness Avenue, in the Civic Center district of the City. The Civic Center is home to City, State and Federal government buildings, including City Hall, Civic Center Courthouse, offices of the San Francisco Unified School District, the Philip Burton Federal Building and U.S. Courthouse, the Hiram W. Johnson State Office Building, and City cultural facilities, including the San Francisco Main Public Library, Louise M. Davies Symphony Hall, Bill Graham Civic Auditorium, the War Memorial Opera House and Veterans Building, and the Asian Art Museum of San Francisco.

The principal improvement to the site consists of a new 277,500 square-foot Class A office building containing approximately 257,000 square feet of rentable space across 13 floors plus one basement level. The finished building has been designed to include a 10,000-square-foot child development center, a café, and public art exhibition space. The building design seeks to achieve the Platinum certification standards of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System, the nationally accepted benchmark for the design, construction and operation of high-performance "green" buildings.

The City has received all environmental approvals necessary for construction of the 525 Golden Gate Avenue property, and the design development phase is completed. Demolition of the existing site was completed in June 2009, while site improvement phases such as shoring, underpinning and excavation are currently underway. Construction is expected to start in January 2010 with an expected completion date of February 2012, with an expected occupancy date of April 2012.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress during the year ended June 30, 2009 included:

|  |    |             |
|--|----|-------------|
| Tesla Treatment Facility   | \$ | 22,314      |
| McLaren Park Pump Station Upgrade  |    | 19,244      |
| New Crystal Springs Bypass Tunnel  |    | 17,512      |
| Local Water Main Replacement Program   |    | 16,114      |
| Harry Tracy Water Treatment Plant (HTWTP) Short Term Improvements Phase 3    |    | 11,823      |
| San Joaquin Pipeline System  |    | 10,916      |
| Stanford Heights Reservoir Rehab/Upgrade                                     |    | 9,738       |
| Standby Power Facility Various Locations                                     |    | 9,032       |
| Calaveras Dam Replacement  |    | 8,774       |
| Sunset Reservoir – Upgrade/Rehab North Basin                                 |    | 8,591       |
| HTWTP Long Term Improvements   |    | 8,404       |
| Sunol Valley Water Treatment Plant (SVWTP) Expansion/Treated Water Reservoir |    | 8,314       |
| Bay Division Pipeline (BDPL) Reliability Upgrade – Tunnel                    |    | 8,183       |
| Crystal Springs Pump Station & Crystal Springs – San Andreas Pipeline        |    | 8,051       |
| New Irvington Tunnel   |    | 7,676       |
| BDPL Reliability – Pipeline Upgrade  |    | 6,076       |
| East/West Transmission Main  |    | 5,694       |
| Other project additions individually below \$5,000                           |    | 96,249      |
|  |    | <hr/>       |
|  | \$ | 282,705     |
|  |    | <hr/> <hr/> |

Major facilities, improvements, machinery and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2009 included:

|   |    |             |
|---|----|-------------|
| Sunset Reservoir North Basin Seismic Retrofit Structure | \$ | 50,025      |
| East/West Transmission Main                             |    | 29,754      |
| Water Main Replacement - Bernal/Nebraska                |    | 6,647       |
| Other items individually below \$5,000                  |    | 71,171      |
|   |    | <hr/>       |
|   | \$ | 157,597     |
|   |    | <hr/> <hr/> |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

#### *Water - Fiscal Year 2008*

Net capital assets of \$1,267,994 were invested in a broad range of utility capital assets as of June 30, 2008 (see Table 3A). The investment in capital assets includes land, buildings, improvements, water treatment plants, aqueducts, water transmission, and distribution mains, water storage facilities, pump stations, water reclamation facilities, machinery and equipment. This amount includes an increase of \$82,165 or 11.0% over the prior year in structures, buildings and equipment, and an increase of \$111,965 or 36.0% over the prior year in construction in progress, consistent with implementation of the ten-year Water System Improvement Program. Net revenue, commercial paper, and long-term debt are used to finance capital investments.

As of June 30, 2008, \$5,413 was invested in development costs and \$9,900 in site acquisition for an office building located at 525 Golden Gate Avenue. The building was currently envisioned as a twelve story building encompassing approximately 212,000 square feet, and is intended to consolidate divisions of SFPUC that are currently renting space at multiple locations throughout the City. The existing structure is expected to be demolished.

Major additions to construction work in progress during the year ended June 30, 2008 included:

|   |    |                |
|---|----|----------------|
| Sunset Reservoir North Basin Rehabilitation and Upgrade     | \$ | 29,545         |
| Stanford Heights Reservoir Rehabilitation and Upgrade       |    | 10,886         |
| East/West Transmission Main                                 |    | 10,668         |
| Water Main and Feeder Replacement, Citywide                 |    | 10,665         |
| Bay Division Pipeline (BDPL) Reliability Upgrade – Pipeline |    | 9,846          |
| Calaveras Dam Replacement                                   |    | 9,369          |
| Irvington Tunnel Alternatives                               |    | 8,495          |
| San Joaquin Pipeline No 4 New                               |    | 7,940          |
| 525 Golden Gate   |    | 6,490          |
| Existing San Joaquin Pipeline Rehabilitation                |    | 6,332          |
| BDPL Hydraulic Capacity Upgrade                             |    | 6,292          |
| Crystal Springs Pump Stations and Pipelines                 |    | 5,647          |
| Irvington Tunnel, Phase 2                                   |    | 5,249          |
| Other project additions individually below \$5,000          |    | 115,530        |
|   | \$ | <u>242,954</u> |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Major facilities, improvements, machinery and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2008 included:

|   |    |                |
|---|----|----------------|
| Underground Concrete                    | \$ | 17,555         |
| New Services, Citywide                  |    | 6,464          |
| Renew Services, Citywide                |    | 5,651          |
| Water Main Replacement, Avenues         |    | 5,417          |
| University Mound 48 Inch Steel Pipeline |    | 5,196          |
| Other items individually below \$5,000  |    | 87,883         |
|   | \$ | <u>128,166</u> |

**Table 3B**

**Proprietary Fund - Wastewater**

Capital Assets, Net of Depreciation

Years ended June 30, 2009, 2008, and 2007

|   | <u>2009</u>         | <u>2008</u>      | <u>2007</u>      | <u>2009-2008</u><br><u>change</u> | <u>2008-2007</u><br><u>change</u> |
|---|---------------------|------------------|------------------|-----------------------------------|-----------------------------------|
| Facilities, improvements, machinery,<br>and equipment | \$ 1,295,806        | 1,276,099        | 1,270,446        | 19,707                            | 5,653                             |
| Land and rights-of-way                                | 21,787              | 21,787           | 22,168           | —                                 | (381)                             |
| Construction work in progress                         | 77,330              | 62,975           | 42,856           | 14,355                            | 20,119                            |
| Total   | \$ <u>1,394,923</u> | <u>1,360,861</u> | <u>1,335,470</u> | <u>34,062</u>                     | <u>25,391</u>                     |

***Wastewater - Fiscal Year 2009***

Net capital assets of \$1,394,923 were invested in a broad range of utility capital assets as of June 30, 2009 (see Table 3B). This amount represents an increase of \$34,062 or 2.5% over the prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment.

Major additions to construction work in progress during the year ended June 30, 2009 include:

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

|   |    |               |
|---|----|---------------|
| Oceanside Heating Ventilation, Air Conditioning Assessment                          | \$ | 11,994        |
| Channel Pump Station Improvements Phase 2   |    | 8,854         |
| Southeast Water Pollution Control Program Digester Cover and<br>Mixing Improvements |    | 5,030         |
| Other project additions individually below \$5,000                                  |    | 47,660        |
|   | \$ | <u>73,538</u> |

Major facilities, improvements, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2009 included:

|   |    |               |
|---|----|---------------|
| Southeast Water Pollution Control Program Digester Cover and<br>Mixing Improvements | \$ | 10,571        |
| Oceanside Heating, Ventilation, Air Conditioning Assessment                         |    | 9,970         |
| Other items individually below \$5,000  |    | 37,981        |
|   | \$ | <u>58,522</u> |

#### ***Wastewater - Fiscal Year 2008***

Net capital assets of \$1,360,861 were invested in a broad range of utility capital assets as of June 30, 2008. This amount represents an increase of \$25,391 or 1.9%, over the prior fiscal year. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, sewer pipes and mains, underground transport and storage boxes, pump stations, machinery, and equipment.

Major additions to construction work in progress during the year ended June 30, 2008 include:

|  |    |               |
|--|----|---------------|
| Mission/Mount Vernon Sewer Improvements            | \$ | 9,399         |
| Other project additions individually below \$5,000 |    | 53,916        |
|  | \$ | <u>63,315</u> |

Major structures, buildings and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2008 included:

|   |    |               |
|---|----|---------------|
| Mission/Mount Vernon Sewer Improvements | \$ | 10,749        |
| Other items individually below \$5,000  |    | 33,668        |
|   | \$ | <u>44,417</u> |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

**Table 3C**  
**Proprietary Fund - Hetch Hetchy Water and Power**  
**Capital Assets, Net of Depreciation**  
 Year ended June 30, 2009, 2008, and 2007

|  | <u>2009</u>       | <u>2008</u>    | <u>2007</u>    | <u>2009 – 2008</u><br><u>Change</u> | <u>2008 – 2007</u><br><u>Change</u> |
|--|-------------------|----------------|----------------|-------------------------------------|-------------------------------------|
| Facilities, improvements, machinery, and equipment | \$ 229,998        | 230,265        | 215,480        | (267)                               | 14,785                              |
| Land and rights-of-way                             | 4,676             | 4,594          | 4,215          | 82                                  | 379                                 |
| Construction work in progress                      | 38,965            | 24,517         | 59,125         | 14,448                              | (34,608)                            |
| <b>Total</b>                                       | <b>\$ 273,639</b> | <b>259,376</b> | <b>278,820</b> | <b>14,263</b>                       | <b>(19,444)</b>                     |

***Hetch Hetchy Water and Power - Fiscal Year 2009***

Net capital assets of \$273,639 were invested in a broad range of utility capital assets as of June 30, 2009 (see Table 3C). This amount represents an increase of \$14,263 or 5.5%, attributable to a \$267 decrease in facilities, improvements, machinery and equipment, offset by a \$14,448 net increase in construction work in progress, and \$82 of additions in land and rights-of-way.

The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress during the year ended June 30, 2009 included:

|  |                  |
|--|------------------|
| Street Light Underground Utilities                 | \$ 3,173         |
| San Joaquin Pipeline Rehabilitation                | 2,200            |
| Other project additions individually below \$2,000 | 18,269           |
|  | <u>\$ 23,642</u> |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Major facilities, improvements, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2009 included:

|  |    |             |
|--|----|-------------|
| Street Lights                          | \$ | 3,138       |
| Other items individually below \$2,000 |    | 8,467       |
|  |    | <hr/>       |
|  | \$ | 11,605      |
|  |    | <hr/> <hr/> |

### *Hetch Hetchy Water and Power - Fiscal Year 2008*

Net capital assets of \$259,376 were invested in a broad range of utility capital assets as of June 30, 2008. This amount represents a decrease of \$19,444 or 7.0%, due to a combination of a \$14,785 increase in structures, buildings, and equipment and a \$34,608 net decrease in construction work in progress. The decrease includes the impairment loss of the combustion turbine project of \$41,224. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress during the year ended June 30, 2008 included:

|  |    |             |
|--|----|-------------|
| San Francisco Electrical Reliability Power Project   | \$ | 7,841       |
| Solar Project at San Francisco International Airport |    | 3,778       |
| Street Light Underground Utilities                   |    | 2,317       |
| Other project additions individually below \$2,000   |    | 17,322      |
|  |    | <hr/>       |
|  | \$ | 31,258      |
|  |    | <hr/> <hr/> |

Major structures, buildings and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2008 included:

|  |    |             |
|--|----|-------------|
| Solar Photovoltaic System at San Francisco International Airport | \$ | 6,040       |
| Street Lights  |    | 2,316       |
| Solar Power Plant at North Point Treatment Plant                 |    | 2,243       |
| Other items individually below \$2,000                           |    | 15,218      |
|  |    | <hr/>       |
|  | \$ | 25,817      |
|  |    | <hr/> <hr/> |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

***Debt Administration***

**Table 4**  
**Business-Type Activities**  
**Outstanding Debt, Net of Amortized Costs**  
June 30, 2009, 2008, and 2007

|                              | <b>2009</b>         | <b>2008</b>      | <b>2007</b>      | <b>2009 – 2008<br/>change</b> | <b>2008 – 2007<br/>change</b> |
|------------------------------|---------------------|------------------|------------------|-------------------------------|-------------------------------|
| Revenue bonds                | \$ 1,225,415        | 1,285,883        | 1,338,855        | (60,468)                      | (52,972)                      |
| Clean Renewable Energy Bonds | 5,717               | —                | —                | 5,717                         | —                             |
| Capital appreciation bonds   | 3,620               | 3,380            | 3,155            | 240                           | 225                           |
| Commercial paper             | 329,600             | 50,000           | 50,000           | 279,600                       | —                             |
| State revolving fund loans   | 75,339              | 89,101           | 102,438          | (13,762)                      | (13,337)                      |
| State of California CEC loan | —                   | 282              | 390              | (282)                         | (108)                         |
| <b>Total</b>                 | <b>\$ 1,639,691</b> | <b>1,428,646</b> | <b>1,494,838</b> | <b>211,045</b>                | <b>(66,192)</b>               |

***Business-Type Activities***

A detailed discussion follows for each proprietary fund.

**Table 4A**  
**Proprietary Fund - Water**  
**Outstanding Debt, Net of Amortized Costs**  
June 30, 2009, 2008, and 2007

|                            | <b>2009</b>         | <b>2008</b>    | <b>2007</b>    | <b>2009 – 2008<br/>change</b> | <b>2008 – 2007<br/>change</b> |
|----------------------------|---------------------|----------------|----------------|-------------------------------|-------------------------------|
| Revenue bonds              | \$ 932,886          | 958,410        | 977,604        | (25,524)                      | (19,194)                      |
| Capital appreciation bonds | 3,620               | 3,380          | 3,155          | 240                           | 225                           |
| Commercial paper           | 229,600             | —              | —              | 229,600                       | —                             |
| <b>Total</b>               | <b>\$ 1,166,106</b> | <b>961,790</b> | <b>980,759</b> | <b>204,316</b>                | <b>(18,969)</b>               |

***Water***

As of June 30, 2009, there was \$1,166,106 in total debt outstanding, an increase of \$204,316 over the prior year (see Table 4A). There were commercial paper notes outstanding of \$229,600 at June 30, 2009 and none in the previous year. Total debt outstanding at June 30, 2009 consisted of \$932,886 in fixed-rate long-term revenue bonds and \$3,620 in capital appreciation bonds. The change in total debt outstanding was due to the retirement of revenue bond principal, and a change in the accreted value of all capital appreciation bonds, amortization of bond discounts, bond premium, and refunding loss.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

As of June 30, 2008, there was \$961,790 in total debt outstanding, a decrease of \$18,969 over the prior year (see Table 4A). Total debt outstanding at June 30, 2008 consisted of \$958,410 in fixed-rate long-term revenue bonds and \$3,380 in capital appreciation bonds. The change in total debt outstanding was due to the retirement of revenue bond principal, and a change in the accreted value of all capital appreciation bonds, amortization of bond discounts, bond premium, and refunding loss.

**Table 4B**  
**Proprietary Fund - Wastewater**  
 Outstanding Debt  
 (Net of Amortized Costs)  
 Years ended June 30, 2009, 2008, and 2007

|                            | 2009              | 2008           | 2007           | 2009-2008<br>change | 2008-2007<br>change |
|----------------------------|-------------------|----------------|----------------|---------------------|---------------------|
| Revenue bonds              | \$ 292,529        | 327,473        | 361,251        | (34,944)            | (33,778)            |
| Commercial paper           | 100,000           | 50,000         | 50,000         | 50,000              | —                   |
| State revolving fund loans | 75,339            | 89,101         | 102,438        | (13,762)            | (13,337)            |
| <b>Total</b>               | <b>\$ 467,868</b> | <b>466,574</b> | <b>513,689</b> | <b>1,294</b>        | <b>(47,115)</b>     |

### *Wastewater*

As of June 30, 2009 and 2008, there were debt and State Revolving Fund Loans outstanding of \$467,868 and \$466,574 respectively, (see Table 4B).

**Table 4C**  
**Proprietary Fund - Hetch Hetchy Water and Power**  
 Outstanding Debt, Net of Unamortized Costs  
 June 30, 2009, 2008, and 2007

|                              | 2009            | 2008       | 2007       | 2009 – 2008<br>Change | 2008 – 2007<br>Change |
|------------------------------|-----------------|------------|------------|-----------------------|-----------------------|
| State of California CEC loan | \$ —            | 282        | 390        | (282)                 | (108)                 |
| Clean Renewable Energy Bonds | 5,717           | —          | —          | 5,717                 | —                     |
| <b>Total</b>                 | <b>\$ 5,717</b> | <b>282</b> | <b>390</b> | <b>5,435</b>          | <b>(108)</b>          |

### *Hetch Hetchy Water and Power*

As of June 30, 2009 and 2008, there was outstanding debt of \$5,717 and \$282, respectively, (see Table 4C). Clean Renewable Energy Bonds (CREBs) for \$6,325 were issued in accordance with the Energy Tax Incentives Act of 2005 to fund solar photovoltaic projects in November 2008. The qualified bonds carry no interest costs and have a term of fifteen years. Annual payments in the amount of \$422 are due on December 15th beginning December 15, 2008.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Additionally, the California Energy Commission (CEC) loan was retired early in April 2009. The loan was issued in November 2002 to help the San Francisco General Hospital (SFGH) complete the construction phase of its Lighting Retrofit Project. SFGH will continue to provide biannual payments of \$59 each on June 12 and December 12 until 2010. This payment schedule coincides with the original loan repayment schedule to the CEC for this project. The amounts to be repaid by SFGH are reduced by amounts received under State grant programs.

***Water's Credit Ratings and Bond Insurance*** – At June 30, 2009, Water carried underlying ratings of “A1” and “AA-” from Moody's and Standard & Poor's (S&P), respectively. At June 30, 2008, the underlying ratings were “A1” and “A+” from Moody's and Standard & Poor's (S&P), respectively. In connection with the sale of substantially all of Water revenue bonds, municipal bond insurance has been purchased by SFPUC or the underwriters from XL Capital (XL), Financial Security Assurance Corporation (FSA), and MBIA Insurance Corporation (MBIA) to guarantee the payment of principal and interest when due. XL had been acquired by Syncora Holdings (Syncora) in August 2008. In November 2008, Moody's had downgraded FSA to “Aa3,” and S&P had put FSA on negative outlook, but continued to maintain its “AAA” rating. In February 2009, MBIA provided further reinsurance on its public finance bond insurance portfolio through its newly created subsidiary, National Public Finance Guarantee Corporation (National). Moody's and S&P initially rated National at “Baa1” and “A,” respectively. With the insurance, Moody's and S&P have assigned their municipal bond ratings of “Aaa” and “AAA,” respectively, to Water insured revenue bonds. The downgrade of various bond insurance companies by credit rating agencies in 2008 had not caused any change in the underlying ratings. In March 2009, Moody's downgraded Syncora to “Ca” while S&P downgraded Syncora to “R” in April 2009, effectively placing Syncora under regulatory supervision due to its financial condition. In June 2009, Moody's downgraded MBIA to “Ba3,” while S&P downgraded MBIA to “BB+” in September 2009 but affirmed National's rating.

***Wastewater's Credit Ratings and Bond Insurance*** – At June 30, 2009, Wastewater carried underlying ratings of “A2” and “A+” from Moody's and Standard & Poor's (S&P), respectively. At June 30, 2008, the underlying ratings were “A2” and “A” from Moody's and Standard & Poor's (S&P), respectively. In connection with the sale of 2003 Series A Refunding Bonds, municipal bond insurance has been purchased by SFPUC and the underwriters from MBIA Insurance (MBIA) to guarantee the payment of principal and interest when due. With the insurance, Moody's and S&P have assigned their municipal bond ratings of “Aaa” and “AAA”, respectively, to insured revenue bonds. The downgrade of various bond insurance companies by credit ratings agencies in 2008 did not cause any change in the underlying ratings. In February 2009, MBIA provided further reinsurance on its public finance bond insurance portfolio through its newly created subsidiary, National Public Finance Guarantee Corporation (National). Moody's and S&P initially rated National at “Baa1” and “A,” respectively. By July 2009, Moody's and S&P had downgraded MBIA to “Ba3” and “BBB”, respectively, but affirmed National's rating. On September 28, 2009 S&P downgraded MBIA to “BB+”.

***Debt Service Coverage*** – Pursuant to the Amended and Restated Indenture, the enterprises are required to collect sufficient net revenues each fiscal year, together with any 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. During fiscal years 2009 and 2008, 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 Amended and Restated Indenture.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

#### ***Debt Authorization***

Pursuant to the Charter, indebtedness can be incurred upon two-thirds vote of the Board of Supervisors, as approved by voters in Proposition E in November 2002. Additionally, indebtedness may be incurred up to \$1,628,000 for improvements to the water system pursuant to Proposition A that was approved by the voters in November 2002.

***Water*** – As of June 30, 2009, \$507,800 of the \$1,628,000 was issued. Also authorized is the issuance of up to \$500,000 in commercial paper. As of June 30, 2009, \$229,600 was issued and outstanding.

***Wastewater*** – At June 30, 2009, there was a \$150,000 authorized under the commercial paper program, with \$100,000 and \$50,000 in commercial paper outstanding as of June 30, 2009 and 2008 respectively.

#### ***Cost of Capital***

***Water*** – Outstanding long-term debt had interest rates ranging from 2.5% to 7.0% as of June 30, 2009 and 2008. Short-term debt had interest rates ranging from 0.25% to 0.75% as of June 30, 2009. In the prior year, there was no outstanding short-term debt.

***Wastewater*** – The interest rates on outstanding bonds range from 3.00% to 5.25% at June 30, 2009, unchanged from June 30, 2008 with a true interest cost of 3.95%. The outstanding State Revolving Fund Loans carry interest rates from 2.8% to 3.5%. Short-term debt had interest rates ranging from 0.30% to 2.20% at June 30, 2009 and from 1.52% to 3.62% at June 30, 2008.

***Hetch Hetchy Water & Power*** – \$6,325 in Clean Renewable Energy Bonds (CREBs) were issued on November 7, 2008 to finance the installation of solar energy equipment on selected City-owned facilities. Hetch Hetchy Water and Power has not previously issued debt and has instead up to this point relied on revenue from ratepayers to fund renewable energy projects. CREBs provide the Hetch Hetchy with low-cost access to capital to further its green power objectives. Principal payments in the amount of \$422 began on December 15, 2008 and annual payments will continue for fifteen years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

More information about capital assets and debt activities is presented in notes 4, 6, and 7 to the basic financial statements.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

### Economic Factors

#### *Rate Setting Process*

Proposition E, as approved by the Voters on November 2002, amended the City Charter by adding the new Article VIIB, entitled "Public Utilities," which changed SFPUC's ability to issue new revenue bonds and set retail rates. SFPUC 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. Rate studies were undertaken in the past year to examine the future revenue requirements and cost of service.

### Water's Economic Factors

#### *Next Year's Rates*

On August 11, 2009, Water sold \$412,000 in 2009 Series A Bonds to finance a portion of the WSIP projects and refund outstanding commercial paper. 2009 Series B Bonds in the amount of \$412,000 were sold on September 1, 2009. Outstanding revenue bonds for Water total \$1,757,000 as of September 30, 2009.

The Master Water Sales Contract was approved by the City and the wholesale customers in 1984 (see note 9 to the basic financial statements).

Retail water rate increases of 15%, 15%, 12.5%, 12.5%, and 6.5% have been approved for the next five fiscal years 2009 through 2014. A wholesale water rate increase of 15.7% has been approved for fiscal year 2009-2010.

Wholesale customer rates were set pursuant to the Master Water Sales Contract, up through June 30, 2009 when the contract expired. A new agreement was negotiated between SFPUC and the Wholesale Customers represented by the Bay Area Water Supply and Conservation Agency (BAWSCA). The term of the new Water Supply Agreement (WSA) began on July 1, 2009 and shall end on June 30, 2034, with two 5-year extension options.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

The following table is Water's average rate adjustments since July 1, 2004:

|                           | <b>Approved average<br/>rate adjustments</b> |                    |
|---------------------------|--|--------------------|
|                           | <b>Retail</b>                                | <b>Wholesale</b>   |
| Effective date:           |  |                    |
| July 1, 2004              | 0 %  | 2.7 %              |
| July 1, 2005              | 15.0   | (9.7) <sup>1</sup> |
| July 1, 2006              | 15.0   | 18.8               |
| July 1, 2007              | 15.0 <sup>2</sup>                            | 6.3                |
| July 1, 2008              | 15.0   | 10.0               |
| July 1, 2009 <sup>3</sup> | 15.0   | 15.7               |
| July 1, 2010 <sup>4</sup> | 15.0   | 17.6               |
| July 1, 2011 <sup>4</sup> | 12.5   | 17.2               |
| July 1, 2012 <sup>4</sup> | 12.5   | 17.2               |
| July 1, 2013 <sup>4</sup> | 6.5  | 13.6               |

<sup>1</sup> Adjustment effective April 1, 2005

<sup>2</sup> Adjustment effective July 14, 2007

<sup>3</sup> July 1, 2009 was the first year of the new twenty-five year agreement

<sup>4</sup> Wholesale rates are adopted annually. Fiscal years beginning July 1, 2010 are projected rates.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

### Wastewater's Economic Factors

#### *Next Year's Rates*

A rate study was completed in the Spring of 2009, which includes examination of future revenue requirements and cost of service of Wastewater, and was used to set Wastewater rates for the next five years through fiscal year 2014. SFPUC adopted a five-year rate proposal that includes a 7.0% average increase in wastewater rates effective July 1, 2009 to meet projected costs and coverage requirements, followed by average increases of 7.0%, 5.0%, 5.0%, and 5.0% for fiscal years 2010, 2011, 2012, and 2013, respectively.

The following table is a history of Wastewater's approved average rate adjustments since July 1, 2004:

| <b>Approved Average Rate Adjustments</b> |             |
|--|-------------|
| <b>Effective Date</b>                    | <b>Rate</b> |
| July 1, 2004                             | 11.0%       |
| July 1, 2005                             | 13.0%       |
| July 1, 2006                             | 13.0%       |
| July 1, 2007*                            | 8.0 %       |
| July 1, 2008                             | 9.0 %       |
| July 1, 2009**                           | 7.0 %       |
| July 1, 2010                             | 7.0 %       |
| July 1, 2011                             | 5.0 %       |
| July 1, 2012                             | 5.0 %       |
| July 1, 2013                             | 5.0 %       |

\* Adjustment effective July 14, 2007.

\*\* Denotes beginning of five-year rate increase.

#### *Master Plan*

The current Master Plan was finalized in 1974 and brought the City into compliance with Federal and State laws and reduced the number of combined sewer discharges. It resulted in a 25-year capital improvement and construction program that included the construction of the award-winning Oceanside Plant, upgrade of the Southeast Plant to secondary treatment, a new 4.5-mile ocean outfall, and the transport/storage boxes around the city.

Since 2005, the Sewer System Improvement Program (SSIP) team has collected and analyzed extensive data, including input from the public, and has used it to develop a recommended program of improvements to address infrastructure challenges facing the wastewater system. The team presented these draft improvements at numerous public meetings and has now folded them into a draft Master Plan. Potential costs of the SSIP are estimated at \$3.5 billion. In the short-term, an interim Capital Improvement Plan (Interim CIP) totaling \$297 million has been implemented. The SSIP will be further reviewed by SFPUC in early 2010.

## **THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise stated)

Environmental review of the SSIP is anticipated to be complete in 2011. This process, led by the San Francisco Planning Department's Major Environmental Analysis division will identify environmental impacts of proposed actions, identify ways to avoid or reduce environmental damage, and enhance public participation in the planning process.

### **Hetch Hetchy Water and Power's Economic Factors**

An electric revenue requirement model was completed in September 2009. The electric rate setting process will occur during fiscal year 2010. Under an existing development agreement, Hetch Hetchy will construct, own and operate the electric distribution infrastructure required to provide retail electric service to residential and commercial customers in Parcel "A" of the former Hunter's Point Shipyard. To date, preparation has been made for service standards, development of system plans and specifications, acquisition of materials and equipment, and initiation of construction of primary distribution facilities. Concurrent with construction activities, an analysis of projected operating and development costs along with cost-based retail electric rates is underway.

### **Request for Information**

This report is designed to provide our citizens, customers, investors, and creditors with a general overview of SFPUC's finances and to demonstrate SFPUC'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, 1155 Market Street, 11th Floor, San Francisco, CA 94103.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Net Assets

Business-Type Activities

June 30, 2009 and 2008

(In thousands)

| <b>Assets:</b>   | 2009       | 2008       |
|--|------------|------------|
| Current assets:  |            |            |
| Cash and investments with City Treasury.....   | \$ 338,006 | \$ 348,861 |
| Cash and investments outside City Treasury.....  | 51         | 46         |
| Receivables:   |            |            |
| Charges for services, (net of allowance for doubtful accounts of.....<br>\$2,673 in 2009 and \$2,382 in 2008, respectively)..... | 84,172     | 77,404     |
| Suburban water rate agreement.....   | 27,571     | 13,870     |
| Due from other funds.....  | 197        | 250        |
| Due from other governmental agencies, current portion.....   | 768        | 169        |
| Due from other City departments.....   | 31         | 25         |
| Interest receivables.....  | 2,742      | 3,166      |
| Advances and other receivables.....  | 4,875      | 4,133      |
| Loan receivable, current portion.....  | -          | 134        |
| Total receivables.....   | 120,356    | 99,151     |
| Deferred charges and other assets.....   | 3,478      | 2,120      |
| Inventories.....   | 5,696      | 2,168      |
| Total current assets.....  | 467,587    | 452,346    |
| Non-current assets:  |            |            |
| Restricted assets - cash and investments with City Treasury.....   | 83,203     | 74,548     |
| Restricted assets - cash and investments outside City Treasury.....  | 47,065     | 41,078     |
| Restricted assets - interest receivable.....   | 280        | 512        |
| Capital assets not being depreciated.....  | 708,437    | 554,822    |
| Capital assets, net of accumulated depreciation .....  | 2,461,385  | 2,333,409  |
| Due from other governmental agencies .....   | 16,932     | 16,436     |
| Bond issuance costs, (net of accumulated amortization of<br>\$5,810 in 2009 and \$5,324 in 2008, respectively).....              | 9,450      | 9,899      |
| Loan receivable, net of current portion.....   | -          | 188        |
| Total non-current assets.....  | 3,326,752  | 3,030,892  |
| Total assets.....  | 3,794,339  | 3,483,238  |

See accompanying notes to financial statements

(Continued)

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Net Assets

Business-Type Activities

June 30, 2009 and 2008

(In thousands)

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| <b>Liabilities:</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable.....                                       | 37,522              | 28,216              |
| Accrued payroll.....  | 11,888              | 10,528              |
| Accrued vacation and sick leave, current portion.....       | 10,295              | 9,748               |
| Accrued workers' compensation, current portion.....         | 2,730               | 2,714               |
| Due to other funds.....                                     | 23                  | -                   |
| Due to other City departments.....                          | 556                 | -                   |
| Damage and claim liability, current portion.....            | 7,627               | 10,157              |
| Deposits, advances, and other liabilities.....              | 5,855               | 9,440               |
| Bond and loan interest payable.....                         | 12,528              | 13,060              |
| Pollution remediation obligation, current portion.....      | 3,077               | 2,339               |
| Revenue bonds, current portion.....                         | 63,735              | 61,185              |
| Clean renewable energy bonds.....                           | 422                 | -                   |
| Commercial paper.....                                       | 329,600             | 50,000              |
| Loans payable, current portion.....                         | 14,199              | 13,875              |
| Current liabilities payable from restricted assets.....     | 47,601              | 31,927              |
|   | <u>547,658</u>      | <u>243,189</u>      |
| Long-term liabilities:                                      |                     |                     |
| Arbitrage rebate payable.....                               | 4,265               | -                   |
| Other postemployment benefits obligation.....               | 48,179              | 23,455              |
| Accrued vacation and sick leave, less current portion.....  | 8,777               | 8,477               |
| Accrued workers' compensation, less current portion.....    | 12,605              | 12,243              |
| Damage and claim liability, less current portion.....       | 22,685              | 25,442              |
| Deferred revenue, refunds and other liabilities.....        | 544                 | 89                  |
| Pollution remediation obligation, less current portion..... | 610                 | 355                 |
| Revenue bonds, less current portion.....                    | 1,161,680           | 1,224,698           |
| Clean renewable energy bonds.....                           | 5,295               | -                   |
| Capital appreciation bonds.....                             | 3,620               | 3,380               |
| Loans payable, less current portion.....                    | 61,140              | 75,508              |
|   | <u>1,329,400</u>    | <u>1,373,647</u>    |
| Total long-term liabilities.....                            | <u>1,329,400</u>    | <u>1,373,647</u>    |
| Total liabilities.....                                      | <u>1,877,058</u>    | <u>1,616,836</u>    |
| <b>Net assets:</b>  |                     |                     |
| Invested in capital assets, net of related debt.....        | 1,595,057           | 1,524,069           |
| Restricted for debt service.....                            | 29,259              | 28,750              |
| Restricted for capital projects.....                        | 11,967              | 214                 |
| Unrestricted.....   | 280,998             | 313,369             |
|   | <u>2,917,281</u>    | <u>2,166,402</u>    |
| Total net assets.....                                       | <u>\$ 1,917,281</u> | <u>\$ 1,866,402</u> |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Activities  
Year ended June 30, 2009  
(In thousands)

| Functions/Programs                                      | Expenses   | Program Revenues     |                                    |                                  | Primary Government       |              |
|---|------------|----------------------|------------------------------------|----------------------------------|--------------------------|--------------|
|   |            | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Business-Type Activities | Total        |
| <b>Primary government:</b>                              |            |                      |                                    |                                  |                          |              |
| Business-type activities                                |            |                      |                                    |                                  |                          |              |
| Water.....  | \$ 277,162 | \$ 265,781           | \$ -                               | \$ 1,784                         | \$ (9,597)               | \$ (9,597)   |
| Sewer.....  | 184,977    | 208,654              | 224                                | -                                | 23,901                   | 23,901       |
| Power.....  | 96,228     | 115,274              | -                                  | -                                | 19,046                   | 19,046       |
| Total business-type activities.....                     | 558,367    | 589,709              | 224                                | 1,784                            | 33,350                   | 33,350       |
| Total primary government.....                           | \$ 558,367 | \$ 589,709           | \$ 224                             | \$ 1,784                         | \$ 33,350                | \$ 33,350    |
| General Revenues:                                       |            |                      |                                    |                                  |                          |              |
| Interest and investment income.....                     |            |                      |                                    |                                  | 13,240                   | 13,240       |
| Other.....  |            |                      |                                    |                                  | 5,733                    | 5,733        |
| Transfers to the City and County of San Francisco.....  |            |                      |                                    |                                  | (1,444)                  | (1,444)      |
| Total general revenues, special item and transfers..... |            |                      |                                    |                                  | 17,529                   | 17,529       |
| Changes in net assets.....                              |            |                      |                                    |                                  | 50,879                   | 50,879       |
| Net assets at beginning of year.....                    |            |                      |                                    |                                  | 1,866,402                | 1,866,402    |
| Net assets at end of year.....                          |            |                      |                                    |                                  | \$ 1,917,281             | \$ 1,917,281 |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Activities  
Year ended June 30, 2008  
(In thousands)

| Functions/Programs                                      | Expenses   | Program Revenues     |                                    |                                  | Primary Government       |              |
|---|------------|----------------------|------------------------------------|----------------------------------|--------------------------|--------------|
|   |            | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Business-Type Activities | Total        |
| <b>Primary government:</b>                              |            |                      |                                    |                                  |                          |              |
| Business-type activities                                |            |                      |                                    |                                  |                          |              |
| Water.....  | \$ 252,802 | \$ 234,216           | \$ 1,958                           | \$ -                             | \$ (16,628)              | \$ (16,628)  |
| Sewer.....  | 182,712    | 202,549              | -                                  | -                                | 19,837                   | 19,837       |
| Power.....  | 109,436    | 119,855              | 52                                 | -                                | 10,471                   | 10,471       |
| Total business-type activities.....                     | 544,950    | 556,620              | 2,010                              | -                                | 13,680                   | 13,680       |
| Total primary government.....                           | \$ 544,950 | \$ 556,620           | \$ 2,010                           | \$ -                             | \$ 13,680                | \$ 13,680    |
| General Revenues:                                       |            |                      |                                    |                                  |                          |              |
| Interest and investment income.....                     |            |                      |                                    |                                  | 22,975                   | 22,975       |
| Other.....  |            |                      |                                    |                                  | 37,752                   | 37,752       |
| Special item.....                                       |            |                      |                                    |                                  | (41,224)                 | (41,224)     |
| Transfers to the City and County of San Francisco.....  |            |                      |                                    |                                  | (450)                    | (450)        |
| Total general revenues, special item and transfers..... |            |                      |                                    |                                  | 19,053                   | 19,053       |
| Changes in net assets.....                              |            |                      |                                    |                                  | 32,733                   | 32,733       |
| Net assets at beginning of year.....                    |            |                      |                                    |                                  | 1,833,669                | 1,833,669    |
| Net assets at end of year.....                          |            |                      |                                    |                                  | \$ 1,866,402             | \$ 1,866,402 |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Cash Flows

Business-Type Activities

June 30, 2009 and 2008

(In thousands)

|   | 2009              | 2008              |
|---|-------------------|-------------------|
| Cash flows from operating activities:                                       |                   |                   |
| Cash received from customers, including cash deposits .....                 | \$ 555,347        | \$ 547,112        |
| Cash received from tenants for rent.....                                    | 9,315             | 9,974             |
| Cash paid to employees for services .....                                   | (183,051)         | (175,976)         |
| Cash paid to suppliers for goods and services .....                         | (187,907)         | (180,255)         |
| Cash paid for judgments and claims .....                                    | (6,488)           | (5,177)           |
| Net cash provided by operating activities .....                             | <u>187,216</u>    | <u>195,678</u>    |
| Cash flows from noncapital and related financing activities:                |                   |                   |
| Operating grants .....  | 118               | 1,951             |
| Transfers out.....  | (1,444)           | (450)             |
| Cash received from settlements .....  | 1,246             | 4,866             |
| Cash received from rebates and incentive programs .....                     | -                 | 3,361             |
| Cash received from license fees .....                                       | 1,167             | 972               |
| Cash from other sources .....   | 1,083             | 1,589             |
| Cash paid for rebates and program incentives .....                          | (2,401)           | -                 |
| Net cash provided by (used in) noncapital financing activities .....        | <u>(231)</u>      | <u>12,289</u>     |
| Cash flows from capital and related financing activities:                   |                   |                   |
| Capital grants .....  | 1,506             | -                 |
| Proceeds from sale of capital assets .....                                  | 2,626             | 24,457            |
| Proceeds from commercial paper borrowings .....                             | 1,118,000         | 185,000           |
| Proceeds from bond issuance, net of discount and issuance costs .....       | 6,089             | -                 |
| Acquisitions and construction of capital assets .....                       | (348,657)         | (328,995)         |
| Principal paid on commercial paper.....                                     | (838,400)         | (185,000)         |
| Principal paid on long-term debt.....                                       | (25,802)          | (19,278)          |
| Principal paid on revenue bond.....   | (36,087)          | (34,500)          |
| Principal paid on state revolving fund loans .....                          | (13,762)          | (13,337)          |
| Interest paid on commercial paper.....                                      | (2,104)           | -                 |
| Interest paid on long-term debt.....  | (44,072)          | (45,023)          |
| Interest paid on revenue bonds and state loans .....                        | (17,959)          | (20,325)          |
| Net cash used in capital and related financing activities .....             | <u>(198,622)</u>  | <u>(437,001)</u>  |
| Cash flows from investing activities:                                       |                   |                   |
| Interest income received.....   | 13,896            | 25,810            |
| Proceeds from sale of investments outside City Treasury.....                | 70,388            | 65,317            |
| Purchase of investments outside City Treasury.....                          | (70,311)          | (50,153)          |
| Other investing activities .....  | 1,533             | 2,827             |
| Net cash provided by investing activities .....                             | <u>15,506</u>     | <u>43,801</u>     |
| Increase (decrease) in cash and cash equivalents .....                      | 3,869             | (185,233)         |
| Cash and cash equivalents:  |                   |                   |
| Beginning of year.....  | 423,482           | 608,715           |
| End of year.....  | <u>\$ 427,351</u> | <u>\$ 423,482</u> |
| Reconciliation of cash and cash equivalents to the statement of net assets: |                   |                   |
| Cash and investments with City Treasury:                                    |                   |                   |
| Unrestricted.....   | \$ 338,006        | \$ 348,861        |
| Restricted.....   | 83,203            | 74,548            |
| Cash and investments outside City Treasury:                                 |                   |                   |
| Unrestricted.....   | 51                | 46                |
| Restricted.....   | 6,091             | 27                |
| Cash and cash equivalents at end of year on statements of cash flows .....  | <u>\$ 427,351</u> | <u>\$ 423,482</u> |

See accompanying notes to financial statements

(Continued)

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Cash Flows  
Business-Type Activities  
June 30, 2009 and 2008  
(In thousands)

|  | <u>2009</u>       | <u>2008</u>       |
|--|-------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities:       |                   |                   |
| Operating income.....  | \$ 75,866         | \$ 58,887         |
| Adjustment to reconcile operating income to net cash provided by operating activities: |                   |                   |
| Depreciation.....  | 99,784            | 95,737            |
| Provision for uncollectible accounts.....  | 291               | (2,073)           |
| Write-off of capital assets.....   | 7,627             | 11,099            |
| Gain from sale of capital asset.....   | -                 | (43)              |
| Amortization of bond discount and issuance.....  | 10                | -                 |
| Changes in operating assets and liabilities:   |                   |                   |
| Receivables:   |                   |                   |
| Charges for services.....  | (7,059)           | (2,839)           |
| Suburban water rate agreement.....   | (13,701)          | (2,004)           |
| Due from other governmental agencies.....  | (717)             | 1,150             |
| Loan.....  | 322               | 134               |
| Interest and other.....  | (737)             | 1,013             |
| Advances.....  | (3)               | -                 |
| Deferred charges and other assets.....   | (1,358)           | (2,120)           |
| Inventories.....   | (3,528)           | (334)             |
| Accounts payable.....  | 9,724             | 2,774             |
| Due to (from) other City departments.....  | 632               | (4,856)           |
| Accrued payroll.....   | 1,410             | 1,144             |
| Accrued other postemployment benefits obligation.....                                  | 24,724            | 23,455            |
| Accrued vacation and sick leave.....   | 847               | 9                 |
| Accrued workers' compensation.....   | 378               | 282               |
| Pollution remediation obligation.....  | 993               | (3,925)           |
| Damage and claim liability.....  | (5,287)           | 15,173            |
| Deferred credits and other liabilities.....  | 455               | 80                |
| Deposits, advances, other liabilities.....   | <u>(3,457)</u>    | <u>2,935</u>      |
| Total adjustments.....   | <u>111,350</u>    | <u>136,791</u>    |
| Net cash provided by operating activities.....   | <u>\$ 187,216</u> | <u>\$ 195,678</u> |
| Non-cash transactions:   |                   |                   |
| Accrued capital asset costs.....   | \$ 53,905         | \$ 38,822         |
| Land acquired through real property exchange.....                                      | 500               | -                 |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Net Assets

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

| Assets:  | Business-Type Activities - Enterprise Funds |           |            |           |                               |            |
|--|---|-----------|------------|-----------|-------------------------------|------------|
|  | Water                                       |           | Wastewater |           | Hetch Hetchy<br>Water & Power |            |
|  | 2009  | 2008      | 2009       | 2008      | 2009                          | 2008       |
| Current assets:  |   |           |            |           |                               |            |
| Cash and investments with City Treasury.....   | \$ 130,927                                  | 138,654   | \$ 36,968  | 44,361    | \$ 170,111                    | \$ 165,846 |
| Cash and investments outside City Treasury.....  | 36  | 36        | 5          | -         | 10                            | 10         |
| Receivables:   |   |           |            |           |                               |            |
| Charges for services, (net of allowance for doubtful<br>accounts of \$1,187, \$1,486, and \$0 in 2009 and<br>\$1,439, \$943, and \$0 in 2008, respectively)..... | 38,298                                      | 33,690    | 34,699     | 34,290    | 11,175                        | 9,424      |
| Suburban water rate agreement.....   | 27,571                                      | 13,870    | -          | -         | -                             | -          |
| Due from other funds.....  | 197   | 250       | -          | -         | -                             | -          |
| Due from other governmental agencies, current portion.....   | 337   | 59        | 106        | -         | 325                           | 110        |
| Due from other City departments.....   | -   | -         | 31         | 25        | -                             | -          |
| Interest receivables.....  | 321   | 666       | 169        | 241       | 2,252                         | 2,259      |
| Advances and other receivables.....  | 788   | 120       | 3          | -         | 4,084                         | 4,013      |
| Loan receivable, current portion.....  | -   | -         | -          | -         | -                             | 134        |
| Total receivables.....   | 67,512                                      | 48,655    | 35,008     | 34,556    | 17,836                        | 15,940     |
| Deferred charges and other assets.....   | -   | -         | -          | -         | 3,478                         | 2,120      |
| Inventories.....   | 1,849                                       | 1,872     | 3,586      | -         | 261                           | 296        |
| Total current assets.....  | 200,324                                     | 189,217   | 75,567     | 78,917    | 191,696                       | 184,212    |
| Non-current assets:  |   |           |            |           |                               |            |
| Restricted assets - cash and investments with City Treasury.....   | 21,726                                      | 21,740    | 61,477     | 52,808    | -                             | -          |
| Restricted assets - cash and investments outside City Treasury.....  | 40,974                                      | 41,051    | -          | 27        | 6,091                         | -          |
| Restricted assets - interest receivable.....   | 117   | 260       | 163        | 252       | -                             | -          |
| Capital assets not being depreciated.....  | 565,679                                     | 440,949   | 99,117     | 84,762    | 43,641                        | 29,111     |
| Capital assets, net of accumulated depreciation .....  | 935,581                                     | 827,045   | 1,295,806  | 1,276,099 | 229,998                       | 230,265    |
| Due from other governmental agencies .....   | -   | -         | -          | -         | 16,932                        | 16,436     |
| Bond issuance costs, (net of accumulated amortization of<br>of \$3,302, \$2,506, and \$2 in 2009 and \$2,976,<br>\$2,348 and \$0 in 2008, respectively).....     | 6,834                                       | 7,164     | 2,576      | 2,735     | 40                            | -          |
| Loan receivable, net of current portion.....   | -   | -         | -          | -         | -                             | 188        |
| Total non-current assets.....  | 1,570,911                                   | 1,338,209 | 1,459,139  | 1,416,683 | 296,702                       | 276,000    |
| Total assets.....  | 1,771,235                                   | 1,527,426 | 1,534,706  | 1,495,600 | 488,398                       | 460,212    |

See accompanying notes to financial statements

(Continued)

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Net Assets  
Proprietary Funds  
June 30, 2009 and 2008  
(In thousands)

|   | Business-Type Activities - Enterprise Funds |                   |                     |                   |                               |                   |
|---|---|-------------------|---------------------|-------------------|-------------------------------|-------------------|
|   | Water                                       |                   | Wastewater          |                   | Hetch Hetchy<br>Water & Power |                   |
|   | 2009  | 2008              | 2009                | 2008              | 2009                          | 2008              |
| <b>Liabilities :</b>  |   |                   |                     |                   |                               |                   |
| Current liabilities :                                       |   |                   |                     |                   |                               |                   |
| Accounts payable.....                                       | 4,778                                       | 8,394             | 7,891               | 7,096             | 4,853                         | 12,726            |
| Accrued payroll.....  | 6,846                                       | 6,009             | 3,498               | 3,296             | 1,544                         | 1,223             |
| Accrued vacation and sick leave, current portion.....       | 6,071                                       | 5,738             | 2,770               | 2,680             | 1,454                         | 1,330             |
| Accrued workers' compensation, current portion.....         | 1,551                                       | 1,512             | 774                 | 822               | 405                           | 380               |
| Due to other funds.....                                     | 23  | -                 | -                   | -                 | -                             | -                 |
| Due to other City departments.....                          | -   | -                 | 556                 | -                 | -                             | -                 |
| Damage and claim liability, current portion.....            | 2,515                                       | 3,011             | 1,861               | 2,989             | 3,251                         | 4,157             |
| Deposits, advances, and other liabilities.....              | 4,903                                       | 7,157             | -                   | -                 | 952                           | 2,283             |
| Bond and loan interest payable.....                         | 7,420                                       | 7,434             | 5,108               | 5,626             | -                             | -                 |
| Pollution remediation obligation, current portion.....      | 3,077                                       | 2,339             | -                   | -                 | -                             | -                 |
| Revenue bonds, current portion.....                         | 26,605                                      | 25,520            | 37,130              | 35,665            | -                             | -                 |
| Clean renewable energy bonds.....                           | -   | -                 | -                   | -                 | 422                           | -                 |
| Commercial paper.....                                       | 229,600                                     | -                 | 100,000             | 50,000            | -                             | -                 |
| Loans payable, current portion.....                         | -   | -                 | 14,199              | 13,765            | -                             | 110               |
| Current liabilities payable from restricted assets.....     | 40,603                                      | 27,322            | 6,998               | 4,605             | -                             | -                 |
| Total current liabilities.....                              | <u>343,992</u>                              | <u>94,436</u>     | <u>180,785</u>      | <u>126,544</u>    | <u>22,881</u>                 | <u>22,209</u>     |
| Long-term liabilities :                                     |   |                   |                     |                   |                               |                   |
| Arbitrage rebate payable.....                               | 4,265                                       | -                 | -                   | -                 | -                             | -                 |
| Other postemployment benefits obligation.....               | 30,967                                      | 15,048            | 11,413              | 5,684             | 5,799                         | 2,723             |
| Accrued vacation and sick leave, less current portion.....  | 5,383                                       | 5,118             | 2,308               | 2,318             | 1,086                         | 1,041             |
| Accrued workers' compensation, less current portion.....    | 7,066                                       | 6,623             | 3,639               | 3,853             | 1,900                         | 1,767             |
| Damage and claim liability, less current portion.....       | 7,126                                       | 8,243             | 8,499               | 6,055             | 7,060                         | 11,144            |
| Deferred revenue, refunds and other liabilities.....        | -   | -                 | 544                 | 89                | -                             | -                 |
| Pollution remediation obligation, less current portion..... | 235   | 355               | 375                 | -                 | -                             | -                 |
| Revenue bonds, less current portion.....                    | 906,281                                     | 932,890           | 255,399             | 291,808           | -                             | -                 |
| Clean renewable energy bonds.....                           | -   | -                 | -                   | -                 | 5,295                         | -                 |
| Capital appreciation bonds.....                             | 3,620                                       | 3,380             | -                   | -                 | -                             | -                 |
| Loans payable, less current portion.....                    | -   | -                 | 61,140              | 75,336            | -                             | 172               |
| Total long-term liabilities.....                            | <u>964,943</u>                              | <u>971,657</u>    | <u>343,317</u>      | <u>385,143</u>    | <u>21,140</u>                 | <u>16,847</u>     |
| Total liabilities.....                                      | <u>1,308,935</u>                            | <u>1,066,093</u>  | <u>524,102</u>      | <u>511,687</u>    | <u>44,021</u>                 | <u>39,056</u>     |
| <b>Net assets :</b>   |   |                   |                     |                   |                               |                   |
| Invested in capital assets, net of related debt.....        | 349,629                                     | 324,091           | 971,789             | 940,602           | 273,639                       | 259,376           |
| Restricted for debt service.....                            | 27,899                                      | 27,434            | 1,360               | 1,316             | -                             | -                 |
| Restricted for capital projects.....                        | 841   | 214               | 11,126              | -                 | -                             | -                 |
| Unrestricted.....   | 83,931                                      | 109,594           | 26,329              | 41,995            | 170,738                       | 161,780           |
| Total net assets.....                                       | <u>\$ 462,300</u>                           | <u>\$ 461,333</u> | <u>\$ 1,010,604</u> | <u>\$ 983,913</u> | <u>\$ 444,377</u>             | <u>\$ 421,156</u> |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Revenues, Expenses, and Changes in Net Assets

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

|   | Business-Type Activities - Enterprise Funds |                   |                     |                   |                               |                   |
|---|---|-------------------|---------------------|-------------------|-------------------------------|-------------------|
|   | Water                                       |                   | Wastewater          |                   | Hetch Hetchy<br>Water & Power |                   |
|   | 2009  | 2008              | 2009                | 2008              | 2009                          | 2008              |
| Operating revenues:                                     |   |                   |                     |                   |                               |                   |
| Charges for services .....                              | \$ 247,664                                  | \$ 216,819        | \$ 199,332          | \$ 187,810        | \$ 115,028                    | \$ 119,630        |
| Rents and concessions .....                             | 9,399                                       | 9,645             | -                   | -                 | 246                           | 225               |
| Other revenues .....                                    | 8,718                                       | 7,752             | 9,322               | 14,739            | -                             | -                 |
| <b>Total operating revenues .....</b>                   | <b>265,781</b>                              | <b>234,216</b>    | <b>208,654</b>      | <b>202,549</b>    | <b>115,274</b>                | <b>119,855</b>    |
| Operating expenses:                                     |   |                   |                     |                   |                               |                   |
| Personal services .....                                 | 106,869                                     | 102,233           | 69,141              | 69,383            | 36,469                        | 32,175            |
| Contractual services .....                              | 13,619                                      | 11,292            | 13,828              | 11,973            | 8,098                         | 3,972             |
| Purchased power and related costs .....                 | -   | -                 | -                   | -                 | 18,466                        | 28,548            |
| Materials and supplies .....                            | 12,671                                      | 11,506            | 5,754               | 9,539             | 2,243                         | 2,291             |
| Depreciation .....                                      | 49,100                                      | 45,958            | 38,815              | 38,758            | 11,869                        | 11,021            |
| Services provided by other departments .....            | 40,103                                      | 34,698            | 31,634              | 26,021            | 4,477                         | 3,701             |
| Bad debt expense .....                                  | 92  | 4                 | 576                 | -                 | -                             | -                 |
| General and administrative .....                        | 2,982                                       | 8,209             | 2,302               | 1,719             | 7,347                         | 20,997            |
| Other .....   | 22,879                                      | 9,152             | 7,250               | 7,852             | 7,259                         | 6,731             |
| <b>Total operating expenses .....</b>                   | <b>248,315</b>                              | <b>223,052</b>    | <b>169,300</b>      | <b>165,245</b>    | <b>96,228</b>                 | <b>109,436</b>    |
| <b>Operating income .....</b>                           | <b>17,466</b>                               | <b>11,164</b>     | <b>39,354</b>       | <b>37,304</b>     | <b>19,046</b>                 | <b>10,419</b>     |
| Nonoperating revenues (expenses):                       |   |                   |                     |                   |                               |                   |
| Federal and state grant .....                           | 1,784                                       | 1,958             | 224                 | -                 | -                             | 52                |
| Interest and investment income .....                    | 7,088                                       | 12,456            | 1,992               | 4,099             | 4,160                         | 6,420             |
| Interest expense .....                                  | (28,847)                                    | (29,750)          | (15,677)            | (17,467)          | -                             | -                 |
| Net gain from sale of land .....                        | 2,587                                       | 24,335            | -                   | -                 | -                             | -                 |
| Other nonoperating revenues .....                       | 2,831                                       | 3,388             | 798                 | 885               | 2,705                         | 10,244            |
| Other nonoperating expenses .....                       | (799)                                       | (792)             | -                   | (158)             | (2,389)                       | (150)             |
| <b>Net nonoperating revenues (expenses) .....</b>       | <b>(15,356)</b>                             | <b>11,595</b>     | <b>(12,663)</b>     | <b>(12,641)</b>   | <b>4,476</b>                  | <b>16,566</b>     |
| <b>Net income before special items and transfers</b>    | <b>2,110</b>                                | <b>22,759</b>     | <b>26,691</b>       | <b>24,663</b>     | <b>23,522</b>                 | <b>26,985</b>     |
| Special item:   |   |                   |                     |                   |                               |                   |
| Impairment loss .....                                   | -   | -                 | -                   | -                 | -                             | (41,224)          |
| <b>Income before transfers .....</b>                    | <b>2,110</b>                                | <b>22,759</b>     | <b>26,691</b>       | <b>24,663</b>     | <b>23,522</b>                 | <b>(14,239)</b>   |
| Transfers to the City and County of San Francisco ..... | (1,143)                                     | -                 | -                   | -                 | (301)                         | (450)             |
| <b>Changes in net assets .....</b>                      | <b>967</b>                                  | <b>22,759</b>     | <b>26,691</b>       | <b>24,663</b>     | <b>23,221</b>                 | <b>(14,689)</b>   |
| Net assets at beginning of year .....                   | 461,333                                     | 438,574           | 983,913             | 959,250           | 421,156                       | 435,845           |
| <b>Net assets at end of year .....</b>                  | <b>\$ 462,300</b>                           | <b>\$ 461,333</b> | <b>\$ 1,010,604</b> | <b>\$ 983,913</b> | <b>\$ 444,377</b>             | <b>\$ 421,156</b> |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**  
**Statements of Cash Flows**  
**Proprietary Funds**  
**June 30, 2009 and 2008**  
(In thousands)

|  | Business-Type Activities - Enterprise Funds |                   |                  |                  |                               |                   |
|--|---|-------------------|------------------|------------------|-------------------------------|-------------------|
|  | Water                                       |                   | Wastewater       |                  | Hetch Hetchy<br>Water & Power |                   |
|  | 2009  | 2008              | 2009             | 2008             | 2009                          | 2008              |
| <b>Cash flows from operating activities:</b>                                       |   |                   |                  |                  |                               |                   |
| Cash received from customers, including cash deposits.....                         | \$ 235,841                                  | \$ 222,676        | \$ 208,067       | \$ 198,895       | \$ 111,439                    | \$ 125,541        |
| Cash received from tenants for rent.....   | 9,069                                       | 9,749             | -                | -                | 246                           | 225               |
| Cash paid to employees for services.....   | (88,027)                                    | (85,633)          | (62,702)         | (61,696)         | (32,322)                      | (28,647)          |
| Cash paid to suppliers for goods and services.....                                 | (78,888)                                    | (71,369)          | (59,424)         | (51,723)         | (49,595)                      | (57,163)          |
| Cash paid for judgments and claims.....  | (4,126)                                     | (2,359)           | (459)            | (1,554)          | (1,903)                       | (1,264)           |
| Net cash provided by operating activities.....                                     | <u>73,869</u>                               | <u>73,064</u>     | <u>85,482</u>    | <u>83,922</u>    | <u>27,865</u>                 | <u>38,692</u>     |
| <b>Cash flows from noncapital and related financing activities:</b>                |   |                   |                  |                  |                               |                   |
| Operating grants.....  | -   | 1,899             | 118              | -                | -                             | 52                |
| Transfers out.....   | (1,143)                                     | -                 | -                | -                | (301)                         | (450)             |
| Cash received from settlements.....  | -   | -                 | -                | -                | 1,246                         | 4,866             |
| Cash received from rebates and incentive programs.....                             | -   | -                 | -                | -                | -                             | 3,361             |
| Cash received from license fees.....   | -   | -                 | -                | -                | 1,167                         | 972               |
| Cash from other sources.....   | -   | -                 | 798              | 885              | 285                           | 704               |
| Cash paid for rebates and program incentives.....                                  | -   | -                 | -                | -                | (2,401)                       | -                 |
| Net cash provided by (used in) noncapital financing activities.....                | <u>(1,143)</u>                              | <u>1,899</u>      | <u>916</u>       | <u>885</u>       | <u>(4)</u>                    | <u>9,505</u>      |
| <b>Cash flows from capital and related financing activities:</b>                   |   |                   |                  |                  |                               |                   |
| Capital grants.....  | 1,506                                       | -                 | -                | -                | -                             | -                 |
| Proceeds from sale of capital assets.....  | 2,601                                       | 24,402            | -                | -                | 25                            | 55                |
| Proceeds from commercial paper borrowings.....                                     | 890,500                                     | -                 | 227,500          | 185,000          | -                             | -                 |
| Proceeds from bond issuance, net of discount and issuance costs.....               | -   | -                 | -                | -                | 6,089                         | -                 |
| Acquisitions and construction of capital assets.....                               | (251,671)                                   | (234,624)         | (69,911)         | (62,087)         | (27,075)                      | (32,284)          |
| Principal paid on commercial paper.....  | (660,900)                                   | -                 | (177,500)        | (185,000)        | -                             | -                 |
| Principal paid on long-term debt.....  | (25,520)                                    | (19,170)          | -                | -                | (282)                         | (108)             |
| Principal paid on revenue bond.....  | -   | -                 | (35,665)         | (34,500)         | (422)                         | -                 |
| Principal paid on state revolving fund loans.....                                  | -   | -                 | (13,762)         | (13,337)         | -                             | -                 |
| Interest paid on commercial paper.....   | (2,104)                                     | -                 | -                | -                | -                             | -                 |
| Interest paid on long-term debt.....   | (44,065)                                    | (45,023)          | -                | -                | (7)                           | -                 |
| Interest paid on revenue bonds and state loans.....                                | -   | -                 | (17,959)         | (20,325)         | -                             | -                 |
| Net cash used in capital and related financing activities.....                     | <u>(89,653)</u>                             | <u>(274,415)</u>  | <u>(87,297)</u>  | <u>(130,249)</u> | <u>(21,672)</u>               | <u>(32,337)</u>   |
| <b>Cash flows from investing activities:</b>                                       |   |                   |                  |                  |                               |                   |
| Interest income received.....  | 7,576                                       | 16,600            | 2,153            | 5,396            | 4,167                         | 3,814             |
| Proceeds from sale of investments outside City Treasury.....                       | 70,388                                      | 65,317            | -                | -                | -                             | -                 |
| Purchase of investments outside City Treasury.....                                 | (70,311)                                    | (50,153)          | -                | -                | -                             | -                 |
| Other investing activities.....  | 1,533                                       | 2,827             | -                | -                | -                             | -                 |
| Net cash provided by investing activities.....                                     | <u>9,186</u>                                | <u>34,591</u>     | <u>2,153</u>     | <u>5,396</u>     | <u>4,167</u>                  | <u>3,814</u>      |
| Increase (decrease) in cash and cash equivalents.....                              | <u>(7,741)</u>                              | <u>(164,861)</u>  | <u>1,254</u>     | <u>(40,046)</u>  | <u>10,356</u>                 | <u>19,674</u>     |
| <b>Cash and cash equivalents:</b>  |   |                   |                  |                  |                               |                   |
| Beginning of year.....   | 160,430                                     | 325,291           | 97,196           | 137,242          | 165,856                       | 146,182           |
| End of year.....   | <u>\$ 152,689</u>                           | <u>\$ 160,430</u> | <u>\$ 98,450</u> | <u>\$ 97,196</u> | <u>\$ 176,212</u>             | <u>\$ 165,856</u> |
| <b>Reconciliation of cash and cash equivalents to the statement of net assets:</b> |   |                   |                  |                  |                               |                   |
| <b>Cash and investments with City Treasury:</b>                                    |   |                   |                  |                  |                               |                   |
| Unrestricted.....  | \$ 130,927                                  | \$ 138,654        | \$ 36,968        | \$ 44,361        | \$ 170,111                    | \$ 165,846        |
| Restricted.....  | 2,1726                                      | 2,1740            | 61,477           | 52,808           | -                             | -                 |
| <b>Cash and investments outside City Treasury:</b>                                 |   |                   |                  |                  |                               |                   |
| Unrestricted.....  | 36  | 36                | 5                | -                | 10                            | 10                |
| Restricted.....  | -   | -                 | -                | 27               | 6,091                         | -                 |
| Cash and cash equivalents at end of year on<br>statements of cash flows.....       | <u>\$ 152,689</u>                           | <u>\$ 160,430</u> | <u>\$ 98,450</u> | <u>\$ 97,196</u> | <u>\$ 176,212</u>             | <u>\$ 165,856</u> |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Statements of Cash Flows

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

|  | Business-Type Activities - Enterprise Funds |                  |                  |                  |                               |                  |
|--|---|------------------|------------------|------------------|-------------------------------|------------------|
|  | Water                                       |                  | Wastewater       |                  | Hetch Hetchy<br>Water & Power |                  |
|  | 2009  | 2008             | 2009             | 2008             | 2009                          | 2008             |
| Reconciliation of operating income to net cash provided by operating activities:       |   |                  |                  |                  |                               |                  |
| Operating income.....  | \$ 17,466                                   | \$ 11,164        | \$ 39,354        | \$ 37,304        | \$ 19,046                     | \$ 10,419        |
| Adjustment to reconcile operating income to net cash provided by operating activities: |   |                  |                  |                  |                               |                  |
| Depreciation.....  | 49,100                                      | 45,958           | 38,815           | 38,758           | 11,869                        | 11,021           |
| Provision for uncollectible accounts.....  | (252)                                       | -                | 543              | 120              | -                             | (2,193)          |
| Write-off of capital assets.....   | 5,207                                       | 8,337            | 2,071            | 1,517            | 349                           | 1,245            |
| Gain from sale of capital asset.....   | -   | -                | -                | -                | -                             | (43)             |
| Amortization of bond discount and issuance.....  | -   | -                | -                | -                | 10                            | -                |
| Changes in operating assets and liabilities:   |   |                  |                  |                  |                               |                  |
| Receivables:   |   |                  |                  |                  |                               |                  |
| Charges for services.....  | (4,356)                                     | (1,260)          | (952)            | (3,775)          | (1,751)                       | 2,196            |
| Suburban water rate agreement.....   | (13,701)                                    | (2,004)          | -                | -                | -                             | -                |
| Due from other governmental agencies.....  | -   | -                | (6)              | -                | (711)                         | 1,150            |
| Loan.....  | -   | -                | -                | -                | 322                           | 134              |
| Interest and other.....  | (666)                                       | 498              | -                | -                | (71)                          | 515              |
| Advances.....  | -   | -                | (3)              | -                | -                             | -                |
| Deferred charges and other assets.....   | -   | -                | -                | -                | (1,358)                       | (2,120)          |
| Inventories.....   | 23  | (308)            | (3,586)          | -                | 35                            | (26)             |
| Accounts payable.....  | 6,209                                       | (884)            | 795              | 2,602            | 2,720                         | 1,056            |
| Due to (from) other City departments.....  | 76  | (4,856)          | 556              | -                | -                             | -                |
| Accrued payroll.....   | 837   | 482              | 202              | 500              | 371                           | 162              |
| Accrued other post employment benefits obligation.....                                 | 15,919                                      | 15,048           | 5,729            | 5,684            | 3,076                         | 2,723            |
| Accrued vacation and sick leave.....   | 598   | (315)            | 80               | 268              | 169                           | 56               |
| Accrued workers' compensation.....   | 482   | (210)            | (262)            | 531              | 158                           | (39)             |
| Pollution remediation obligation.....  | 618   | (3,925)          | 375              | -                | -                             | -                |
| Damage and claim liability.....  | (1,613)                                     | 4,320            | 1,316            | 333              | (4,990)                       | 10,520           |
| Deferred credits and other liabilities.....  | -   | -                | 455              | 80               | -                             | -                |
| Deposits, advances, other liabilities.....   | (2,078)                                     | 1,019            | -                | -                | (1,379)                       | 1,916            |
| Total adjustments.....   | 56,403                                      | 61,900           | 46,128           | 46,618           | 8,819                         | 28,273           |
| Net cash provided by operating activities.....   | <u>\$ 73,869</u>                            | <u>\$ 73,064</u> | <u>\$ 85,482</u> | <u>\$ 83,922</u> | <u>\$ 27,865</u>              | <u>\$ 38,692</u> |
| Non-cash transactions:   |   |                  |                  |                  |                               |                  |
| Accrued capital asset costs.....   | \$ 40,603                                   | \$ 27,322        | \$ 6,998         | \$ 4,605         | \$ 6,304                      | \$ 6,895         |
| Land acquired through real property exchange.....                                      | 500   | -                | -                | -                | -                             | -                |

See accompanying notes to financial statements

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### (1) Definition of Reporting Entity

The San Francisco Public Utilities Commission (SFPUC) is a department of the City and County of San Francisco (CCSF) that is responsible for the maintenance, operation, and development of three utilities enterprises, the Water, Wastewater and Hetch Hetchy Water and Power. The San Francisco Public Utilities Commission was established in 1932.

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

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

The amended Charter provides for staggered four-year term for members. Initially, the new members for seats 2 and 4 will serve two years and the new members for seats 1, 3 and 5 will serve for four years.

SFPUC is a department of the City, and as such, the financial operations of the Water, Wastewater and Hetch Hetchy Water and Power are included in the Comprehensive Annual Financial Report of the City as enterprise funds. These financial statements present only the financial operations of SFPUC alone and are not intended to present the financial position of the City as a whole or consolidated entity, the changes in its financial position, and the cash flows of its proprietary funds in conformity with U.S. generally accepted accounting principles.

#### ***Water***

The San Francisco Water Enterprise (Water) was established in 1930 under the provisions of the Charter of the City and County of San Francisco. Water acquired the fully developed, mature water works for San Francisco on March 3, 1930. Since then, the City and County of San Francisco (the City) has operated and maintained the water works. 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. Operations consist of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, distributes water to San Francisco and certain suburban areas. In fiscal 2009, there were approximately 86,986 million gallons of water distributed to nearly 2.5 million people within San Francisco and certain suburban areas.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### *Wastewater*

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

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

### *Hetch Hetchy Water and Power*

Hetch Hetchy Water and Power was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). Hetch Hetchy Water and Power is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately 79% of the electricity is used by the City's municipal customers (e.g. the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco General Hospital, City street lights, Moscone Center, Water and Wastewater). As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping and municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E. The system consists of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines, which carries water and power more than 165 miles from the Sierra Nevada to customers in the City and portions of the surrounding San Francisco Bay Area.

Wholesale electric power is purchased from various energy providers for use in conjunction with owned hydro resources to meet the power requirements of customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO), and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy Water and Power serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.

## (2) Significant Accounting Policies

### (a) *Basis of Accounting and Measurement Focus*

#### **Department-wide and fund financial statements**

The department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements.

The accounts of the Water, Wastewater, and Hetch Hetchy Water & Power are organized on the basis of a proprietary fund type and are included as enterprise funds of the City and County of San Francisco, California. The activities are accounted for with a separate set of self-balancing accounts that comprise the funds' assets, liabilities, net assets, revenues, and expenses. The 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

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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 Water, Wastewater and Hetch Hetchy Water & Power 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 operations are included on the statements of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred. Water and Wastewater's operating revenues are defined as charges to customers, rental income and capacity fees while Hetch Hetchy Water and Power's operating revenues are defined as charges to customers and rental income. Operating expenses include the costs of delivering services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The funds do not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**(b) *Cash and Cash Equivalents***

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

**(c) *Investments***

Money market funds are carried at cost. All other investments are stated at fair value based on quoted market prices. Changes in fair value are recognized as investment gains or losses.

**(d) *Deferred Charges***

Hetch Hetchy Water and Power's deferred charges consist of costs incurred to generate the power that has been placed in the Municipal Deviation (MDA) and Deferred Delivery (DDA) Accounts under the provisions of the interconnection agreement with PG&E (see note 14(a) to the basic financial statements).

**(e) *Inventory***

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

**(f) *Capital Assets***

Capital assets for Water are stated at cost. Capital assets for Wastewater and Hetch Hetchy Water and Power 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

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

subsequent acquisitions have been recorded at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 3 to 75 years for equipment and 3 to 175 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and a full year's depreciation is recorded in the year of disposal.

**(g) *Construction in Progress***

The costs of acquisition and construction of major plant and equipment are recorded as construction 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) *Capitalization of Interest***

When applicable, the portion of the interest cost incurred on capital projects is capitalized for assets that require a period of time to construct or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

**(i) *Bond Discount, Premium, and Issuance Costs***

Bond discount, premium, and issuance costs are amortized over the term of the related bonds on a method which approximates the effective interest method basis.

**(j) *Accrued Vacation and Sick Leave***

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

**(k) *Workers' Compensation***

Workers' compensation claims are covered through a City-wide self-insurance pool and the estimated cost of claims are accrued based on actuarial estimates, including the estimated cost of incurred but not reported claims.

**(l) *Damage and Claim Liability***

General liability and uninsurable property damage claims are covered through a City-wide self-insurance pool. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development, and estimated incurred but not reported claims.

**(m) *Arbitrage Rebate Payable***

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements generally stipulate that earnings from the investment of the tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. Water's liability for arbitrage rebate was \$4,265 and \$0 at June 30, 2009 and June 30, 2008, respectively. No arbitrage liability is recorded for Wastewater and Hetch Hetchy for the years ending June 30, 2009 and 2008.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(n) Refunding of Debt**

Gains or losses occurring from advance refunding of debt are deferred and amortized into interest expense over the remaining life of the old bonds or the life of the new bonds, whichever is shorter.

**(o) Income Taxes**

As a government agency, the enterprises are exempt from both federal income taxes and California state franchise taxes.

**(p) Revenue Recognition**

Charges for water, wastewater and power services are based on usage. Generally, customers are billed on a cyclical basis with large commercial and industrial customers billed monthly, and all other customers' bi-monthly. Revenues earned but unbilled are accrued as charges for services receivable on the statements of net assets.

**(q) Use of Estimates**

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

**(r) Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

**(s) Eliminations**

Eliminations for internal activities between the Water, Wastewater and Hetch Hetchy Water and Power Enterprises are made in the consolidated statement of activities. There were no activities requiring elimination during the years ended June 30, 2009 and 2008.

**(t) Postemployment Benefits Other Than Pensions**

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB transition liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. As of July 1, 2007, the enterprises implemented

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

the new reporting requirements in the financial statements and established its OPEB transition liability at zero.

### (u) *Effects of New Pronouncements*

#### **Governmental Accounting Standards Board 49, *Accounting and Financial Reporting for Pollution Remediation Obligations***

For fiscal year ending June 30, 2009, the enterprises had adopted GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. More detailed information about the enterprises environmental pollution remediation obligations are presented in note 14(e) to the financial statements.

To provide governments with better accounting guidance and consistency, GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up;
- 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, such as the Water System Improvement Project (WSIP) or one of the many capital improvement projects currently underway in the Infrastructure Bureau.

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;

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

- Harmful biological and chemical pollution of water; and
- Contamination from contents in underground storage tanks (UST).

Water recorded \$3,312 and \$2,694 in pollution remediation costs as of June 30, 2009 and 2008, respectively. Wastewater recorded \$375 and \$0 in pollution remediation costs as of June 30, 2009 and 2008, respectively. Hetch Hetchy Water and Power reported no pollution remediation obligation costs at June 30, 2009 and 2008.

### (3) Cash, Cash Equivalents and Investments

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

Department-wide cash, cash equivalents and investments are shown on the accompanying statements of net assets as follows:

|   | <b>2009</b>       | <b>2008</b>    |
|---|-------------------|----------------|
| <b>Current assets:</b>                              |                   |                |
| Cash and investments with City Treasury             | \$ 338,006        | 348,861        |
| Cash and investments outside City Treasury          | 51                | 46             |
| <b>Noncurrent assets – restricted assets:</b>       |                   |                |
| Cash and investments with City Treasury             | 83,203            | 74,548         |
| Cash and investments outside City Treasury          | 47,065            | 41,078         |
| <b>Total cash, cash equivalents and investments</b> | <b>\$ 468,325</b> | <b>464,533</b> |

The primary objectives of the SFPUC's investment policy are consistent with the City's policy.

The following table shows the percentage distribution of the City's pooled investments by maturity as of June 30, 2009:

| <b>Investment maturities (in months)</b> |                         |                          |                 |
|--|-------------------------|--------------------------|-----------------|
| <b>Under 1</b>                           | <b>1 to less than 6</b> | <b>6 to less than 12</b> | <b>12 to 60</b> |
| 9.9%                                     | 27.0%                   | 8.8%                     | 54.3%           |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

The following table shows the percentage distribution of the City's pooled investments by maturity as of June 30, 2008:

| <b>Investment maturities (in months)</b> |                         |                          |                 |
|--|-------------------------|--------------------------|-----------------|
| <b>Under 1</b>                           | <b>1 to less than 6</b> | <b>6 to less than 12</b> | <b>12 to 60</b> |
| 6.9%                                     | 52.7%                   | 11.6%                    | 28.8%           |

#### *Water*

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. Water's balances as of June 30, 2009 and 2008 were \$40,974 and \$41,051, respectively. All investments were held in either guaranteed investment contracts or in money funds consisting of Treasury Obligations. The guaranteed investment contracts mature in 2008 and 2013. The Treasury Obligations have an average maturity of 46 days in fiscal year 2009 and 14 days in fiscal year 2008.

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 and whose shares are also registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor's of "AAAm-G," "AAAm" or "AAm" and a rating by Moody's of "Aaa," "Aa1" or "Aa2." Investment agreements must be with a U.S. bank or trust company having 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 into. The credit ratings of the guaranteed investment contracts as of June 30, 2009 were "Aa2" by Moody's and "A+" by Standard & Poor's. The credit ratings of the money market funds as of June 30, 2009 and June 30, 2008, were "Aaa" by Moody's and "AAAm" by Standard & Poor's.

Additional cash outside of the investment pool includes \$36 at June 30, 2009 and 2008, which is held in a commercial bank in non-interest bearing checking accounts which are covered by Federal Deposit Insurance Corporation (FDIC) depository insurance. These accounts were established as provided by the City's Administrative Code for revolving fund needs.

Cash, cash equivalents and investments are shown on the accompanying statements of net assets as follows:

|   | <b>2009</b>       | <b>2008</b>    |
|---|-------------------|----------------|
| <b>Current assets:</b>                              |                   |                |
| Cash and investments with City Treasury             | \$ 130,927        | 138,654        |
| Cash and investments outside City Treasury          | 36                | 36             |
| <b>Noncurrent assets – restricted assets:</b>       |                   |                |
| Cash and investments with City Treasury             | 21,726            | 21,740         |
| Cash and investments outside City Treasury          | 40,974            | 41,051         |
| <b>Total cash, cash equivalents and investments</b> | <b>\$ 193,663</b> | <b>201,481</b> |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

#### *Wastewater*

The restricted asset for bond reserves is held by an independent trustee outside the City investment pool. The balances as of June 30, 2009 and 2008 were \$0 and \$27, respectively.

Funds held by the trustee established under the 2003 Indenture are invested in “Permitted Investments” as defined in the Indenture. “Permitted Investments” include money market funds registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor’s 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, 2009 and June 30, 2008 were “Aaa” by Moody’s and “AAAm” by Standard & Poor’s.

Cash, cash equivalents and investments are shown on the accompanying statements of net assets as follows:

|   | <b>2009</b>      | <b>2008</b>   |
|---|------------------|---------------|
| <b>Current assets:</b>                              |                  |               |
| Cash and investments with City Treasury             | \$ 36,968        | 44,361        |
| Cash and investments outside City Treasury          | 5                | —             |
| <b>Noncurrent assets – restricted assets:</b>       |                  |               |
| Cash and investments with City Treasury             | 61,477           | 52,808        |
| Cash and investments outside City Treasury          | —                | 27            |
| <b>Total cash, cash equivalents and investments</b> | <b>\$ 98,450</b> | <b>97,196</b> |

#### *Hetch Hetchy Water and Power*

Non-pooled cash outside of the investment pool is \$6,101 and \$10 at June 30, 2009 and 2008, respectively. Balances include CREBs proceeds of \$6,091 deposited into a Federal Deposit Insurance Corporation (FDIC) insured money market fund with a weighted average maturity of 44 days, and \$10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance. The account was established as provided by the City’s Administrative Code. The money market fund was rated “AAAm” and “Aaa” by Standard & Poor’s and Moody’s, respectively, at June 30, 2009.

Cash, cash equivalents and investments are shown on the accompanying statements of net assets as follows:

|  | <b>2009</b>       | <b>2008</b>    |
|--|-------------------|----------------|
| <b>Current and noncurrent assets:</b>                |                   |                |
| Pooled cash and investments with City Treasury       | \$ 170,111        | 165,846        |
| Nonpooled cash and investments outside City Treasury | 6,101             | 10             |
| <b>Total cash, cash equivalents, and investments</b> | <b>\$ 176,212</b> | <b>165,856</b> |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### (4) Capital Assets

#### *Department-wide*

Capital assets as of June 30, 2009 and 2008 consisted of the following:

|  | <u>Balance</u><br><u>June 30, 2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2009</u> |
|--|--|------------------|------------------|--|
| Capital assets not being depreciated:          |  |                  |                  |  |
| Land and rights of way                         | \$ 44,267                              | 582              | —                | 44,849                                 |
| Construction in progress                       | 510,555                                | 379,885          | (226,852)        | 663,588                                |
| Total capital assets<br>not being depreciated  | <u>554,822</u>                         | <u>380,467</u>   | <u>(226,852)</u> | <u>708,437</u>                         |
| Capital assets being depreciated:              |  |                  |                  |  |
| Facilities and improvements                    | 3,829,596                              | 195,308          | —                | 4,024,904                              |
| Machinery and equipment                        | 228,842                                | 32,416           | (1,295)          | 259,963                                |
| Total capital assets<br>being depreciated      | <u>4,058,438</u>                       | <u>227,724</u>   | <u>(1,295)</u>   | <u>4,284,867</u>                       |
| Less accumulated depreciation for:             |  |                  |                  |  |
| Facilities and improvements                    | (1,574,875)                            | (87,368)         | 51               | (1,662,192)                            |
| Machinery and equipment                        | (150,154)                              | (12,416)         | 1,280            | (161,290)                              |
| Total accumulated<br>depreciation              | <u>(1,725,029)</u>                     | <u>(99,784)</u>  | <u>1,331</u>     | <u>(1,823,482)</u>                     |
| Total capital assets<br>being depreciated, net | <u>2,333,409</u>                       | <u>127,940</u>   | <u>36</u>        | <u>2,461,385</u>                       |
| Total capital assets, net                      | <u>\$ 2,888,231</u>                    | <u>508,407</u>   | <u>(226,816)</u> | <u>3,169,822</u>                       |
|  |  |                  |                  |  |
|  | <u>Balance</u><br><u>July 1, 2007</u>  | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2008</u> |
| Capital assets not being depreciated:          |  |                  |                  |  |
| Land and rights of way                         | \$ 44,660                              | 379              | (772)            | 44,267                                 |
| Construction in progress                       | 413,079                                | 337,527          | (240,051)        | 510,555                                |
| Total capital assets<br>not being depreciated  | <u>457,739</u>                         | <u>337,906</u>   | <u>(240,823)</u> | <u>554,822</u>                         |
| Capital assets being depreciated:              |  |                  |                  |  |
| Facilities and improvements                    | 3,649,672                              | 179,924          | —                | 3,829,596                              |
| Machinery and equipment                        | 211,572                                | 18,476           | (1,206)          | 228,842                                |
| Total capital assets<br>being depreciated      | <u>3,861,244</u>                       | <u>198,400</u>   | <u>(1,206)</u>   | <u>4,058,438</u>                       |
| Less accumulated depreciation for:             |  |                  |                  |  |
| Facilities and improvements                    | (1,491,022)                            | (83,853)         | —                | (1,574,875)                            |
| Machinery and equipment                        | (139,416)                              | (11,884)         | 1,146            | (150,154)                              |
| Total accumulated<br>depreciation              | <u>(1,630,438)</u>                     | <u>(95,737)</u>  | <u>1,146</u>     | <u>(1,725,029)</u>                     |
| Total capital assets<br>being depreciated, net | <u>2,230,806</u>                       | <u>102,663</u>   | <u>(60)</u>      | <u>2,333,409</u>                       |
| Total capital assets, net                      | <u>\$ 2,688,545</u>                    | <u>440,569</u>   | <u>(240,883)</u> | <u>2,888,231</u>                       |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

#### *Water*

Capital assets as of June 30, 2009 and 2008 consisted of the following:

|  | <u>Balance</u><br><u>June 30, 2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2009</u> |
|--|--|------------------|------------------|--|
| Capital assets not being depreciated:          |  |                  |                  |  |
| Land and rights of way                         | \$ 17,886                              | 500              | —                | 18,386                                 |
| Construction in progress                       | <u>423,063</u>                         | <u>282,705</u>   | <u>(158,475)</u> | <u>547,293</u>                         |
| Total capital assets<br>not being depreciated  | <u>440,949</u>                         | <u>283,205</u>   | <u>(158,475)</u> | <u>565,679</u>                         |
| Capital assets being depreciated:              |  |                  |                  |  |
| Facilities and improvements                    | 1,287,404                              | 138,776          | —                | 1,426,180                              |
| Machinery and equipment                        | <u>128,758</u>                         | <u>18,821</u>    | <u>(791)</u>     | <u>146,788</u>                         |
| Total capital assets<br>being depreciated      | <u>1,416,162</u>                       | <u>157,597</u>   | <u>(791)</u>     | <u>1,572,968</u>                       |
| Less accumulated depreciation for:             |  |                  |                  |  |
| Facilities and improvements                    | (496,886)                              | (41,085)         | 51               | (537,920)                              |
| Machinery and equipment                        | <u>(92,231)</u>                        | <u>(8,015)</u>   | <u>779</u>       | <u>(99,467)</u>                        |
| Total accumulated<br>depreciation              | <u>(589,117)</u>                       | <u>(49,100)</u>  | <u>830</u>       | <u>(637,387)</u>                       |
| Total capital assets<br>being depreciated, net | <u>827,045</u>                         | <u>108,497</u>   | <u>39</u>        | <u>935,581</u>                         |
| Total capital assets, net                      | <u>\$ 1,267,994</u>                    | <u>391,702</u>   | <u>(158,436)</u> | <u>1,501,260</u>                       |
|  |  |                  |                  |  |
|  | <u>Balance</u><br><u>July 1, 2007</u>  | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2008</u> |
| Capital assets not being depreciated:          |  |                  |                  |  |
| Land and rights of way                         | \$ 18,277                              | —                | (391)            | 17,886                                 |
| Construction in progress                       | <u>311,098</u>                         | <u>242,954</u>   | <u>(130,989)</u> | <u>423,063</u>                         |
| Total capital assets<br>not being depreciated  | <u>329,375</u>                         | <u>242,954</u>   | <u>(131,380)</u> | <u>440,949</u>                         |
| Capital assets being depreciated:              |  |                  |                  |  |
| Facilities and improvements                    | 1,166,073                              | 121,331          | —                | 1,287,404                              |
| Machinery and equipment                        | <u>122,584</u>                         | <u>6,835</u>     | <u>(661)</u>     | <u>128,758</u>                         |
| Total capital assets<br>being depreciated      | <u>1,288,657</u>                       | <u>128,166</u>   | <u>(661)</u>     | <u>1,416,162</u>                       |
| Less accumulated depreciation for:             |  |                  |                  |  |
| Facilities and improvements                    | (458,981)                              | (37,905)         | —                | (496,886)                              |
| Machinery and equipment                        | <u>(84,796)</u>                        | <u>(8,053)</u>   | <u>618</u>       | <u>(92,231)</u>                        |
| Total accumulated<br>depreciation              | <u>(543,777)</u>                       | <u>(45,958)</u>  | <u>618</u>       | <u>(589,117)</u>                       |
| Total capital assets<br>being depreciated, net | <u>744,880</u>                         | <u>82,208</u>    | <u>(43)</u>      | <u>827,045</u>                         |
| Total capital assets, net                      | <u>\$ 1,074,255</u>                    | <u>325,162</u>   | <u>(131,423)</u> | <u>1,267,994</u>                       |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, treatment plants, pump stations, certain water mains and pipelines, sewer systems, tunnels, and bridges.

Financial Accounting Standards Board (FASB) Statement 34, *Capitalization of Interest Costs*, requires that interest expense incurred during construction of assets be capitalized.

Interest included in the Construction in Progress and total interest expense incurred during the years ended June 30, 2009 and 2008 are as follows:

|   | <u>2009</u>      | <u>2008</u>   |
|---|------------------|---------------|
| Interest expensed                             | \$ 28,847        | 29,750        |
| Interest included in construction in progress | 22,135           | 15,333        |
|   | <u>\$ 50,982</u> | <u>45,083</u> |

During fiscal years ending in 2009 and 2008, \$5,207 and \$7,885 were expensed, respectively, related to capitalized design and planning costs on certain projects. The amounts of the write-offs were recognized as other operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During the fiscal year ending June 30 2007, 525 Golden Gate was purchased for \$9,900 from the City General Fund and as of June 30, 2009 \$12,669 has been spent in development costs. The building is intended to consolidate divisions of the San Francisco Public Utilities Commission that are currently renting space at multiple locations in the Civic Center. Demolition of the existing site was completed in June 2009, while site improvement phases such as shoring, underpinning and excavation are currently underway. Construction is expected to start in January 2010 with an expected completion date of February 2012, followed by an expected occupancy date of April 2012.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

#### *Wastewater*

Capital assets as of June 30, 2009 and 2008 consisted of the following:

|  | <u>Balance</u><br><u>July 1, 2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2009</u> |
|--|---------------------------------------|------------------|------------------|--|
| Capital assets not being depreciated:          |                                       |                  |                  |  |
| Land and rights of way                         | \$ 21,787                             | —                | —                | 21,787                                 |
| Construction in progress                       | <u>62,975</u>                         | <u>73,538</u>    | <u>(59,183)</u>  | <u>77,330</u>                          |
| Total capital assets not<br>being depreciated  | <u>84,762</u>                         | <u>73,538</u>    | <u>(59,183)</u>  | <u>99,117</u>                          |
| Capital assets being depreciated:              |                                       |                  |                  |  |
| Facilities and improvements                    | 2,057,625                             | 51,757           | —                | 2,109,382                              |
| Machinery and equipment                        | <u>51,583</u>                         | <u>6,765</u>     | <u>(335)</u>     | <u>58,013</u>                          |
| Total capital assets<br>being depreciated      | <u>2,109,208</u>                      | <u>58,522</u>    | <u>(335)</u>     | <u>2,167,395</u>                       |
| Less accumulated depreciation for:             |                                       |                  |                  |  |
| Facilities and improvements                    | (807,038)                             | (36,368)         | —                | (843,406)                              |
| Machinery and equipment                        | <u>(26,071)</u>                       | <u>(2,447)</u>   | <u>335</u>       | <u>(28,183)</u>                        |
| Total accumulated<br>depreciation              | <u>(833,109)</u>                      | <u>(38,815)</u>  | <u>335</u>       | <u>(871,589)</u>                       |
| Total capital assets<br>being depreciated, net | <u>1,276,099</u>                      | <u>19,707</u>    | <u>—</u>         | <u>1,295,806</u>                       |
| Total capital assets, net                      | <u>\$ 1,360,861</u>                   | <u>93,245</u>    | <u>(59,183)</u>  | <u>1,394,923</u>                       |

|  | <u>Balance</u><br><u>July 1, 2007</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u><br><u>June 30, 2008</u> |
|--|---------------------------------------|------------------|------------------|--|
| Capital assets not being depreciated:          |                                       |                  |                  |  |
| Land and rights of way                         | \$ 22,168                             | —                | (381)            | 21,787                                 |
| Construction in progress                       | <u>42,856</u>                         | <u>63,315</u>    | <u>(43,196)</u>  | <u>62,975</u>                          |
| Total capital assets not<br>being depreciated  | <u>65,024</u>                         | <u>63,315</u>    | <u>(43,577)</u>  | <u>84,762</u>                          |
| Capital assets being depreciated:              |                                       |                  |                  |  |
| Facilities and improvements                    | 2,018,942                             | 38,683           | —                | 2,057,625                              |
| Machinery and equipment                        | <u>46,224</u>                         | <u>5,734</u>     | <u>(375)</u>     | <u>51,583</u>                          |
| Total capital assets<br>being depreciated      | <u>2,065,166</u>                      | <u>44,417</u>    | <u>(375)</u>     | <u>2,109,208</u>                       |
| Less accumulated depreciation for:             |                                       |                  |                  |  |
| Facilities and improvements                    | (770,443)                             | (36,595)         | —                | (807,038)                              |
| Machinery and equipment                        | <u>(24,277)</u>                       | <u>(2,163)</u>   | <u>369</u>       | <u>(26,071)</u>                        |
| Total accumulated<br>depreciation              | <u>(794,720)</u>                      | <u>(38,758)</u>  | <u>369</u>       | <u>(833,109)</u>                       |
| Total capital assets<br>being depreciated, net | <u>1,270,446</u>                      | <u>5,659</u>     | <u>(6)</u>       | <u>1,276,099</u>                       |
| Total capital assets, net                      | <u>\$ 1,335,470</u>                   | <u>68,974</u>    | <u>(43,583)</u>  | <u>1,360,861</u>                       |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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

FASB Statement 34, *Capitalization of Interest Costs*, requires that interest expense incurred during construction of assets be capitalized.

Interest included in the Construction in Progress and total interest expense incurred during the years ended June 30, 2009 and 2008 are as follows:

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
| Interest expensed                             | \$ 15,677   | 17,467      |
| Interest included in construction in progress | 2,644       | 3,064       |
|   | \$ 18,321   | 20,531      |

During fiscal years ending in 2009 and 2008, \$2,071 and \$1,517 were expensed, respectively, related to capitalized design and planning costs on certain projects. The amounts of the write-offs were recognized as other operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

### *Hetch Hetchy Water and Power*

Capital assets as of June 30, 2009 and 2008 consist of the following:

|   | <b>Balance<br/>June 30, 2008</b> | <b>Increases</b> | <b>Decreases</b> | <b>Balance<br/>June 30, 2009</b> |
|---|----------------------------------|------------------|------------------|----------------------------------|
| Capital assets not being depreciated:       |                                  |                  |                  |                                  |
| Land and rights-of-way                      | \$ 4,594                         | 82               | —                | 4,676                            |
| Construction in progress                    | 24,517                           | 23,642           | (9,194)          | 38,965                           |
| Total capital assets not being depreciated  | 29,111                           | 23,724           | (9,194)          | 43,641                           |
| Capital assets being depreciated:           |                                  |                  |                  |                                  |
| Facilities and improvements                 | 484,567                          | 4,775            | —                | 489,342                          |
| Machinery and equipment                     | 48,501                           | 6,830            | (169)            | 55,162                           |
| Total capital assets being depreciated      | 533,068                          | 11,605           | (169)            | 544,504                          |
| Less accumulated depreciation for:          |                                  |                  |                  |                                  |
| Facilities and improvements                 | (270,951)                        | (9,915)          | —                | (280,866)                        |
| Machinery and equipment                     | (31,852)                         | (1,954)          | 166              | (33,640)                         |
| Total accumulated depreciation              | (302,803)                        | (11,869)         | 166              | (314,506)                        |
| Total capital assets being depreciated, net | 230,265                          | (264)            | (3)              | 229,998                          |
| Total capital assets, net                   | \$ 259,376                       | 23,460           | (9,197)          | 273,639                          |

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

|   | <b>Balance</b>      | <b>Increases</b> | <b>Decreases</b> | <b>Balance</b>       |
|---|---------------------|------------------|------------------|----------------------|
|   | <b>July 1, 2007</b> | <b>Increases</b> | <b>Decreases</b> | <b>June 30, 2008</b> |
| Capital assets not being depreciated:       |                     |                  |                  |                      |
| Land and rights-of-way                      | \$ 4,215            | 379              | —                | 4,594                |
| Construction in progress                    | 59,125              | 31,258           | (65,866)         | 24,517               |
| Total capital assets not being depreciated  | 63,340              | 31,637           | (65,866)         | 29,111               |
| Capital assets being depreciated:           |                     |                  |                  |                      |
| Facilities and improvements                 | 464,657             | 19,910           | —                | 484,567              |
| Machinery and equipment                     | 42,764              | 5,907            | (170)            | 48,501               |
| Total capital assets being depreciated      | 507,421             | 25,817           | (170)            | 533,068              |
| Less accumulated depreciation for:          |                     |                  |                  |                      |
| Facilities and improvements                 | (261,598)           | (9,353)          | —                | (270,951)            |
| Machinery and equipment                     | (30,343)            | (1,668)          | 159              | (31,852)             |
| Total accumulated depreciation              | (291,941)           | (11,021)         | 159              | (302,803)            |
| Total capital assets being depreciated, net | 215,480             | 14,796           | (11)             | 230,265              |
| Total capital assets, net                   | \$ 278,820          | 46,433           | (65,877)         | 259,376              |

Capital assets with a useful life of 50 years or greater include buildings and structures, dams, reservoirs, pump stations, generators, tunnels, and pipelines.

During fiscal year 2009, capital assets not being depreciated had an increase of \$23,724 and a decrease of \$9,194 resulting in a net increase of \$14,530. The net increase was mainly due to additional expenditures in construction in progress. In fiscal years 2009 and 2008, construction in progress of \$349 and \$42,469 was written off, respectively. In fiscal year 2008, the combustion turbine project was written down by \$41,224 because the City's future power need is expected to be met by the Trans Bay Cable project.

Capital assets being depreciated had an increase of \$11,605 and a decrease of \$169 which resulted in a net increase of \$11,436.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### (5) Restricted Assets

#### *Water*

Pursuant to the Indentures, all revenues (except amounts on deposit in the rebate fund) are irrevocably pledged to the punctual payment of debt service on the outstanding Revenue and Refunding Bonds. Accordingly, the revenues shall not be used for any other purpose while any Revenue and Refunding Bonds are outstanding, except as expressly permitted by the Indentures. Further, all revenues shall be deposited by the City Treasurer, in special funds designated as the Water Revenue Fund, which must be maintained in the City Treasury. These funds, held at the City Treasury, are recorded in the statements of net assets as cash and investments with the City Treasury. 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 operations 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;
3. The payment of principal, interest, reserve, sinking fund, and other mandatory funds created to secure Revenue Bonds issued by Water for the acquisition, construction, or extension of facilities owned, operated, or controlled by Water;
4. The payment of principal and interest on General Obligation Bonds issued by the City for Water's purposes;
5. Reconstruction and replacement as determined by SFPUC or as required by any of 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 Water; and for any other lawful purpose, including the transfer of surplus funds pursuant to Section 6.407(e) of the City's Charter.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

In accordance with the Indenture, the Program maintains certain restricted cash and investment balances in trust. Restricted assets held in trust consisted of the following as of June 30, 2009 and 2008:

|   | 2009      | 2008   |
|---|-----------|--------|
| Cash and investments with City Treasury:            |           |        |
| Water revenue bond construction fund                | \$ 21,726 | 21,740 |
| Cash and investments outside City Treasury:         |           |        |
| 1991 Water revenue bond fund                        | 15        | 15     |
| 2001A Water revenue bond fund                       | 2,611     | 2,585  |
| 2002A Water revenue bond fund                       | 3,363     | 3,315  |
| 2002B Water revenue bond fund                       | 4,647     | 4,580  |
| 2006A Water revenue bond fund                       | 25,564    | 25,781 |
| 2006B Water revenue bond fund                       | 2,869     | 2,882  |
| 2006C Water revenue bond fund                       | 1,905     | 1,893  |
| Total cash and investments outside<br>City Treasury | 40,974    | 41,051 |
| Interest receivable:                                |           |        |
| Water bond construction fund                        | 117       | 260    |
| Total restricted assets                             | \$ 62,817 | 63,051 |

Restricted cash listed above as cash and investments with City Treasury are held in sub-funds of the Water Revenue Fund.

#### ***Wastewater***

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

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

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

In accordance with the Indenture, certain restricted cash and investment balances are maintained in trust. Restricted assets held in trust consisted of the following as of June 30, 2009 and 2008:

|   | 2009      | 2008   |
|---|-----------|--------|
| Deposits and investments with City Treasury:    |           |        |
| Sewer Bond Construction Fund                    | \$ 61,477 | 52,808 |
| Deposits and investments outside City Treasury: |           |        |
| 2003A Clean Water Revenue Refunding Bond Fund   | —         | 27     |
| Interest receivable:                            |           |        |
| Sewer Bond Construction Fund                    | 163       | 252    |
| Total restricted assets                         | \$ 61,640 | 53,087 |

Restricted cash listed above as deposits and investments with the City Treasury are held in subfunds of the Sewer Revenue Fund of the City Treasury.

#### ***Hetch Hetchy Water and Power***

Pursuant to the Master Lease/Purchase Agreement (Agreement), net power revenues of Hetch Hetchy Water and Power are irrevocably pledged to the punctual payment of debt service on the Clean Renewable Energy Bonds (CREBs). Accordingly, net power revenue shall not be used for any other purpose while any of its CREBs are outstanding, except as expressly permitted by the Agreement. Further, all revenues shall be deposited by the City Treasurer, in special funds designated as the Power Revenue Fund, which must be maintained in the City Treasury. These funds are recorded in the statements of net assets of Hetch Hetchy Water and Power as deposits and investments with the City Treasury.

Deposits in the Power Revenue Fund, including earnings thereon, shall be appropriated, transferred, expended, or used for the following purposes pertaining the financing, maintenance, and operation of Hetch Hetchy Water and Power 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;
3. The payment of principal, interest, reserve, sinking fund, or other mandatory funds created to secure long-term financing for the acquisition, construction, or extension of facilities owned, operated, or controlled by Hetch Hetchy Water and Power;
4. Reconstruction and replacement as determined by Hetch Hetchy Water and Power or as required by any financing ordinances duly adopted and approved; and
5. 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 Hetch Hetchy Water and Power; and for any other lawful purpose including the transfer of surplus funds pursuant to Section 6.407(e) of the City's Charter.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

In accordance with the Agreement, certain restricted cash and investment balances are maintained in trust. Restricted assets held in trust consist of the following as of June 30, 2009 and 2008:

|  | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| Restricted cash and investments outside City Treasury –<br>2008 Clean Renewable Energy Bond Fund | \$ 6,091    | —           |

**(6) Short-Term Debt**

*Water*

The Commission and Board of Supervisors have authorized the issuance of up to \$500,000 in commercial paper for the purposes of repairing or replacing capital improvements. Pursuant to the voter-approved 2002 Proposition A, Water is authorized to issue up to \$1,628,000 of indebtedness, of which, \$507,815 in long-term bonds were previously issued in fiscal year 2006 and \$890,500 in short-term commercial paper were issued during fiscal year 2009. Short-term commercial paper had an average yield of 1.4% and maximum yield at 2.9% during fiscal year 2009. Water had commercial paper notes outstanding at June 30, 2009 as follows:

|                            | <u>2009</u>       |
|----------------------------|-------------------|
| Balance, beginning of year | \$ —              |
| Additions                  | 890,500           |
| Reductions                 | <u>(660,900)</u>  |
| Balance, end of year       | <u>\$ 229,600</u> |

*Wastewater*

The Commission and Board of Supervisors have authorized the issuance of up to \$150,000 in commercial paper, under the voter-approved 2002 Proposition E, for the purpose of reconstructing, expanding, repairing or improving Wastewater's facilities. As of June 30, 2009 and 2008, there was \$100,000 and \$50,000, respectively, in commercial paper notes outstanding. The commercial paper program is supported by a letter of credit issued by BNP Paribas and is dated as of February 1, 2007 with U.S. Bank Trust N.A. as agent bank. The letter of credit will expire on February 13, 2012. For the year ended June 30, 2009, interest rates on the commercial paper ranged from 0.30% to 2.20% with due dates ranging from July 8, 2008 to October 8, 2009.

|                            | <u>2009</u>       | <u>2008</u>      |
|----------------------------|-------------------|------------------|
| Balance, beginning of year | \$ 50,000         | 50,000           |
| Additions                  | 227,500           | 185,000          |
| Reductions                 | <u>(177,500)</u>  | <u>(185,000)</u> |
| Balance, end of year       | <u>\$ 100,000</u> | <u>50,000</u>    |

Maturity dates of the June 30, 2009 outstanding balance ranged from July 16, 2009 to October 8, 2009.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(7) Changes in Long-Term Liabilities**

*Department-wide*

Long-term liability activities for the years ended June 30, 2009 and 2008 were as follows:

|  | <u>July 1,</u>      |                  |                   | <u>June 30,</u>  | <u>Due</u>      |
|--|---------------------|------------------|-------------------|------------------|-----------------|
|  | <u>2008</u>         | <u>Additions</u> | <u>Reductions</u> | <u>2009</u>      | <u>within</u>   |
|  |                     |                  |                   |                  | <u>one year</u> |
| Revenue Bonds:                           |                     |                  |                   |                  |                 |
| Revenue Bonds, 2003 Refunding Series A   | \$ 328,325          | —                | (35,665)          | 292,660          | 37,130          |
| 2001A revenue bonds                      | 80,410              | —                | (2,830)           | 77,580           | 2,945           |
| 2002A revenue bonds                      | 150,620             | —                | (3,100)           | 147,520          | 3,260           |
| 2002B revenue refunding bonds            | 57,580              | —                | (6,155)           | 51,425           | 6,375           |
| 2006A revenue bonds                      | 505,230             | —                | (8,170)           | 497,060          | 8,505           |
| 2006B revenue refunding bonds            | 107,230             | —                | (2,985)           | 104,245          | 3,145           |
| 2006C revenue refunding bonds            | 45,840              | —                | (2,280)           | 43,560           | 2,375           |
| Less deferred amounts:                   |                     |                  |                   |                  |                 |
| Less bond discount                       | —                   | (194)            | 8                 | (186)            | —               |
| For issuance premiums                    | 43,318              | —                | (2,029)           | 41,289           | —               |
| For refunding loss                       | <u>(32,670)</u>     | <u>—</u>         | <u>2,746</u>      | <u>(29,924)</u>  | <u>—</u>        |
| Total revenue bonds payable              | 1,285,883           | (194)            | (60,460)          | 1,225,229        | 63,735          |
| Clean Renewable Energy Bonds             | —                   | 6,325            | (422)             | 5,903            | 422             |
| California Energy Commission loan        | 282                 | —                | (282)             | —                | —               |
| State of California revolving loans      | 89,101              | —                | (13,762)          | 75,339           | 14,199          |
| Capital appreciation bonds               | 3,380               | 240              | —                 | 3,620            | —               |
| Other postemployment benefits obligation | 23,455              | 24,724           | —                 | 48,179           | —               |
| Arbitrage rebate payable                 | —                   | 4,265            | —                 | 4,265            | —               |
| Accrued vacation and sick leave          | 18,225              | 13,095           | (12,248)          | 19,072           | 10,295          |
| Accrued workers' compensation            | 14,957              | 3,156            | (2,778)           | 15,335           | 2,730           |
| Damage and claim liability               | 35,599              | 9,406            | (14,693)          | 30,312           | 7,627           |
| Deferred revenue                         | 89                  | 535              | (80)              | 544              | —               |
| Pollution remediation obligation         | <u>2,694</u>        | <u>2,075</u>     | <u>(1,082)</u>    | <u>3,687</u>     | <u>3,077</u>    |
| Total                                    | \$ <u>1,473,665</u> | <u>63,627</u>    | <u>(105,807)</u>  | <u>1,431,485</u> | <u>102,085</u>  |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

|  | <u>July 1,</u>      |                  |                   | <u>June 30,</u>  | <u>Due</u>      |
|--|---------------------|------------------|-------------------|------------------|-----------------|
|  | <u>2007</u>         | <u>Additions</u> | <u>Reductions</u> | <u>2008</u>      | <u>within</u>   |
|  |                     |                  |                   |                  | <u>one year</u> |
| Revenue Bonds:                           |                     |                  |                   |                  |                 |
| Revenue Bonds, 2003 Refunding Series A   | \$ 362,825          | —                | (34,500)          | 328,325          | 35,665          |
| 2001A revenue bonds                      | 83,115              | —                | (2,705)           | 80,410           | 2,830           |
| 2002A revenue bonds                      | 153,570             | —                | (2,950)           | 150,620          | 3,100           |
| 2002B revenue refunding bonds            | 63,495              | —                | (5,915)           | 57,580           | 6,155           |
| 2006A revenue bonds                      | 507,815             | —                | (2,585)           | 505,230          | 8,170           |
| 2006B revenue refunding bonds            | 110,065             | —                | (2,835)           | 107,230          | 2,985           |
| 2006C revenue refunding bonds            | 48,020              | —                | (2,180)           | 45,840           | 2,280           |
| Less deferred amounts:                   |                     |                  |                   |                  |                 |
| For issuance premiums                    | 45,282              | —                | (1,964)           | 43,318           | —               |
| For refunding loss                       | <u>(35,332)</u>     | <u>(119)</u>     | <u>2,781</u>      | <u>(32,670)</u>  | <u>—</u>        |
| Total revenue bonds payable              | 1,338,855           | (119)            | (52,853)          | 1,285,883        | 61,185          |
| California Energy Commission loan        | 390                 | —                | (108)             | 282              | 110             |
| State of California revolving loans      | 102,438             | —                | (13,337)          | 89,101           | 13,765          |
| Capital appreciation bonds               | 3,155               | 225              | —                 | 3,380            | —               |
| Other postemployment benefits obligation | —                   | 23,455           | —                 | 23,455           | —               |
| Accrued vacation and sick leave          | 18,216              | 11,736           | (11,727)          | 18,225           | 9,748           |
| Accrued workers' compensation            | 14,676              | 3,380            | (3,099)           | 14,957           | 2,714           |
| Damage and claim liability               | 20,427              | 27,999           | (12,827)          | 35,599           | 10,157          |
| Deferred revenue                         | 9                   | 80               | —                 | 89               | —               |
| Pollution remediation obligation         | <u>6,618</u>        | <u>168</u>       | <u>(4,092)</u>    | <u>2,694</u>     | <u>2,339</u>    |
| Total                                    | \$ <u>1,504,784</u> | <u>66,924</u>    | <u>(98,043)</u>   | <u>1,473,665</u> | <u>100,018</u>  |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### *Water*

Long-term liability activities for the years ended June 30, 2009 and 2008 were as follows:

|  | Interest<br>rate | Final<br>maturity<br>date | July 1,<br>2008 | Additions | Reductions | June 30,<br>2009 | Due<br>within<br>one year |
|--|------------------|---------------------------|-----------------|-----------|------------|------------------|---------------------------|
| Revenue Bonds:                           |                  |                           |                 |           |            |                  |                           |
| 2001A revenue bonds                      | 4.0 – 5.0%       | 2031                      | \$ 80,410       | —         | (2,830)    | 77,580           | 2,945                     |
| 2002A revenue bonds                      | 2.5 – 5.0        | 2032                      | 150,620         | —         | (3,100)    | 147,520          | 3,260                     |
| 2002B revenue refunding bonds            | 3.0 – 5.0        | 2015                      | 57,580          | —         | (6,155)    | 51,425           | 6,375                     |
| 2006A revenue bonds                      | 4.0 – 5.0        | 2036                      | 505,230         | —         | (8,170)    | 497,060          | 8,505                     |
| 2006B revenue refunding bonds            | 4.0 – 5.0        | 2026                      | 107,230         | —         | (2,985)    | 104,245          | 3,145                     |
| 2006C revenue refunding bonds            | 4.0 – 5.0        | 2026                      | 45,840          | —         | (2,280)    | 43,560           | 2,375                     |
| Less deferred amounts:                   |                  |                           |                 |           |            |                  |                           |
| For issuance premiums                    |                  |                           | 25,952          | —         | (1,023)    | 24,929           | —                         |
| For refunding loss                       |                  |                           | (14,452)        | —         | 1,019      | (13,433)         | —                         |
| Total revenue bonds payable              |                  |                           | 958,410         | —         | (25,524)   | 932,886          | 26,605                    |
| Capital appreciation bonds               | 7.0              | 2019                      | 3,380           | 240       | —          | 3,620            | —                         |
| Other postemployment benefits obligation |                  |                           | 15,048          | 15,919    | —          | 30,967           | —                         |
| Arbitrage rebate payable                 |                  |                           | —               | 4,265     | —          | 4,265            | —                         |
| Accrued vacation and sick leave          |                  |                           | 10,856          | 8,715     | (8,117)    | 11,454           | 6,071                     |
| Accrued workers' compensation            |                  |                           | 8,135           | 2,195     | (1,713)    | 8,617            | 1,551                     |
| Damage and claim liability               |                  |                           | 11,254          | 7,946     | (9,559)    | 9,641            | 2,515                     |
| Pollution remediation obligation         |                  |                           | 2,694           | 1,700     | (1,082)    | 3,312            | 3,077                     |
| Total                                    |                  |                           | \$ 1,009,777    | 40,980    | (45,995)   | 1,004,762        | 39,819                    |

|  | Interest<br>rate | Final<br>maturity<br>date | July 1,<br>2007 | Additions | Reductions | June 30,<br>2008 | Due<br>within<br>one year |
|--|------------------|---------------------------|-----------------|-----------|------------|------------------|---------------------------|
| Revenue Bonds:                           |                  |                           |                 |           |            |                  |                           |
| 2001A revenue bonds                      | 4.0 – 5.0%       | 2031                      | \$ 83,115       | —         | (2,705)    | 80,410           | 2,830                     |
| 2002A revenue bonds                      | 2.5 – 5.0        | 2032                      | 153,570         | —         | (2,950)    | 150,620          | 3,100                     |
| 2002B revenue refunding bonds            | 3.0 – 5.0        | 2015                      | 63,495          | —         | (5,915)    | 57,580           | 6,155                     |
| 2006A revenue bonds                      | 4.0 – 5.0        | 2036                      | 507,815         | —         | (2,585)    | 505,230          | 8,170                     |
| 2006B revenue refunding bonds            | 4.0 – 5.0        | 2026                      | 110,065         | —         | (2,835)    | 107,230          | 2,985                     |
| 2006C revenue refunding bonds            | 4.0 – 5.0        | 2026                      | 48,020          | —         | (2,180)    | 45,840           | 2,280                     |
| Less deferred amounts:                   |                  |                           |                 |           |            |                  |                           |
| For issuance premiums                    |                  |                           | 26,912          | —         | (960)      | 25,952           | —                         |
| For refunding loss                       |                  |                           | (15,388)        | (119)     | 1,055      | (14,452)         | —                         |
| Total revenue bonds payable              |                  |                           | 977,604         | (119)     | (19,075)   | 958,410          | 25,520                    |
| Capital appreciation bonds               | 7.0              | 2019                      | 3,155           | 225       | —          | 3,380            | —                         |
| Other postemployment benefits obligation |                  |                           | —               | 15,048    | —          | 15,048           | —                         |
| Accrued vacation and sick leave          |                  |                           | 11,171          | 7,500     | (7,815)    | 10,856           | 5,738                     |
| Accrued workers' compensation            |                  |                           | 8,346           | 1,557     | (1,768)    | 8,135            | 1,512                     |
| Damage and claims liability              |                  |                           | 6,934           | 13,104    | (8,784)    | 11,254           | 3,011                     |
| Pollution remediation obligation         |                  |                           | 6,618           | 168       | (4,092)    | 2,694            | 2,339                     |
| Total                                    |                  |                           | \$ 1,013,828    | 37,483    | (41,534)   | 1,009,777        | 38,120                    |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(a) *Capital Appreciation Bonds***

The capital appreciation bonds mature from November 1, 2018 through November 1, 2019. The bonds were originally insured by MBIA and carried “Aaa” and “AAA” ratings from Moody’s and Standard & Poor’s (S&P), respectively. In February 2009, the municipal bond issuance portfolio was transferred to an MBIA subsidiary named National Public Finance Guarantee Corporation (National) and carried “Baal” and “A” ratings from Moody’s and S&P, respectively. As of October 2009, MBIA was rated “Ba3” and “BB+” by Moody’s and S&P, respectively, while National had affirmed ratings of “Baa1” and “A” from Moody’s and S&P, respectively. Interest on the capital appreciation bonds is due upon maturity and is recognized as annual interest expense over the life of the bonds using the interest method. Water has recognized \$3,620 and \$3,380 of unpaid principal and interest on the capital appreciation bonds as of June 30, 2009 and 2008, respectively, and has reported it as capital appreciation bonds in the accompanying statements of net assets.

**(b) *Water Revenue Bonds Series 2001A***

During fiscal year 2002, \$140,000 of Water Revenue Bonds 2001 Series A (2001 Series A Bonds) were issued. The bonds were insured by FSA and carried “Aaa” and “AAA” ratings from Moody’s and Standard & Poor’s, respectively. As of October 2009, FSA was rated “Aa3” and “AAA” by Moody’s and S&P, respectively. The Revenue Bonds include current interest serial and term bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2021 and the current interest term bonds mature on November 1, 2024, 2027, and 2031. In March 2006, \$45,630 of the 2001 A serial and term bonds with maturities of November 2016 to November 2024 were refunded by the 2006 Refunding Series B Water Revenue Bonds.

**(c) *Water Revenue Bonds Series 2002A***

During fiscal year 2003, \$164,000 of Water Revenue Bonds 2002 Series A (2002 Series A Bonds) were issued. The bonds were insured by MBIA and carried “Aaa” and “AAA” ratings from Moody’s and Standard & Poor’s, respectively. In February 2009, the bonds were further reinsured by National and carried “Baal” and “A” ratings from Moody’s and S&P, respectively. As of October 2009, MBIA was rated “Ba3” and “BB+” by Moody’s and S&P, respectively, while National had affirmed ratings of “Baal” and “A” from Moody’s and S&P, respectively. As of October 2009, MBIA was rated “Ba3” and “BB+” by Moody’s and S&P, respectively. The Revenue Bonds include interest and serial and term bonds with interest rates varying from 2.5% to 5.0%. The current interest serial bonds mature through November 1, 2026 and the current interest term bonds mature on November 1, 2025 and 2032.

**(d) *Water Revenue Refunding Bonds Series 2002B***

During fiscal year 2003, 2002 Water Revenue Refunding Bonds, Series B (the 2002B Refunding Bonds) were issued in the amount of \$85,260 with interest rates ranging from 3% to 5%. The bonds were insured by MBIA and carried “Aaa” and “AAA” ratings from Moody’s and Standard & Poor’s, respectively. In February 2009, the bonds were further reinsured by National and carried “Baal” and “A” ratings from Moody’s and S&P, respectively. As of October 2009, MBIA was rated “Ba3” and “BB+” by Moody’s and S&P, respectively, while National had affirmed ratings of “Baal” and “A” from Moody’s and S&P, respectively. The current interest serial bonds mature through November 1, 2015.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(e) *Water Revenue Bonds Series 2006A***

During fiscal year 2006, 2006 Water Revenue Bonds, Series A (the 2006 Series A Bonds) were issued in the amount of \$507,815. The purpose of the bonds is to finance improvements to the City's water systems pursuant to Proposition A and to retire commercial paper outstanding. The bonds were insured by FSA and carried "Aaa" and "AAA" ratings from Moody's and Standard & Poor's, respectively. As of October 2009, FSA was rated "Aa3" and "AAA" by Moody's and S&P, respectively. The 2006 Series A Bonds include current interest and serial and term bonds with interest rates ranging from 4% to 5%. The current interest serial bonds mature through November 1, 2027 and the current interest term bonds mature on November 1, 2031 and 2033 and 2036.

**(f) *Water Revenue Refunding Bonds Series 2006B***

During fiscal year 2006, 2006 Water Revenue Refunding Bonds, Series B (the 2006B Refunding Bonds) were issued in the amount of \$110,065. The purpose of the bonds is to refund a portion of the 1996A Series A Bonds and the 2001 Series A Bonds. The bonds were insured by Syncora (formerly XL) and carried "Aaa" and "AAA" ratings from Moody's and Standard & Poor's, respectively. As of October 2009, Syncora was rated "Ca" and "R" by Moody's and S&P, respectively. The 2006B Refunding Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2026.

**(g) *Water Revenue Refunding Bonds Series 2006C***

During fiscal year 2007, 2006 Water Revenue Refunding Bonds, Series C (the 2006 Refunding Bonds) were issued in the amount of \$48,730 for the purpose of refunding the remaining portion of the outstanding 1996 Series A Bonds maturing on and after November 1, 2007 (the Refunded 1996 Series A Bonds). The bonds were insured by Syncora (formerly XL) and carried "Aaa" and "AAA" ratings from Moody's and Standard & Poor's, respectively. As of October 2009, Syncora was rated "Ca" and "R" by Moody's and S&P, respectively. The 2006C Refunding Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2026.

A portion of the proceeds from sale of the 2006 Refunding Series C Bonds were used to establish an irrevocable escrow to refund and legally defease, on a current basis, the Refunded 1996 Series A Bonds. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

A portion of the proceeds on the 2006 Refunding Series C Bonds were deposited with the Trustee, acting as escrow agent under the irrevocable Refunding Instructions, dated August 1, 2006, given by the Water Enterprise to the escrow agent.

The amounts deposited from the proceeds of the 2006 Refunding Series C Bonds, together with certain other available moneys, were held by the escrow agent under the Refunding Instructions and invested in non-callable Federal Securities (as described in the Indenture) consisting of United States Treasury Securities-State and Local Government Series (SLGS), the principal of and interest on which, when received, were sufficient to pay the principal redemption price of, including premium and interest on the Refunded 1996 Series A Bonds on November, 2006, by optional redemption on that date.

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(h) Future Annual Debt Service of Revenue Bonds**

The future annual debt service relating to the Revenue and Refunding Bonds outstanding as of June 30, 2009 is as follows:

|   | <u>Principal</u>         | <u>Interest</u>          |
|---|--------------------------|--------------------------|
| Years ending June 30:   |                          |                          |
| 2010  | \$ 26,605                | 42,991                   |
| 2011  | 27,795                   | 41,784                   |
| 2012  | 29,190                   | 40,401                   |
| 2013  | 30,610                   | 38,984                   |
| 2014  | 32,090                   | 37,510                   |
| 2015 – 2019   | 153,470                  | 164,233                  |
| 2020 – 2024   | 159,705                  | 128,192                  |
| 2025 – 2029   | 184,395                  | 86,839                   |
| 2030 – 2034   | 188,280                  | 41,066                   |
| 2035 – 2037   | <u>89,250</u>            | <u>6,493</u>             |
|   | 921,390                  | \$ <u><u>628,493</u></u> |
| Less current portion  | (26,605)                 |                          |
| Add unamortized bond premium, net of discount<br>and refunding loss | <u>11,496</u>            |                          |
| Long-term portion as of June 30, 2009                               | \$ <u><u>906,281</u></u> |                          |

As defined in the Indentures, the principal and interest of Water's Revenue and Refunding Bonds are payable from its corresponding revenue, as well as monies deposited in certain funds and accounts pledged thereto (see note 5 to the basic financial statements).

**(i) 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 SFPUC 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, 2009, commercial paper of \$229,600 was outstanding pursuant to this authorization and \$507,800 of bonds had been issued in fiscal year 2006 against this authorization.

**(j) Proposition E**

On November 5, 2002, the San Francisco voters passed Proposition E, which authorizes the issuance of revenue bonds and/or other forms of indebtedness by SFPUC to finance costs for SFPUC's capital programs, including WSIP. As of June 30, 2009, no commercial paper was outstanding pursuant to this authorization, but SFPUC authorized the issuance of up to \$1,322,000 in revenue bonds against this authorization.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### *Wastewater*

Long-term liability activities for the years ended June 30, 2009 and 2008 were as follows:

|                                  | <u>Interest<br/>rate</u> | <u>Final<br/>maturity<br/>date</u> | <u>July 1,<br/>2008</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30,<br/>2009</u> | <u>Due<br/>within<br/>one year</u> |
|----------------------------------|--------------------------|------------------------------------|-------------------------|------------------|-------------------|--------------------------|------------------------------------|
| Revenue bonds:                   |                          |                                    |                         |                  |                   |                          |                                    |
| Revenue Bonds, 2003 Refunding    |                          |                                    |                         |                  |                   |                          |                                    |
| Series A                         | 3.00 to 5.25%            | 2025                               | \$ 328,325              | —                | (35,665)          | 292,660                  | 37,130                             |
| Less deferred amounts:           |                          |                                    |                         |                  |                   |                          |                                    |
| For issuance premiums            |                          |                                    | 17,366                  | —                | (1,006)           | 16,360                   | —                                  |
| For refunding loss               |                          |                                    | <u>(18,218)</u>         | <u>—</u>         | <u>1,727</u>      | <u>(16,491)</u>          | <u>—</u>                           |
| Total revenue bonds payable      |                          |                                    | 327,473                 | —                | (34,944)          | 292,529                  | 37,130                             |
| State of California revolving    |                          |                                    |                         |                  |                   |                          |                                    |
| loans                            | 2.80 to 3.50%            | 2021                               | 89,101                  | —                | (13,762)          | 75,339                   | 14,199                             |
| Other post employment benefits   |                          |                                    |                         |                  |                   |                          |                                    |
| obligations                      |                          |                                    | 5,684                   | 5,729            | —                 | 11,413                   | —                                  |
| Accrued vacation and sick leave  |                          |                                    | 4,998                   | 2,904            | (2,824)           | 5,078                    | 2,770                              |
| Accrued workers' compensation    |                          |                                    | 4,675                   | 428              | (690)             | 4,413                    | 774                                |
| Damage and claims liability      |                          |                                    | 9,044                   | 1,460            | (144)             | 10,360                   | 1,861                              |
| Deferred revenue                 |                          |                                    | 89                      | 535              | (80)              | 544                      | —                                  |
| Pollution remediation obligation |                          |                                    | —                       | 375              | —                 | 375                      | —                                  |
| Total                            |                          |                                    | <u>\$ 441,064</u>       | <u>11,431</u>    | <u>(52,444)</u>   | <u>400,051</u>           | <u>56,734</u>                      |

|                                 | <u>Interest<br/>rate</u> | <u>Final<br/>maturity<br/>date</u> | <u>July 1,<br/>2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30,<br/>2008</u> | <u>Due<br/>within<br/>one year</u> |
|---------------------------------|--------------------------|------------------------------------|-------------------------|------------------|-------------------|--------------------------|------------------------------------|
| Revenue bonds:                  |                          |                                    |                         |                  |                   |                          |                                    |
| Revenue Bonds, 2003 Refunding   |                          |                                    |                         |                  |                   |                          |                                    |
| Series A                        | 3.00 to 5.25%            | 2025                               | \$ 362,825              | —                | (34,500)          | 328,325                  | 35,665                             |
| Less deferred amounts:          |                          |                                    |                         |                  |                   |                          |                                    |
| For issuance premiums           |                          |                                    | 18,370                  | —                | (1,004)           | 17,366                   | —                                  |
| For refunding loss              |                          |                                    | <u>(19,944)</u>         | <u>—</u>         | <u>1,726</u>      | <u>(18,218)</u>          | <u>—</u>                           |
| Total revenue bonds payable     |                          |                                    | 361,251                 | —                | (33,778)          | 327,473                  | 35,665                             |
| State of California revolving   |                          |                                    |                         |                  |                   |                          |                                    |
| loans                           | 2.80 to 3.50%            | 2021                               | 102,438                 | —                | (13,337)          | 89,101                   | 13,765                             |
| Other postemployment benefits   |                          |                                    |                         |                  |                   |                          |                                    |
| obligations                     |                          |                                    | —                       | 5,684            | —                 | 5,684                    | —                                  |
| Accrued vacation and sick leave |                          |                                    | 4,730                   | 2,829            | (2,561)           | 4,998                    | 2,680                              |
| Accrued workers' compensation   |                          |                                    | 4,144                   | 1,236            | (705)             | 4,675                    | 822                                |
| Damage and claim liability      |                          |                                    | 8,711                   | 1,182            | (849)             | 9,044                    | 2,989                              |
| Deferred revenue                |                          |                                    | <u>9</u>                | <u>80</u>        | <u>—</u>          | <u>89</u>                | <u>—</u>                           |
| Total                           |                          |                                    | <u>\$ 481,283</u>       | <u>11,011</u>    | <u>(51,230)</u>   | <u>441,064</u>           | <u>55,921</u>                      |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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

**(a) Revenue Bonds, 2003 Refunding Series A**

During fiscal year 2003, 2003 Refunding Series A Bonds (Refunding Bonds) was issued in the amount of \$396,270 with interest rates ranging from 3.00% to 5.25%.

During fiscal year 2005, cash and equivalents held in the Bond Reserve Fund were substituted with a bond reserve fund policy of \$34,199, which was the largest reserve requirement pursuant to the Indenture. The surety bond policy was issued by MBIA, which is currently rated “BB+” and “Ba3” by S&P and Moody’s, respectively as of September 25, 2009. This policy is further reinsured by the National Public Finance Corporation, which is currently rated “Baal” and “A” by Moody’s and S&P, respectively. The cash released by the substitution will be used for improvements to capital projects in accordance with the Indenture.

**Future Annual Debt Service of Refunding Bonds**

The future annual debt service relating to the Refunding Bonds outstanding as of June 30, 2009 is as follows:

|  | <b>Principal</b> | <b>Interest</b> |
|--|------------------|-----------------|
| Years ending June 30:                        |                  |                 |
| 2010   | \$ 37,130        | 13,183          |
| 2011   | 26,320           | 11,827          |
| 2012   | 22,010           | 10,959          |
| 2013   | 23,095           | 9,941           |
| 2014   | 24,395           | 8,754           |
| 2015 – 2019                                  | 90,925           | 27,001          |
| 2020 – 2024                                  | 62,530           | 8,197           |
| 2025 – 2026                                  | 6,255            | 315             |
|  | 292,660          | \$ 90,177       |
| Less:  |                  |                 |
| Current portion                              | (37,130)         |                 |
| Unamortized bond premiums and refunding loss | (131)            |                 |
| Long-term portion as of June 30, 2009        | \$ 255,399       |                 |

As defined in the Indenture, the principal and interest are payable from revenue as well as monies deposited in certain funds and accounts pledged thereto (see note 5 to the basic financial statements).

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(b) State Revolving Fund Loans**

Wastewater has entered into several contracts with the State Water Resources Control Board (SWRCB) under which borrowing up to prescribed maximum amounts is permitted to finance the construction of certain facilities. Loans outstanding as of June 30, 2009 and 2008 are summarized as follows:

| <u>Project</u> | <u>Date of issuance</u> | <u>Maturity date</u> | <u>Interest rate</u> | <u>Loan amount</u> | <u>June 30</u>            |                           |
|----------------|-------------------------|----------------------|----------------------|--------------------|---------------------------|---------------------------|
|                |                         |                      |                      |                    | <u>2009</u>               | <u>2008</u>               |
|                |                         |                      |                      |                    | <u>Amount outstanding</u> | <u>Amount outstanding</u> |
| Oceanside      | 07/25/90                | 2010                 | 3.4%                 | \$ 40,000          | 5,233                     | 7,723                     |
| Oceanside      | 06/13/91                | 2011                 | 3.5                  | 32,376             | 4,255                     | 6,275                     |
| Oceanside      | 12/24/93                | 2013                 | 2.9                  | 14,102             | 4,345                     | 5,142                     |
| Mariposa       | 01/28/91                | 2011                 | 3.5                  | 7,624              | 1,009                     | 1,488                     |
| Mariposa       | 06/24/92                | 2012                 | 3.1                  | 1,936              | 371                       | 487                       |
| Lake Merced    | 01/29/92                | 2012                 | 3.1                  | 21,114             | 4,038                     | 5,303                     |
| Islais Creek   | 10/08/92                | 2012                 | 3.0                  | 5,706              | 1,416                     | 1,745                     |
| Islais Creek   | 09/07/93                | 2013                 | 3.1                  | 26,800             | 8,251                     | 9,756                     |
| Islais Creek   | 06/17/94                | 2014                 | 2.9                  | 15,105             | 5,543                     | 6,378                     |
| Islais Creek   | 01/09/96                | 2016                 | 3.4                  | 21,720             | 10,118                    | 11,379                    |
| Islais Creek   | 08/04/00                | 2020                 | 2.9                  | 18,026             | 12,020                    | 12,848                    |
| Rankin Pump    | 12/23/96                | 2016                 | 2.8                  | 27,000             | 13,222                    | 14,679                    |
| Rankin Pump    | 01/23/01                | 2021                 | 2.9                  | 8,274              | 5,518                     | 5,898                     |
|                |                         |                      |                      | <u>\$ 239,783</u>  | <u>75,339</u>             | <u>89,101</u>             |

Repayment of interest and principal is being made in installments with the final amount due between 15 and 20 years after the first disbursement by SWRCB. Disbursements are made by SWRCB as funds are spent for the projects. Compliance with applicable federal and state regulations is required. The future annual debt service relating to the State Revolving Fund Loans outstanding as of June 30, 2009 is as follows:

|                                       | <u>Principal</u> | <u>Interest</u> | <u>Total</u>  |
|---------------------------------------|------------------|-----------------|---------------|
| Years ending June 30:                 |                  |                 |               |
| 2010                                  | \$ 14,199        | 2,307           | 16,506        |
| 2011                                  | 14,648           | 1,855           | 16,503        |
| 2012                                  | 9,594            | 1,389           | 10,983        |
| 2013                                  | 8,322            | 1,099           | 9,421         |
| 2014                                  | 8,192            | 848             | 9,040         |
| 2015 – 2019                           | 17,028           | 1,649           | 18,677        |
| 2020 – 2021                           | 3,356            | 147             | 3,503         |
|                                       | <u>75,339</u>    | <u>\$ 9,294</u> | <u>84,633</u> |
| Less current portion                  | <u>(14,199)</u>  |                 |               |
| Long-term portion as of June 30, 2009 | <u>\$ 61,140</u> |                 |               |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

***Hetch Hetchy Water and Power***

Long-term liability activities for the years ended June 30, 2009 and 2008 were as follows:

|  | <u>July 1,</u><br><u>2008</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30,</u><br><u>2009</u> | <u>Due</u><br><u>with in</u><br><u>one year</u> |
|--|-------------------------------|------------------|-------------------|--------------------------------|---|
| California Energy                        |                               |                  |                   |                                |   |
| Commission loan                          | \$ 282                        | —                | (282)             | —                              | —   |
| Clean Renewable Energy Bonds             | —                             | 6,325            | (422)             | 5,903                          | 422   |
| Less bond discount                       | —                             | (194)            | 8                 | (186)                          | —   |
| Other postemployment benefits obligation | 2,723                         | 3,076            | —                 | 5,799                          | —   |
| Accrued vacation and sick leave          | 2,371                         | 1,476            | (1,307)           | 2,540                          | 1,454   |
| Accrued workers' compensation            | 2,147                         | 533              | (375)             | 2,305                          | 405   |
| Damage and claim liability               | 15,301                        | —                | (4,990)           | 10,311                         | 3,251   |
| Total                                    | \$ <u>22,824</u>              | <u>11,216</u>    | <u>(7,368)</u>    | <u>26,672</u>                  | <u>5,532</u>                                    |

|  | <u>July 1,</u><br><u>2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30,</u><br><u>2008</u> | <u>Due</u><br><u>with in</u><br><u>one year</u> |
|--|-------------------------------|------------------|-------------------|--------------------------------|---|
| California Energy                        |                               |                  |                   |                                |   |
| Commission loan                          | \$ 390                        | —                | (108)             | 282                            | 110   |
| Other postemployment benefits obligation | —                             | 2,723            | —                 | 2,723                          | —   |
| Accrued vacation and sick leave          | 2,315                         | 1,407            | (1,351)           | 2,371                          | 1,330   |
| Accrued workers' compensation            | 2,186                         | 587              | (626)             | 2,147                          | 380   |
| Damage and claim liability               | 4,782                         | 13,713           | (3,194)           | 15,301                         | 4,157   |
| Total                                    | \$ <u>9,673</u>               | <u>18,430</u>    | <u>(5,279)</u>    | <u>22,824</u>                  | <u>5,977</u>                                    |

**(a) *State of California Energy Commission (CEC) Loan***

In November 2002, a \$971 loan from the California Energy Commission was received with an annual interest rate of 3% and semiannual repayments of \$74 beginning on December 22, 2003. Originally the loan had a final maturity date of December 22, 2010; however, the loan was retired early in April 2009. Proceeds from the loan were used to provide funding for an energy conservation project undertaking at San Francisco General Hospital (SFGH). Under the loan terms, annual energy use reports are required to be prepared and submitted to the California Energy Commission for three years following the completion of the project. The reports are to demonstrate the cost of energy saved as a result of the project. In August 2003, the California Energy Commission loan was renegotiated and Hetch Hetchy Water and Power received a \$200 grant, which was utilized to pay down the original loan.

Pursuant to the terms of a memorandum of understanding agreement entered with the San Francisco General Hospital, repayments are required for the cost of the project, less any amount received under

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

State grant programs. Payments received from the San Francisco General Hospital subsequent to April 2009 will accrue to fund balance, as the loan was paid in full.

### (b) *Clean Renewable Energy Bonds*

\$6,325 in Clean Renewable Energy Bonds (CREBs) were issued on November 7, 2008 to finance the installation of solar energy equipment on selected City-owned facilities. Hetch Hetchy Water and Power has not previously issued debt and has instead up to this point relied on revenue from ratepayers to fund renewable energy projects. CREBs provide SFPUC with low-cost access to capital to further its green power objectives.

Principal payments in the amount of \$422 began on December 15, 2008 and annual payments will continue for fifteen years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

The future annual debt service relating to the CREBs outstanding as of June 30, 2009 is as follows:

|                                       |    |                     |
|---------------------------------------|----|---------------------|
| Year ending June 30:                  |    |                     |
| 2010                                  | \$ | 422                 |
| 2011                                  |    | 422                 |
| 2012                                  |    | 422                 |
| 2013                                  |    | 422                 |
| 2014                                  |    | 422                 |
| 2015 – 2019                           |    | 2,110               |
| 2020 – 2023                           |    | <u>1,683</u>        |
|                                       |    | 5,903               |
| Less: current portion                 |    | (422)               |
| Less: unamortized discount            |    | <u>(186)</u>        |
| Long-term portion as of June 30, 2009 | \$ | <u><u>5,295</u></u> |

### (8) **Revenue Pledge**

#### *Water*

Future revenues are pledged to repay various revenue bonds. Proceeds from the revenue bonds provided financing for various capital construction projects, and to refund previously issued bonds. The bonds are payable solely from revenues of Water and are payable through the year ending 2036. Annual principal and interest payments on the bonds are expected to require less than 56% of future revenues through the year 2036.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009, and applicable revenues for 2009 and 2008 are as follows:

|   | <u>2009</u>  | <u>2008</u> |
|---|--------------|-------------|
| Bonds issued with revenue pledge                            | \$ 1,108,500 | 1,108,500   |
| Principal and interest remaining due at the end of the year | 1,549,883    | 1,619,467   |
| Principal and interest paid during the year                 | 69,585       | 64,193      |
| Net revenue for the year ended June 30                      | 82,978       | 143,926     |

#### *Wastewater*

Future revenues are pledged to repay various revenue bonds. Proceeds from the revenue bonds provided financing for various capital construction projects, and to refund previously issued bonds. The bonds are payable solely from revenues of Wastewater and are payable through the year 2026. Annual principal and interest payments on the bonds are expected to require less than 27% of future revenues through the year 2026.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009 and 2008, and applicable revenues for 2009 and 2008 are as follows:

|   | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Bonds issued with revenue pledge                            | \$ 396,270  | 396,270     |
| Principal and interest remaining due at the end of the year | 382,837     | 433,147     |
| Principal and interest paid during the year                 | 50,311      | 50,198      |
| Net revenue for the year ended June 30                      | 71,130      | 106,692     |

#### *Hetch Hetchy Water and Power*

Future power revenues are pledged to repay Clean Renewable Energy Bonds which were issued in fiscal year 2009. Proceeds from the revenue bonds provided financing for various capital construction projects. The bonds are payable solely from net power revenues of Hetch Hetchy Water and Power and are payable through the year ending 2022. Annual principal on the bonds are expected to require less than 1.0% of future revenues through the year 2022.

The original amount of revenue bonds issued, total principal remaining, principal paid during 2009, and applicable revenues for 2009 are as follows:

|   |          |
|---|----------|
| Bonds issued with revenue pledge                            | \$ 6,325 |
| Principal and interest remaining due at the end of the year | 5,903    |
| Principal and interest paid during the year                 | 422      |
| Net revenue for the year ended June 30                      | 53,241   |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### **(9) Suburban Water Rate Agreement**

During 1984, the City entered into a Settlement Agreement and Master Water Sales Contract (the Suburban Water Rate Agreement) with certain suburban customers, which establishes the basis for water rates to be charged to those customers (the Suburban Purchasers). Pursuant to the terms of the Suburban Water Rate Agreement, the City is required to establish water rates applicable to the Suburban Purchasers at the beginning of each fiscal year. The suburban water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Suburban Purchasers in accordance with the methodology outlined in Article IV of the Suburban Water Rate Agreement (the Suburban Revenue Requirement). During fiscal years ending in 2009 and 2008, the Suburban Revenue Requirement, net of adjustments, charged to such suburban customers was \$131,831 and \$115,927, respectively. Such amounts are subject to final review by the suburban customers, based on the Suburban Revenue Requirement calculation.

Pursuant to Article V, Section 5.07 of the Suburban Water Rate Agreement, the City is required to re-compute the Suburban Revenue Requirement after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Suburban Purchasers. The difference between the suburban revenues earned during the year and the “actual” Suburban Revenue Requirement is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Suburban Purchasers (if the suburban revenues exceed the Suburban Revenue Requirement) or owed to the City (if the Suburban Revenue Requirement exceeds the suburban revenues paid). In accordance with Article V of the Suburban Water Rate Agreement, 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 Treasurer, and shall be taken into consideration in the determination of subsequent suburban water rates. Upon the expiration of the Suburban Water Rate Agreement, the remaining balance in the Balancing Account shall be determined and collected from the Suburban Purchasers. As of June 30, 2009 and 2008, the Suburban Purchasers owed Water \$27,571 and \$13,870, respectively, under the terms of the Suburban Water Rate Agreement. Subsequently, the June 30, 2008 amount was revised to \$20,626, based on the audited final balancing account statement dated May 27, 2009.

### **(10) Other Revenue – Trans Bay Cable Construction and Licensing Fees**

On August 7, 2007, San Francisco Mayor Gavin Newsom and the Board of Supervisors approved and adopted Resolution No. 070315, two non-exclusive licenses to the Trans Bay Cable LLC (the “Licensee”) for the “Trans Bay Cable Project”.

The Trans Bay Cable LLC proposes to install, operate and maintain approximately 53 miles of high voltage direct current (“HVDC”) PLUS transmission cable bundle of approximately 10 inches in diameter running from the City of Pittsburg to the City and County of San Francisco (the “City”). Approximately 9.4 miles of the cable are in submerged lands, a small portion of shoreline, and on a portion of a street that are under Port Commission jurisdiction (the “License Area”).

The first license is a Construction License, Port Commission License No. 14324, a non-exclusive license to install a 400 MW high voltage transmission line, with a four (4) year term. The “Licensee” will pay the Port of San Francisco under this license and Hetch Hetchy \$3,500 in 36 annual installments of \$97 as the “Renewable Energy, Transmission and Grid Reliability Payment”. Hetch Hetchy received the first annual payment of \$97 in September 2007.

The second license is an Operational License, Port Commission License No. 14325, a non-exclusive license for operation of the transmission line with twenty-five (25) year term with an option to renew for ten (10) years. The “Licensee” will pay Hetch Hetchy in excess of \$20,000 in 10 separate installments of \$2,000 annually with

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

adjustments for inflation, as the “San Francisco Electric Reliability Payment” to implement, advance, promote or enhance policies and projects consistent with City Energy Policies. Once the project is on line, which is currently scheduled in 2010, Hetch Hetchy will receive the first installment of \$2,000.

For fiscal years ending June 30, 2009 and 2008, \$1,069 and \$972, respectively, of Construction License revenue have been included in revenue related to this project, and are restricted for purposes designated by the San Francisco Board of Supervisors under the agreement.

### (11) Employee Benefits

#### (a) *Retirement Plan*

*Plan Description* – the enterprises participate in the City’s single-employer defined benefit retirement plan (the Plan) which is administered by the San Francisco City and County Employees’ Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the enterprises along with other employees of the City. 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. The San Francisco City and County Charter and Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan.

*Funding Policy* – Contributions to the basic plan are made by both the SFPUC and its employees. Employee contributions are mandatory. Employee contribution rates for 2009, 2008 and 2007 varied from 5.0% to 8.0% as a percentage of covered payrolls. Due to certain bargaining agreements, SFPUC contributed from 0.5% to 8.0% of covered payroll on behalf of some employees. In addition, SFPUC is required to contribute for 2009, 2008 and 2007 at an actuarially determined rate as a percentage of covered payroll of 4.99%, 5.91%, and 6.24%, respectively. Water contributed 100% of its required contribution of \$6,946 in 2009, \$7,694 in 2008, and \$7,614 in 2007. Wastewater contributed 100% of its required contributions of \$2,320 in 2009, \$2,658 in 2008, and \$2,605 in 2007. Hetch Hetchy Water and Power contributed 100% of its required contribution of \$1,231 in 2009, \$1,326 in 2008, and \$1,335 in 2007.

The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees’ Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

#### (b) *Health Care Benefits*

Health care benefits of the enterprises’ employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). Contributions are determined by a San Francisco Charter provision based on similar contributions made by the 10 most populous counties in California. Water’s annual contribution was approximately \$19,982 and \$18,660 in fiscal years 2009 and 2008, respectively. Wastewater’s annual contribution was approximately \$7,382 and \$6,992 in fiscal years 2009 and 2008, respectively. Hetch Hetchy Water and Power’s annual contribution was approximately \$3,929 and \$3,424 in fiscal years 2009 and 2008, respectively.

Included are \$5,621 and \$5,317 for 2009 and 2008, respectively, to provide postretirement benefits for Water’s retired employees, \$1,862 and \$1,761 for 2009 and 2008, respectively, for Wastewater’s retired

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

employees, and \$921 and \$871 for 2009 and 2008, respectively, for Hetch Hetchy Water and Power's retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$155 and \$201 to Water's, \$55 and \$73 to Wastewater's, and \$29 and \$36 to Hetch Hetchy Water and Power's contribution allocation for payments made from the Health Service System for postretirement health benefits in 2009 and 2008, respectively.

The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other postemployment benefits other than pensions (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related costs to Water, Wastewater and Hetch Hetchy Water and Power for the year ended June 30, 2009 based upon its percentage of City-wide payroll costs is presented below.

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

The following tables show the components of the City's annual OPEB allocations for the years ended June 30, 2009 and 2008, for the amount contributed to the plan, and changes in the City's net OPEB obligation (dollar amount in thousands):

#### *Department-wide*

|   | <b>2009</b>  |                   |   |              |
|---|--------------|-------------------|---|--------------|
|   | <b>Water</b> | <b>Wastewater</b> | <b>Hetch Hetchy<br/>Water &amp; Power</b> | <b>Total</b> |
| Annual required contribution            | \$ 21,522    | 7,585             | 3,993                                     | 33,100       |
| Interest on net OPEB Obligation         | 667          | 235               | 125                                       | 1,027        |
| Adjustment to ARC                       | (494)        | (174)             | (92)                                      | (760)        |
| Annual OPEB cost (expense)              | 21,695       | 7,646             | 4,026                                     | 33,367       |
| Contribution made                       | (5,776)      | (1,917)           | (950)                                     | (8,643)      |
| Increase in net OPEB obligation         | 15,919       | 5,729             | 3,076                                     | 24,724       |
| Net OPEB obligation – beginning of year | 15,048       | 5,684             | 2,723                                     | 23,455       |
| Net OPEB obligation – end of year       | \$ 30,967    | 11,413            | 5,799                                     | 48,179       |

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

|   | <b>2008</b>  |                   |   |              |
|---|--------------|-------------------|---|--------------|
|   | <b>Water</b> | <b>Wastewater</b> | <b>Hetch Hetchy<br/>Water &amp; Power</b> | <b>Total</b> |
| Annual required contribution            | \$ 20,566    | 7,518             | 3,630                                     | 31,714       |
| Interest on net OPEB Obligation         | —            | —                 | —   | —            |
| Adjustment to ARC                       | —            | —                 | —   | —            |
| Annual OPEB cost (expense)              | 20,566       | 7,518             | 3,630                                     | 31,714       |
| Contribution made                       | (5,518)      | (1,834)           | (907)                                     | (8,259)      |
| Increase in net OPEB obligation         | 15,048       | 5,684             | 2,723                                     | 23,455       |
| Net OPEB obligation – beginning of year | —            | —                 | —   | —            |
| Net OPEB obligation – end of year       | \$ 15,048    | 5,684             | 2,723                                     | 23,455       |

**(c) Wellness Incentive Program**

Effective July 1, 2002, the City established a pilot “Wellness Incentive Program” (the Wellness Program) to promote workforce attendance. Under the Wellness Program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave credits at the time of separation.

The amount of this payment shall be equal to 2.5% of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee’s salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, shall not be included in this computation.

The Wellness Program shall be discontinued as current bargaining agreements expire on June 30, 2010.

**(12) Related Parties**

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.

**Water**

The overhead allocation paid to the General Fund of the City was \$2,574 and \$1,588 for the years ended June 30, 2009 and 2008, respectively, and is included in other operating expenses in the accompanying financial statements.

Beginning in fiscal year 2008, all City departments were charged for water with the exception of fire hydrants that are under the control of the Fire Department. During fiscal years 2009 and 2008, water was delivered to certain City departments which amounted to \$71 and \$1,072, respectively, based on metered usage and applicable water rates, which 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, and charge amounts designed to recover those departments’ costs. These charges totaling \$11,599 and \$8,213 for the years ended June 30, 2009 and 2008, respectively, have been included in services provided by other departments in the accompanying financial statements.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

During the fiscal year ending June 30, 2009, \$1,143 was transferred to other City departments, including \$929, representing a percentage of construction contracts to the Art Commission and \$214 to the Fire Department for a water reclamation study.

During fiscal year ending June 30, 2007 Water took ownership of 525 Golden Gate Avenue property from the City's General Fund for a total consideration of \$9,900 which was reported as a transfer. As of fiscal year 2007, \$5,085 had been paid and the remaining \$4,815 was paid in fiscal year 2008.

#### ***Wastewater***

The overhead allocation paid to the General Fund of the City by Wastewater is \$2,258 and \$1,894 for the years ended June 30, 2009 and 2008 respectively, and is included in other operating expenses in the accompanying financial statements.

Wastewater provides sewer services to other City departments at the non-residential rates. Water, through the Customer Services Department, bills and collects sewer service charges on behalf of the Wastewater.

The City's Department of Public Works provides certain engineering and other services to Wastewater and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount totaling approximately \$16,002 and \$12,685 for the years ended June 30, 2009 and 2008, respectively, has been included in services provided by other departments in the accompanying financial statements.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications and human resources, and charge amounts designed to recover those departments' costs. These charges totaling approximately \$7,019 and \$5,663 for the years ended June 30, 2009 and 2008, respectively, have been included in services provided by other departments in the accompanying financial statements.

#### ***Hetch Hetchy Water and Power***

The overhead allocation paid to the General Fund of the City by Hetch Hetchy Water and Power was \$933 and \$467 for the years ended June 30, 2009 and 2008, respectively, and is included in other operating expenses in the accompanying financial statements.

During 2009 and 2008, Hetch Hetchy Water and Power delivered power and gas without charge to certain City departments, which amounted to \$3,764 and \$4,227, respectively, based on metered usage and applicable power rates. These amounts were excluded from operating revenues in the accompanying financial statements.

Included in 2009 and 2008 operating revenues are sales of power to departments within the City of \$61,067 and \$60,815, respectively.

A variety of City departments provide services such as engineering, purchasing, legal, data processing, telecommunication and human resources, and charge amounts designed to recover those departments' costs. These charges totaling approximately \$4,477 and \$3,701 for the years ended June 30, 2009 and 2008, respectively, have been included in services provided by other departments in the accompanying financial statements.

Hetch Hetchy Water and Power facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City departments, which includes facilitating and coordinating the terms and

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

payment for the service connections that are performed by PG&E. As of June 30, 2009 and 2008, there were no outstanding amounts due from City departments related to this work. After project completion, excess monies are to be refunded from PG&E and distributed to the City Departments for their respective amounts.

Hetch Hetchy Water and Power serves as the City's agency for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account (MECA) fund to sponsor and financially support such projects at various City departments. In this role, low-interest financing may be secured to supplement funds available in the SEA fund. At June 30, 2009 and 2008, projects completed or underway throughout the City amounted to \$14,658 and \$13,947, respectively, and are recorded as due from other governmental agencies.

Besides funding the SEA projects, in 2009 a project for the Treasure Island Development Authority (TIDA) was also funded and recorded as due from other governmental agencies. Regarding the Moscone Center, the memorandum of understanding is currently being renegotiated to extend the payment terms of the receivable.

The details of these projects are as follows:

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Moscone Center                             | \$ 10,700   | 10,700      |
| San Francisco General Hospital             | 1,645       | 1,869       |
| San Francisco Department of Public Health  | 1,003       | 1,140       |
| San Francisco Department of Public Works   | 18          | 134         |
| Port of San Francisco                      | 736         | 83          |
| San Francisco International Airport        | —           | 21          |
| Wastewater                                 | 556         | —           |
| Total SEA related projects                 | 14,658      | 13,947      |
| Treasure Island Development Authority      | 2,599       | 2,599       |
| Total due from other governmental agencies | 17,257      | 16,546      |
| Less current portion                       | (325)       | (110)       |
| Long-term portion as of June 30            | \$ 16,932   | 16,436      |

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### (13) Risk Management

Risk management program encompasses both self-insured and insured coverage. Risk assessments and coverage are coordinated by the City's Office of Risk Management. With certain exceptions, the City and SFPUC's general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, 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* fund). When economically more viable or when required by debt financing covenants, SFPUC obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. 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.

| <u>Primary risks</u>   | <u>Typical coverage approach</u>  |
|------------------------|---|
| General liability      | Self-insure   |
| Property               | Purchase insurance and self-insure  |
| Workers' compensation  | Self-insure through citywide pool   |
| <u>Other risks</u>     | <u>Typical coverage approach</u>  |
| Surety bonds           | Purchased and contractually transferred                                       |
| Professional liability | Combination of self-insure, purchased insurance and contractual risk transfer |
| Errors and omissions   | Combination of self-insure, purchased insurance and contractual risk transfer |
| Builders risk          | Purchased insurance and contractual risk transfer                             |

#### (a) *Damage and Claim Liability*

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

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

The changes for damage and claim liabilities for the years ended June 30, 2009 and 2008 are as follows:

*Department-wide*

|                                 | <b>2009</b>     |                   |   |               |
|---------------------------------|-----------------|-------------------|---|---------------|
|                                 | <b>Water</b>    | <b>Wastewater</b> | <b>Hetch<br/>Hetchy<br/>Water &amp;<br/>Power</b> | <b>Total</b>  |
| Beginning of year               | \$ 11,254       | 9,044             | 15,301  | 35,599        |
| Claims and changes in estimates | 7,946           | 1,460             | (3,400)   | 6,006         |
| Claims paid                     | (9,559)         | (144)             | (1,590)   | (11,293)      |
| End of year                     | \$ <u>9,641</u> | <u>10,360</u>     | <u>10,311</u>                                     | <u>30,312</u> |

|                                 | <b>2008</b>      |                   |   |               |
|---------------------------------|------------------|-------------------|---|---------------|
|                                 | <b>Water</b>     | <b>Wastewater</b> | <b>Hetch<br/>Hetchy<br/>Water &amp;<br/>Power</b> | <b>Total</b>  |
| Beginning of year               | \$ 6,934         | 8,711             | 4,782   | 20,427        |
| Claims and changes in estimates | 13,104           | 1,182             | 13,713  | 27,999        |
| Claims paid                     | (8,784)          | (849)             | (3,194)   | (12,827)      |
| End of year                     | \$ <u>11,254</u> | <u>9,044</u>      | <u>15,301</u>                                     | <u>35,599</u> |

**(b) Property**

The enterprises' property risk management approach varies depending on whether the facility is currently under construction, or if the property is part of revenue-generating operations. For new construction projects, SFPUC has utilized traditional insurance, or other alternative insurance programs. Under the latter approach, the insurance program usually provides coverage for the entire construction project, along with multiple risk coverage, such as for general liability, property damage and workers compensation, for example. When a traditional insurance program is used for property risks, SFPUC requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit SFPUC's risk exposure. The majority of purchased insurance program is for either: 1) revenue-generating facilities, 2) debt-financed facilities, and 3) mandated coverage to meet statutory requirements for bonding of various public officials.

**(c) Workers' Compensation**

The City actuarially determines and allocates workers' compensation costs to SFPUC according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of SFPUC'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

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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, 2009 and 2008 are as follows:

#### *Department-wide*

|                                 | 2009     |            |                                     |         |
|---------------------------------|----------|------------|-------------------------------------|---------|
|                                 | Water    | Wastewater | Hetch<br>Hetchy<br>Water &<br>Power | Total   |
| Beginning of year               | \$ 8,135 | 4,675      | 2,147                               | 14,957  |
| Claims and changes in estimates | 2,195    | 428        | 533                                 | 3,156   |
| Claims paid                     | (1,713)  | (690)      | (375)                               | (2,778) |
| End of year                     | \$ 8,617 | 4,413      | 2,305                               | 15,335  |
|                                 | 2008     |            |                                     |         |
|                                 | Water    | Wastewater | Hetch<br>Hetchy<br>Water &<br>Power | Total   |
| Beginning of year               | \$ 8,346 | 4,144      | 2,186                               | 14,676  |
| Claims and changes in estimates | 1,557    | 1,236      | 587                                 | 3,380   |
| Claims paid                     | (1,768)  | (705)      | (626)                               | (3,099) |
| End of year                     | \$ 8,135 | 4,675      | 2,147                               | 14,957  |

#### (d) *Surety Bonds*

Bonds are required in most phases of the public utilities construction contracting process for such phases, as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty. Additionally, all public officials with financial oversight responsibilities are provided liability coverage through a commercial Public Official Liability policy; including the Commission members, the General Manager and the Chief Financial Officer. SFPUC also maintains a commercial crime policy in lieu bonding its employees.

#### (e) *Professional Liability, Errors, and Omissions*

Professional liability policies are either directly purchased insurance on behalf of 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. Examples of contracts providing any form of the coverages described are engineers, architects, design professionals and other licensed or certified professional service providers.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(f) Builders' Risk**

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

**(g) Owner Controlled Insurance Program**

As of June 30, 2009, the OCIP program completed the final close out and no further obligation for claims funding will continue into future years.

For more information about how the enterprises' risk management program consolidates into and is coordinated with the City's, please see the City's CAFR.

**(14) Commitments and Litigation**

**(a) Commitments**

As of June 30, 2009 and 2008, Water has outstanding commitments with third parties of \$303,373 and \$134,715, respectively for various capital projects and other purchase agreements for materials and services. Wastewater has outstanding commitments with third parties of \$23,879 and \$33,882, respectively, for various capital projects and other purchase agreements for materials and services. Hetch Hetchy Water and Power had outstanding commitments with third parties of \$22,346 and \$20,296, respectively, for various capital projects and other purchase agreements for materials and services.

Additionally, with respect to Hetch Hetchy Water and Power, effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver power to its customers. In addition, the agreement provides supplemental power and energy banking and other support services to Hetch Hetchy Water and Power. The agreement provides audit rights to review past billings paid by Hetch Hetchy Water and Power and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal years 2009 and 2008, \$13,264 and \$13,579, respectively, of transmission, distribution services, and other support services were purchased from PG&E under the terms of the agreement.

The City's Interconnection Agreement with PG&E contains a contractual provision allowing it to bank excess power produced, with a maximum of 110,000 Megawatt hours (MWh). During fiscal year 2009, 1,533,190 MWh of power was generated, and 104,663 MWh was banked (deposited) in the Deferred Delivery Account (DDA) and 102,927 MWh was used (withdrawn). At June 30, 2009 and 2008, the balance in the bank was 104,172 MWh or \$2,719 and 102,436 MWh or \$2,120, respectively.

SFPUC may purchase or sell energy with different market entities through the Western System Power Pool (WSPP). During fiscal year 2009, there was no power purchased. Sales of excess power, after meeting obligations, were 217,792 MWh, or \$6,162.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetch Hetchy Water and Power's operating expenses. The payment amounts were \$4,250 and \$4,426 in fiscal years 2009 and 2008, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

for the duration of the license. A maximum monitoring expense of \$1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

In April 1988, a long-term power sales agreement (the Agreement) was entered into with the Districts. In June 2003, the terms of the Agreement with the Modesto Irrigation District (MID) were amended. Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The agreement with MID was renegotiated and became effective January 1, 2008 which removed its obligation to provide firm power and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, the terms of the Agreement with Turlock Irrigation District (TID) were amended. The settlement agreement between SFPUC and TID restates and amends the power sales agreement and terminates San Francisco's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. SFPUC will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal years 2009 and 2008, energy sales to the Districts totaled 258,268 MWh or \$6,450 and 386,568 MWh or \$9,940, respectively.

**(b) *Grants***

Grants that enterprises receive 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) *Energy Risk Management***

Hetch Hetchy Water and Power is exposed to risks that could negatively impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity. For this reason, the financial results of Hetch Hetchy Water and Power are sensitive to variability in watershed hydrology and market prices for energy.

**(d) *Litigation***

Various legal actions and claims 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 assets.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed on January 18, 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received (i) four combustion turbine generator sets valued at approximately \$33,000 for use at two power plants, one within the City and one at the San Francisco International Airport (SFIA), (ii) future funding from a State administered fund (the Fund) to assist with the costs of siting and developing electric generating equipment in the City, and (iii) payment to the City of \$500 for attorneys' fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement (the Agreement) with the Attorney General of the state of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Authority), and the California Department of Water Resources (the Department). In accordance with the terms of the Agreement:

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

1. The Attorney General transferred all rights, title, and interest in the four gas turbine generator sets to the City.
2. To the extent received by the Attorney General under the terms of the Settlement Agreement, the Attorney General has agreed to make the following deposits into the Fund, as soon as practicable after the receipt date for such amounts, to assist with the costs of siting and developing electric generating equipment in the City:

|                                 |    |               |
|---------------------------------|----|---------------|
| Closing date to January 1, 2007 | \$ | 9,268         |
| January 1, 2008                 |    | 1,333         |
| January 1, 2009                 |    | 1,333         |
| January 1, 2010                 |    | 1,333         |
|                                 | \$ | <u>13,267</u> |

3. The City and the Authority have reviewed and approved a budget for the development of a power generating facility (the Facility), which is based upon key milestones.
4. The City has agreed that it will only seek monies from the Fund for those reasonable and necessary purpose required to meet the key milestones in the development (and not construction) of the Facility.

In the event that the (i) City has not met project milestone according to agreement between the parties, (ii) the Attorney General determines that the City has ceased development of the Facility, or (iii) the City decides not to develop the Facility pursuant to the terms of the Agreement, the Authority shall have the right (but not the obligation) to purchase any or all of the combustion turbine generator sets from the City at a price of \$2,500 per unit and terminate the Agreement. Should the Authority elect not to exercise its option to acquire the gas turbine generator sets from the City pursuant to the terms of the Agreement, the City must promptly sell the units by means of a public bidding process. The City is entitled to retain (i) the first \$2,500 from the sale of each unit plus 5% of any amount in excess of \$2,500 and (ii) any eligible amounts incurred by the City in excess of the amount provided by the Fund.

Additionally, in the event the Authority does not exercise its option to purchase the combustion turbines pursuant to the terms of the King's River Conservation District (KRCDD) Implementation Agreement, the Attorney General shall make deposits of any remaining amounts allocated to KRCDD that are not used for the development of the KRCDD facility to the City's account.

In conjunction with the execution of the Settlement Agreement, the Attorney General has received cash up to \$10,765 as of June 30, 2008 from the defendants and deposited that amount into the Fund. No receipts have been received subsequent to June 30, 2008. The City has actual costs incurred in the development of the facility up to \$18,172 and \$17,897 as of June 30, 2009 and 2008, respectively. SFPUC has recognized no revenue from the Fund for this fiscal year and a cumulative total of \$14,133 for reimbursement from the Fund as of June 30, 2009. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred and limited to reimbursement schedule (see above). As such, the corresponding revenue will be recognized as eligible costs are incurred.

## THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

### Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

At the end of fiscal year 2008, SFPUC made a decision to terminate the project, withdrawing project approval, and recommending sale of the gas turbine generator sets.

On July 22, 2008, SFPUC rescinded project approval and recommended to the Mayor and the Board of Supervisors to cease development of the two power plants, in-City and at the SFIA, and take any necessary steps to initiate the sales of the projects in accordance with the Implementation Agreement. Consequently, the project was written down by \$41,224 to its net realizable value of approximately \$10,000 in fiscal year 2008.

The City has no plans to complete the project and has submitted a proposal to the State for disposal of the combustion turbines, which is currently pending approval. Payments are past due from the State, pending an auditing of prior expenditures. The State will either approve or disallow expenditures and the sales plan to dispose of the combustion turbines.

Also in preparation of the combustion turbines for sale in fiscal year 2009-2010, some entities have shown interest in modifying steam heating plants in San Francisco to cogenerate electricity for local consumption. SFPUC is instructed to analyze the feasibility of these local cogeneration projects. If any of these projects demonstrate initial feasibility and environmental benefit, and requires purchase from the City a combustion turbine unit, SFPUC is instructed to report to the Mayor and Board of Supervisors on what actions would allow for consideration of these projects.

#### (e) *Environmental Issues*

##### *Water*

Approximately 23 acres of land in the city of Menlo Park was formerly subleased to a third party. During the life of the lease, the tenant conducted a business on the premises that caused contamination to the property and surrounding areas. In July 1999, the staff of the California Regional Water Quality Control Board (CRWQCB) issued an interim directive instructing SFPUC to develop a remedial action plan that addresses environmental contamination located at this property. In response to the directive, SFPUC completed an interim remedial action plan. During fiscal year 2002, SFPUC received the final directive from the CRWQCB instructing SFPUC to execute a remedial action plan with regard to this issue. This environmental issue, along with a complete review of compliance with the GASB 49 pronouncement resulted in reporting of \$3,312 and \$2,694 in fiscal years ending June 30, 2009 and 2008, respectively. \$1,082 and \$4,101 was paid in fiscal years 2009 and 2008, respectively, in accordance with the remedial action plan.

##### *Wastewater*

The City and County of San Francisco and Wastewater have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to Wastewater's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows emanating from a local industrial discharger in the drainage areas to Yosemite Creek is the likely responsible source of the contamination. As of June 30, 2009 the pollution remediation obligation reported in the accompanying statements of net assets is \$375, based on estimated contractual costs.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

### (15) Subsequent Events

#### (a) *Debt Issuance*

On August 11, 2009, Water sold \$412,000 in 2009 Series A Bonds with a true fixed interest cost of 4.82% to finance a portion of the WSIP projects and refund existing commercial paper. 2009 Series B Bonds in the amount of \$412,000 were sold on September 1, 2009, with a true fixed interest cost of 4.54%. Outstanding revenue bonds for Water now total \$1,757,000 as of September 30, 2009.

#### (b) *525 Golden Gate Avenue*

The City & County of San Francisco issued \$167,670 in fixed rate Certificates of Participation Series 2009 C and D on September 23, 2009 to fund the future headquarters of the San Francisco Public Utilities Commission (SFPUC) at 525 Golden Gate Avenue. These series had a true interest cost of 4.17% after factoring in the impact of the Build America Bonds direct-pay subsidy. The 2009 C series were issued for \$38,120 on a tax-exempt basis, and the 2009 D series were issued for \$129,550 as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act.

The City conveyed the real property to the Trustee 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 will be obligated under the Project Lease to pay base rental payments and other payments to the Trustee each year during the thirty-two year term of the Project Lease. SFPUC is obligated to pay the City the lease costs, with each of its enterprise operations responsible for their respective proportional usage share of that cost. It is anticipated that these lease costs will be offset with reductions in costs associated with current office rental expense.

The Trustee created the "certificates of participation" in the Project Lease, representing proportional interests in the principal and interest components of Base Rental it receives from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to each Certificate when due.

#### (c) *Water Supply Agreement (WSA)*

For the last twenty-five years, water service has been provided to Wholesale Customers pursuant to the terms of the 1984 Settlement Agreement and Master Water Sales Contract. The Contract expired on June 30, 2009. SFPUC and the Wholesale Customers negotiated and have approved a new Water Supply Agreement ("WSA"). The WSA has a twenty-five year term with two conditional five-year extensions. The term of the WSA began on July 1, 2009. The existing 184 millions of gallons per day (mgd) Supply Assurance continues under the WSA and no increase in the Supply Assurance will be considered before December 31, 2018. During the period from 2009 to 2018, the WSA limits the quantity of water delivered to Retail Customers and Wholesale Customers for 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 Wholesale Customers' share of net book value of existing regional assets will be recovered on level annual payment over the twenty-five year term of the WSA at an interest rate of 5.13%. 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.

# THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION

## Notes to Basic Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

**(d) *U.S. Department of Energy – Energy Efficient Block Grant***

In October 2009, Hetch Hetchy Water and Power received a formula grant in the amount of \$7,739 approved from the U.S. Department of Energy under the American Recovery and Reinvestment Act of 2009 (ARRA).

**(e) *Litigation Settlement***

The Board of Supervisors authorized settlement of the two lawsuits filed by United States of America on behalf of the US Forest Service related to fires that occurred in proximity to power lines. By Ordinance No. 200-09, adopted August 18, 2009, the Board approved the payment of \$7,000, in settlement of both actions. The settlement agreement did not concede liability, nor establish legal precedent with respect to future incidents. Both of these claims have been included in the same \$7,000 amount in the liabilities section of the Statement of Net Assets under damage and claim liability, as they will be paid out after June 30, 2009.



**KPMG LLP**  
55 Second Street  
San Francisco, CA 94105

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

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

We have audited the financial statements of the business-type activities and each major fund of the San Francisco Public Utilities Commission, California (SFPUC), a department of the City and County of San Francisco, California, (the City), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the SFPUC's internal control over financial reporting as a basis for designing our auditing procedures 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 SFPUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SFPUC's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

This report is intended solely for the information and use of the City and County of San Francisco Government Audit and Oversight Committee, the Commission and management, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

December 18, 2009

**SUPPLEMENTARY INFORMATION**

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Schedule of Changes in Net Assets

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

| Assets:  | Water      |           | Wastewater |           | Hetch Hetchy<br>Water & Power |           |
|--|------------|-----------|------------|-----------|-------------------------------|-----------|
|  | 2009 - 08  | 2009 - 08 | 2009 - 08  | 2009 - 08 | 2009 - 08                     | 2009 - 08 |
|  | Change     | % Change  | Change     | % Change  | Change                        | % Change  |
| Current assets:  |            |           |            |           |                               |           |
| Cash and investments with City Treasury.....   | \$ (7,727) | (5.6)     | \$ (7,393) | (16.7)    | \$ 4,265                      | 2.6       |
| Cash and investments outside City Treasury.....  | -          | -         | 5          | 100.0     | -                             | -         |
| Receivables:   |            |           |            |           |                               |           |
| Charges for services, (net of allowance for doubtful<br>accounts of \$1,187, \$1,486, and \$0 in 2009 and<br>\$1,439, \$943, and \$0 in 2008, respectively)..... | 4,608      | 13.7      | 409        | 1.2       | 1,751                         | 18.6      |
| Suburban water rate agreement.....   | 13,701     | 98.8      | -          | -         | -                             | -         |
| Due from other funds.....  | (53)       | (21.2)    | -          | -         | -                             | -         |
| Due from other governmental agencies, current portion.....   | 278        | 471.2     | 106        | 100.0     | 215                           | 195.5     |
| Due from other City departments.....   | -          | -         | 6          | 24.0      | -                             | -         |
| Interest receivables.....  | (345)      | (51.8)    | (72)       | (29.9)    | (7)                           | (0.3)     |
| Advances and other receivables.....  | 668        | 556.7     | 3          | 100.0     | 71                            | 1.8       |
| Loan receivable, current portion.....  | -          | -         | -          | -         | (134)                         | (100.0)   |
| Total receivables.....   | 18,857     | 38.8      | 452        | 1.3       | 1,896                         | 11.9      |
| Deferred charges and other assets.....   | -          | -         | -          | -         | 1,358                         | 64.1      |
| Inventories.....   | (23)       | (1.2)     | 3,586      | 100.0     | (35)                          | (11.8)    |
| Total current assets.....  | 11,107     | 5.9       | (3,350)    | (4.2)     | 7,484                         | 4.1       |
| Non-current assets:  |            |           |            |           |                               |           |
| Restricted assets - cash and investments with City Treasury.....   | (14)       | (0.1)     | 8,669      | 16.4      | -                             | -         |
| Restricted assets - cash and investments outside City Treasury.....  | (77)       | (0.2)     | (27)       | (100.0)   | 6,091                         | 100.0     |
| Restricted assets - interest receivable.....   | (143)      | (55.0)    | (89)       | (35.3)    | -                             | -         |
| Capital assets not being depreciated.....  | 124,730    | 28.3      | 14,355     | 16.9      | 14,530                        | 49.9      |
| Capital assets, net of accumulated depreciation .....  | 108,536    | 13.1      | 19,707     | 1.5       | (267)                         | (0.1)     |
| Due from other governmental agencies .....   | -          | -         | -          | -         | 496                           | 3.0       |
| Bond issuance costs, (net of accumulated amortization of<br>of \$3,302, \$2,506, and \$2 in 2009 and \$2,976,<br>\$2,348 and \$0 in 2008, respectively).....     | (330)      | (4.6)     | (159)      | (5.8)     | 40                            | 100.0     |
| Loan receivable, net of current portion.....   | -          | -         | -          | -         | (188)                         | (100.0)   |
| Total non-current assets.....  | 232,702    | 17.4      | 42,456     | 3.0       | 20,702                        | 7.5       |
| Total assets.....  | 243,809    | 16.0      | 39,106     | 2.6       | 28,186                        | 6.1       |

See accompanying notes to financial statements

(Continued)

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Schedule of Changes in Net Assets

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

|   | Water          |              | Wastewater       |               | Hetch Hetchy<br>Water & Power |             |
|---|----------------|--------------|------------------|---------------|-------------------------------|-------------|
|   | 2009-08        | 2009-08      | 2009-08          | 2009-08       | 2009-08                       | 2009-08     |
|   | Change         | % Change     | Change           | % Change      | Change                        | % Change    |
| <b>Liabilities:</b>   |                |              |                  |               |                               |             |
| Current liabilities:  |                |              |                  |               |                               |             |
| Accounts payable.....                                       | \$ 6,384       | 76.1         | \$ 795           | 11.2          | \$ 2,127                      | 16.7        |
| Accrued payroll.....  | 837            | 13.9         | 202              | 6.1           | 321                           | 26.2        |
| Accrued vacation and sick leave, current portion.....       | 333            | 5.8          | 90               | 3.4           | 124                           | 9.3         |
| Accrued workers' compensation, current portion.....         | 39             | 2.6          | (48)             | (5.8)         | 25                            | 6.6         |
| Due to other funds.....                                     | 23             | 100.0        | -                | -             | -                             | -           |
| Due to other City departments.....                          | -              | -            | 556              | 100.0         | -                             | -           |
| Damage and claim liability, current portion.....            | (496)          | (16.5)       | (1,128)          | (37.7)        | (906)                         | (21.8)      |
| Deposits, advances, and other liabilities.....              | (2,254)        | (31.5)       | -                | -             | (1,331)                       | (58.3)      |
| Bond and loan interest payable.....                         | (14)           | (0.2)        | (518)            | (9.2)         | -                             | -           |
| Pollution remediation obligation, current portion.....      | 738            | 31.6         | -                | -             | -                             | -           |
| Revenue bonds, current portion.....                         | 1,085          | 4.3          | 1,465            | 4.1           | -                             | -           |
| Clean renewable energy bonds.....                           | -              | -            | -                | -             | 422                           | 100.0       |
| Commercial paper.....                                       | 229,600        | 100.0        | 50,000           | 100.0         | -                             | -           |
| Loans payable, current portion.....                         | -              | -            | 434              | 3.2           | (110)                         | (100.0)     |
| Current liabilities payable from restricted assets.....     | 13,281         | 48.6         | 2,393            | 52.0          | -                             | -           |
| <b>Total current liabilities.....</b>                       | <b>249,556</b> | <b>264.3</b> | <b>54,241</b>    | <b>42.9</b>   | <b>672</b>                    | <b>3.0</b>  |
| Long-term liabilities:                                      |                |              |                  |               |                               |             |
| Arbitrage rebate payable.....                               | 4,265          | 100.0        | -                | -             | -                             | -           |
| Other postemployment benefits obligation.....               | 15,919         | 105.8        | 5,729            | 100.8         | 3,076                         | 113.0       |
| Accrued vacation and sick leave, less current portion.....  | 265            | 5.2          | (10)             | (0.4)         | 45                            | 4.3         |
| Accrued workers' compensation, less current portion.....    | 443            | 6.7          | (214)            | (5.6)         | 133                           | 7.5         |
| Damage and claim liability, less current portion.....       | (1,117)        | (13.6)       | 2,444            | 40.4          | (4,084)                       | (36.6)      |
| Deferred revenue, refunds and other liabilities.....        | -              | -            | 455              | 511.2         | -                             | -           |
| Pollution remediation obligation, less current portion..... | (120)          | (33.8)       | 375              | -             | -                             | -           |
| Revenue bonds, less current portion.....                    | (26,609)       | (2.9)        | (36,409)         | (12.5)        | 5,295                         | 100.0       |
| Capital appreciation bonds.....                             | 240            | 7.1          | -                | -             | -                             | -           |
| Loans payable, less current portion.....                    | -              | -            | (14,196)         | (18.8)        | (172)                         | (100.0)     |
| <b>Total long-term liabilities.....</b>                     | <b>(6,714)</b> | <b>(0.7)</b> | <b>(41,826)</b>  | <b>(10.9)</b> | <b>4,293</b>                  | <b>25.5</b> |
| <b>Total liabilities.....</b>                               | <b>242,842</b> | <b>22.8</b>  | <b>12,415</b>    | <b>2.4</b>    | <b>4,965</b>                  | <b>12.7</b> |
| <b>Net assets:</b>  |                |              |                  |               |                               |             |
| Invested in capital assets, net of related debt.....        | 25,538         | 7.9          | 31,187           | 3.3           | 14,263                        | 5.5         |
| Restricted for debt service.....                            | 465            | 1.7          | 44               | 3.3           | -                             | -           |
| Restricted for capital projects.....                        | 627            | 293.0        | 11,126           | -             | -                             | -           |
| Unrestricted.....   | (25,663)       | (23.4)       | (15,666)         | (37.3)        | 8,958                         | 5.5         |
| <b>Total net assets.....</b>                                | <b>\$ 967</b>  | <b>0.2</b>   | <b>\$ 26,691</b> | <b>2.7</b>    | <b>\$ 23,221</b>              | <b>5.5</b>  |

See accompanying notes to financial statements

**THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION**

Schedule of Changes in Revenues, Expenses, and Net Assets

Proprietary Funds

June 30, 2009 and 2008

(In thousands)

|   | Water             |                     | Wastewater        |                     | Hetch Hetchy<br>Water & Power |                     |
|---|-------------------|---------------------|-------------------|---------------------|-------------------------------|---------------------|
|   | 2009-08<br>Change | 2009-08<br>% Change | 2009-08<br>Change | 2009-08<br>% Change | 2009-08<br>Change             | 2009-08<br>% Change |
| Operating revenues:                                     |                   |                     |                   |                     |                               |                     |
| Charges for services .....                              | \$ 30,845         | 14.2                | \$ 11,522         | 6.1                 | \$ (4,602)                    | (3.8)               |
| Rents and concessions .....                             | (246)             | (2.6)               | -                 | -                   | 21                            | 9.3                 |
| Other revenues .....                                    | 966               | 12.5                | (5,417)           | (36.8)              | -                             | -                   |
| <b>Total operating revenues .....</b>                   | <b>31,565</b>     | <b>13.5</b>         | <b>6,105</b>      | <b>3.0</b>          | <b>(4,581)</b>                | <b>(3.8)</b>        |
| Operating expenses:                                     |                   |                     |                   |                     |                               |                     |
| Personal services .....                                 | 4,636             | 4.5                 | (242)             | (0.3)               | 4,294                         | 13.3                |
| Contractual services .....                              | 2,327             | 20.6                | 1,855             | 15.5                | 4,126                         | 103.9               |
| Purchased power and related costs .....                 | -                 | -                   | -                 | -                   | (10,082)                      | (35.3)              |
| Materials and supplies .....                            | 1,165             | 10.1                | (3,785)           | (39.7)              | (48)                          | (2.1)               |
| Depreciation .....                                      | 3,142             | 6.8                 | 57                | 0.1                 | 848                           | 7.7                 |
| Services provided by other departments .....            | 5,405             | 15.6                | 5,613             | 21.6                | 776                           | 21.0                |
| Bad debt expense .....                                  | 88                | 2,200.0             | 576               | 100.0               | -                             | -                   |
| General and administrative .....                        | (5,227)           | (63.7)              | 583               | 33.9                | (13,650)                      | (65.0)              |
| Other .....   | 13,727            | 150.0               | (602)             | (7.7)               | 528                           | 7.8                 |
| <b>Total operating expenses .....</b>                   | <b>25,263</b>     | <b>11.3</b>         | <b>4,055</b>      | <b>2.5</b>          | <b>(13,208)</b>               | <b>(12.1)</b>       |
| <b>Operating income .....</b>                           | <b>6,302</b>      | <b>56.4</b>         | <b>2,050</b>      | <b>5.5</b>          | <b>8,627</b>                  | <b>82.8</b>         |
| Nonoperating revenues (expenses):                       |                   |                     |                   |                     |                               |                     |
| Federal and state grant .....                           | (174)             | (8.9)               | 224               | 100.0               | (52)                          | (100.0)             |
| Interest and investment income .....                    | (5,368)           | (43.1)              | (2,107)           | (51.4)              | (2,260)                       | (35.2)              |
| Interest expense .....                                  | 903               | (3.0)               | 1,790             | (10.2)              | -                             | -                   |
| Net gain from sale of land .....                        | (21,748)          | (89.4)              | -                 | -                   | -                             | -                   |
| Other nonoperating revenues .....                       | (557)             | (16.4)              | (87)              | (9.8)               | (7,539)                       | (73.6)              |
| Other nonoperating expenses .....                       | (7)               | 0.9                 | 158               | (100.0)             | (2,239)                       | 1492.7              |
| <b>Net nonoperating revenues (expenses) .....</b>       | <b>(26,951)</b>   | <b>(232.4)</b>      | <b>(22)</b>       | <b>0.2</b>          | <b>(12,090)</b>               | <b>(73.0)</b>       |
| <b>Net income before special items and transfers</b>    | <b>(20,649)</b>   | <b>(90.7)</b>       | <b>2,028</b>      | <b>8.2</b>          | <b>(3,463)</b>                | <b>(12.8)</b>       |
| Special item:   |                   |                     |                   |                     |                               |                     |
| Impairment loss .....                                   | -                 | -                   | -                 | -                   | 41,224                        | (100.0)             |
| <b>Income before transfers .....</b>                    | <b>(20,649)</b>   | <b>(90.7)</b>       | <b>2,028</b>      | <b>8.2</b>          | <b>37,761</b>                 | <b>(265.2)</b>      |
| Transfers to the City and County of San Francisco ..... | (1,143)           | 100.0               | -                 | -                   | 149                           | (33.1)              |
| <b>Changes in net assets .....</b>                      | <b>(21,792)</b>   | <b>(95.8)</b>       | <b>2,028</b>      | <b>8.2</b>          | <b>37,910</b>                 | <b>(258.1)</b>      |
| Net assets at beginning of year .....                   | 22,759            | 5.2                 | 24,663            | 2.6                 | (14,689)                      | (3.4)               |
| <b>Net assets at end of year .....</b>                  | <b>\$ 967</b>     | <b>0.2</b>          | <b>\$ 26,691</b>  | <b>2.7</b>          | <b>\$ 23,221</b>              | <b>5.5</b>          |

See accompanying notes to financial statements



## **STATISTICAL SECTION**

### **Financial Trends**

These schedules contain trend information to help understand how SFPUC's financial performance and well-being have changed over time.

### **Revenue Capacity**

These schedules contain information to help the reader assess SFPUC's revenues sources and rate structures.

### **Debt Capacity**

These schedules contain information to help the reader assess the affordability of the SFPUC's current levels of outstanding debt and its ability to issue additional debt in the future.

### **Demographic & Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which SFPUC's financial activities take place.

### **Operating Information**

These schedules contain service and infrastructure data to enhance the reader's ability to understand how the information in the SFPUC financial report relates to the services it provides and the activities it performs.



## **FINANCIAL TRENDS**

### **Comparative Highlights of Revenues & Expenses**

#### **Summary of Changes in Net Assets**

#### **Summary of Net Assets by Component**

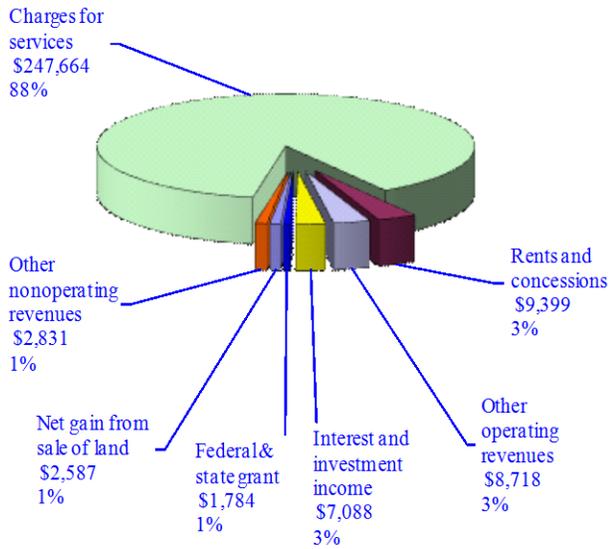
#### **Investments in Capital Assets**

#### **Summary of Property, Plant & Equipment**

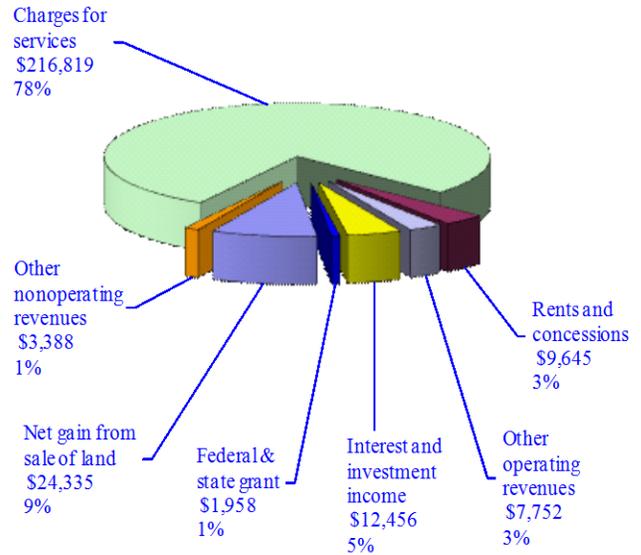
**Financial Trends**  
**Comparative Highlights of Revenues & Expenses**  
**Fiscal Years Ending 2009 and 2008**  
**(Dollars in Thousands)**

**Water**

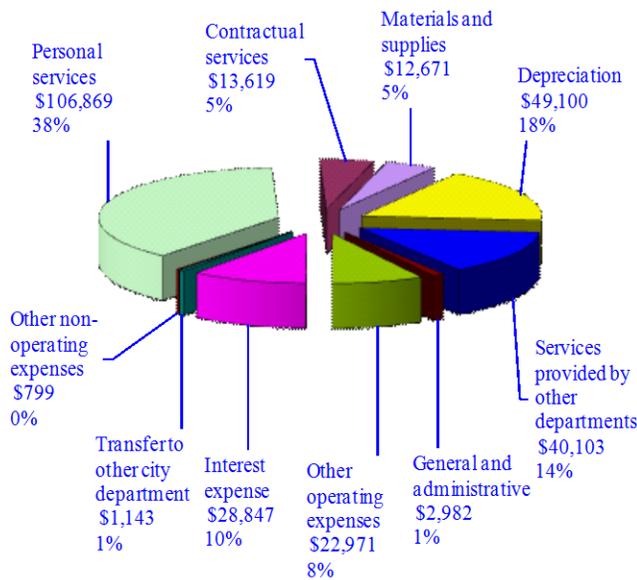
**2009 Revenues - \$ 280,071**



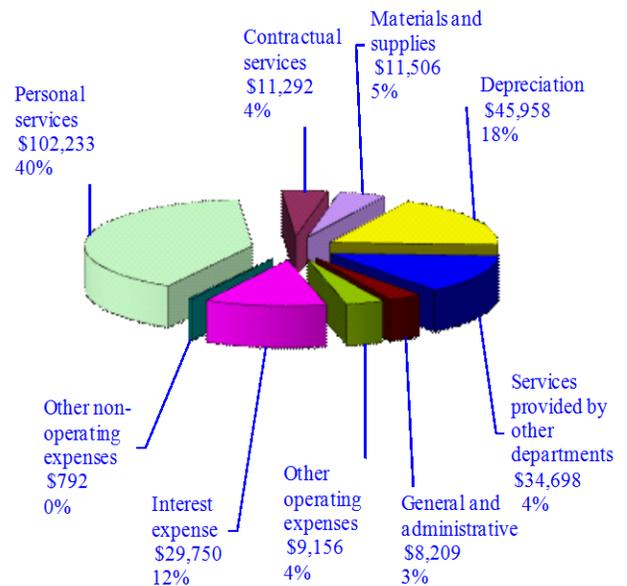
**2008 Revenues - \$ 276,353**



**2009 Expenses - \$ 279,104**



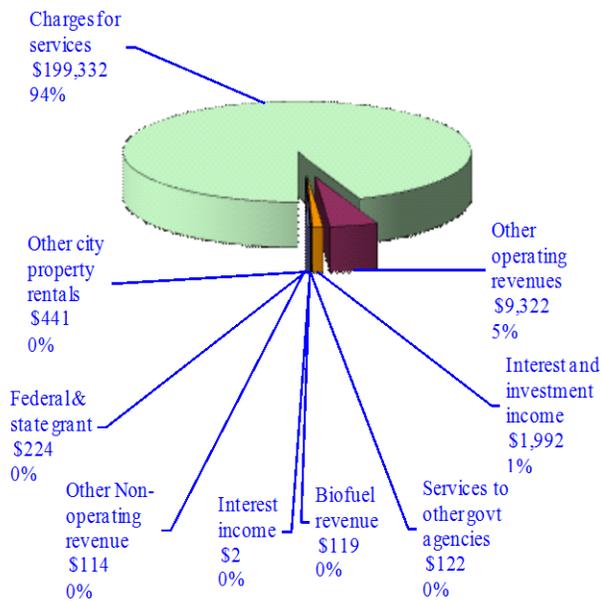
**2008 Expenses - \$ 253,594**



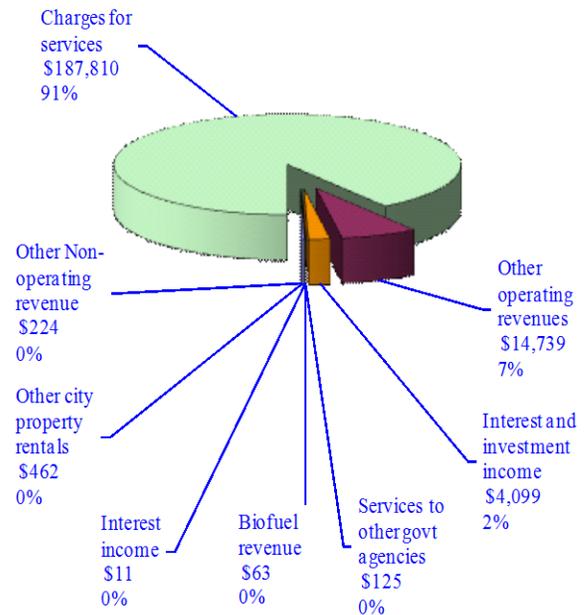
**Financial Trends**  
**Comparative Highlights of Revenues & Expenses**  
**Fiscal Years Ending 2009 and 2008**  
**(Dollars in Thousands)**

**Wastewater**

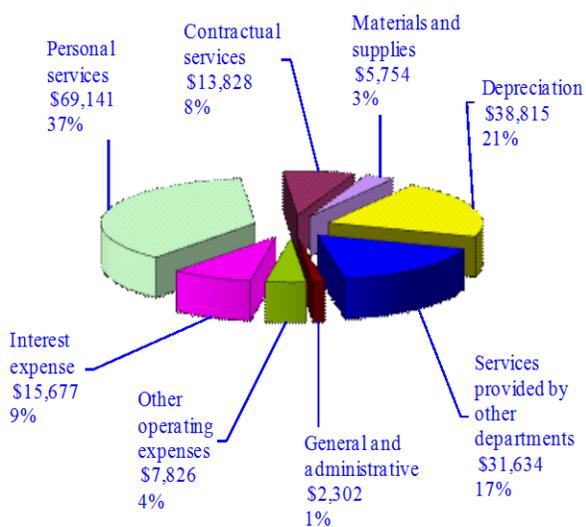
**2009 Revenues - \$ 211,668**



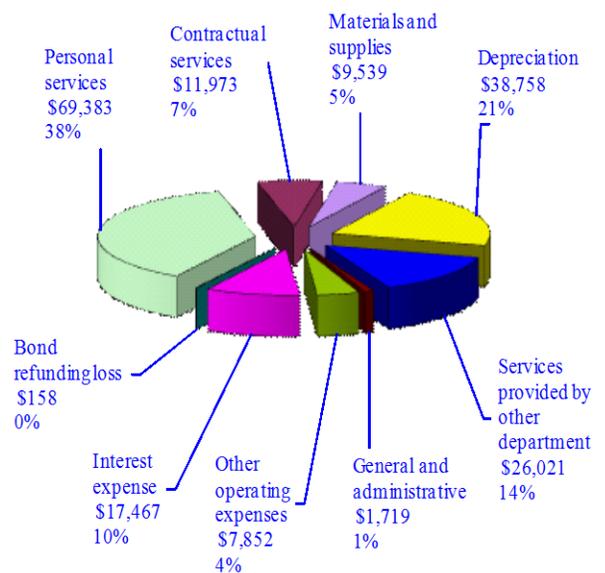
**2008 Revenues - \$ 207,533**



**2009 Expenses - \$ 184,977**



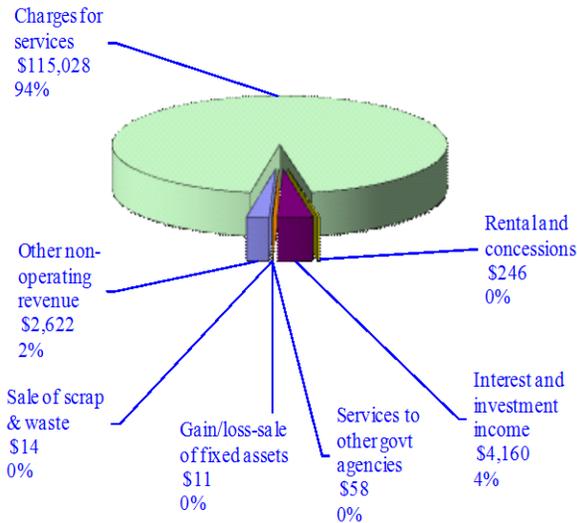
**2008 Expenses - \$ 182,870**



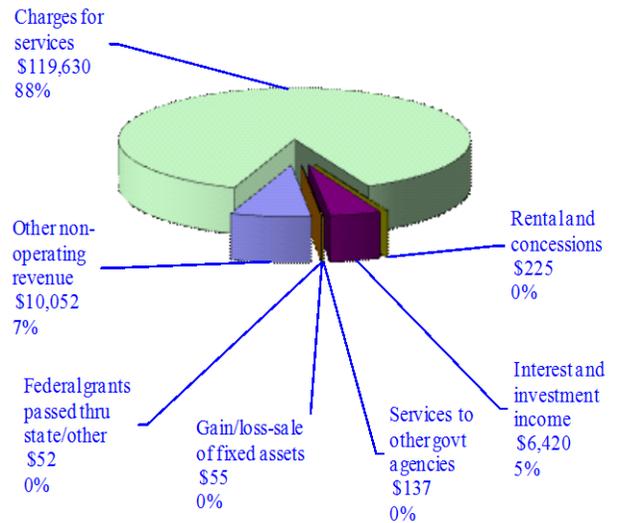
**Financial Trends**  
**Comparative Highlights of Revenues & Expenses**  
**Fiscal Years Ending 2009 and 2008**  
**(Dollars in Thousands)**

**Hetch Hetchy Water & Power**

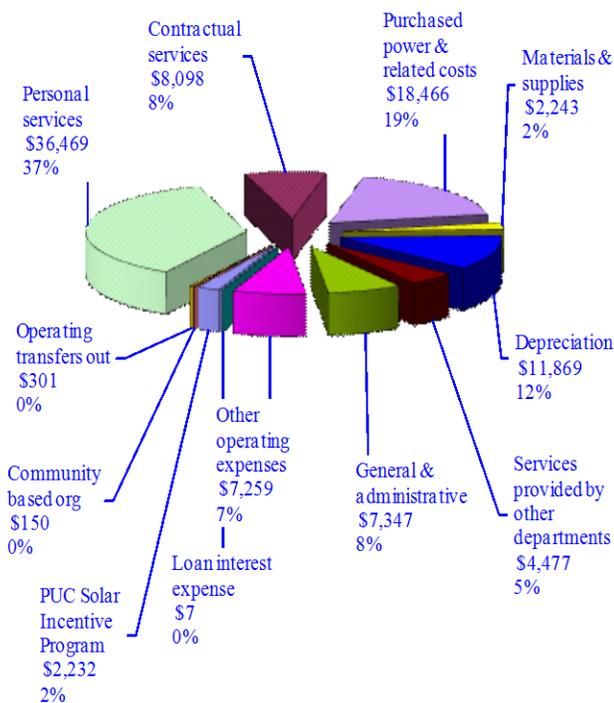
**2009 Revenues - \$ 122,139**



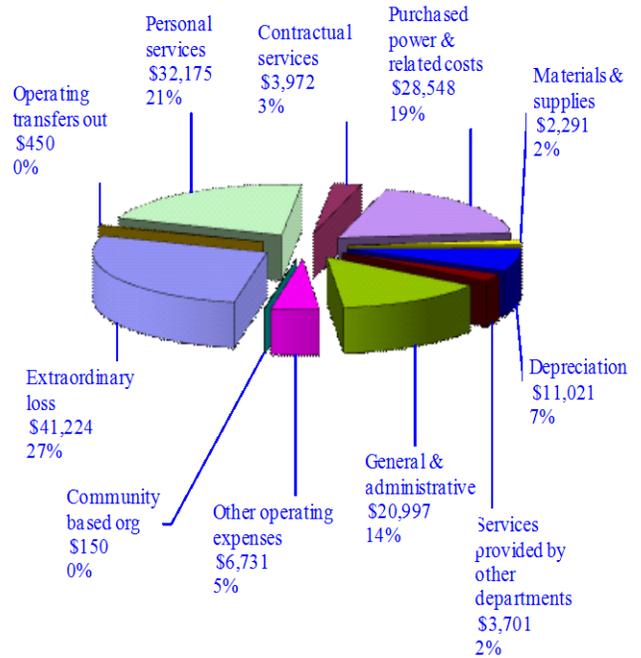
**2008 Revenues - \$ 136,571**



**2009 Expenses - \$ 98,918**



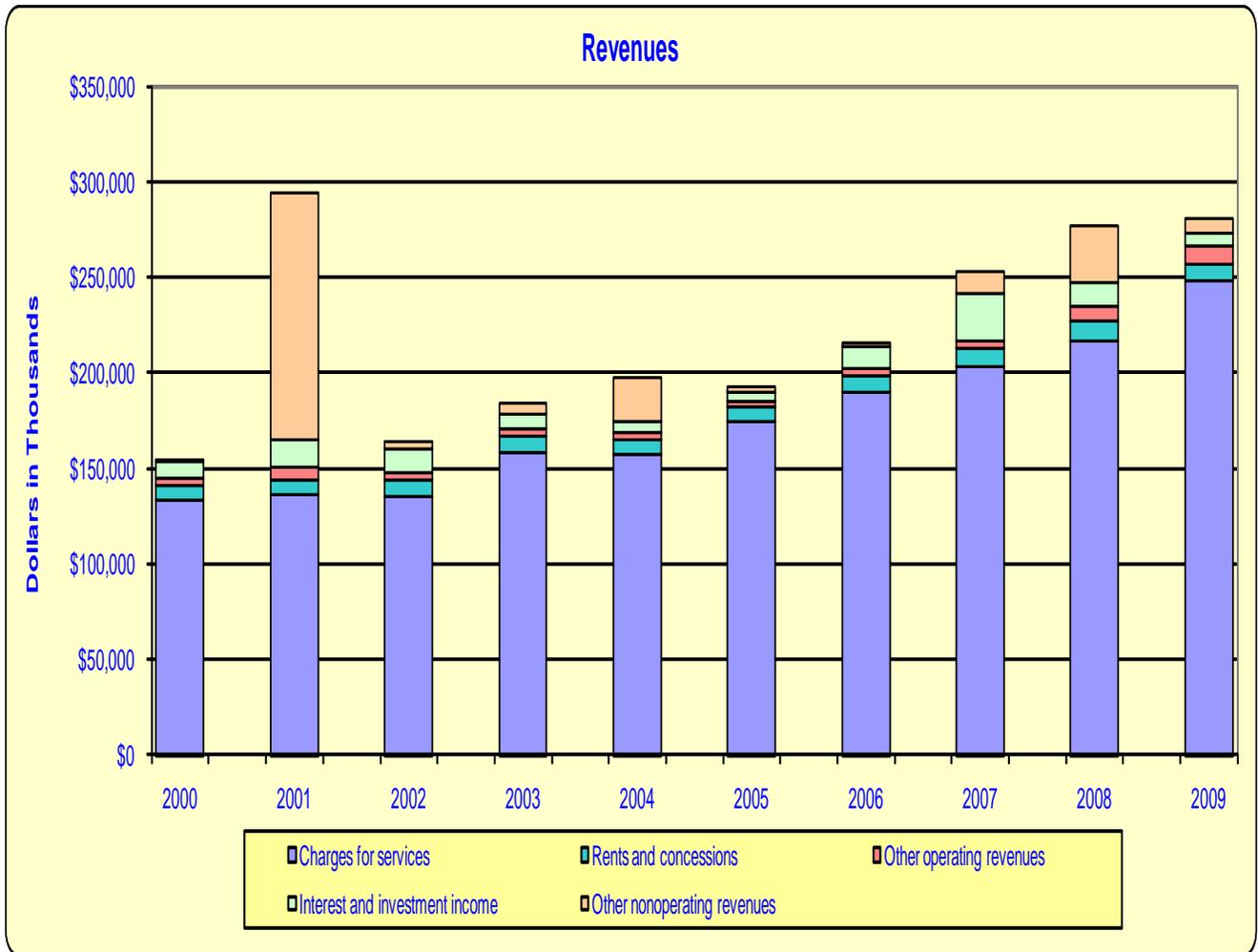
**2008 Expenses - \$ 151,260**



Financial Trends

Summary of Changes in Net Assets - Water  
Fiscal Years Ending 2000 - 2009  
(Dollars in Thousands)

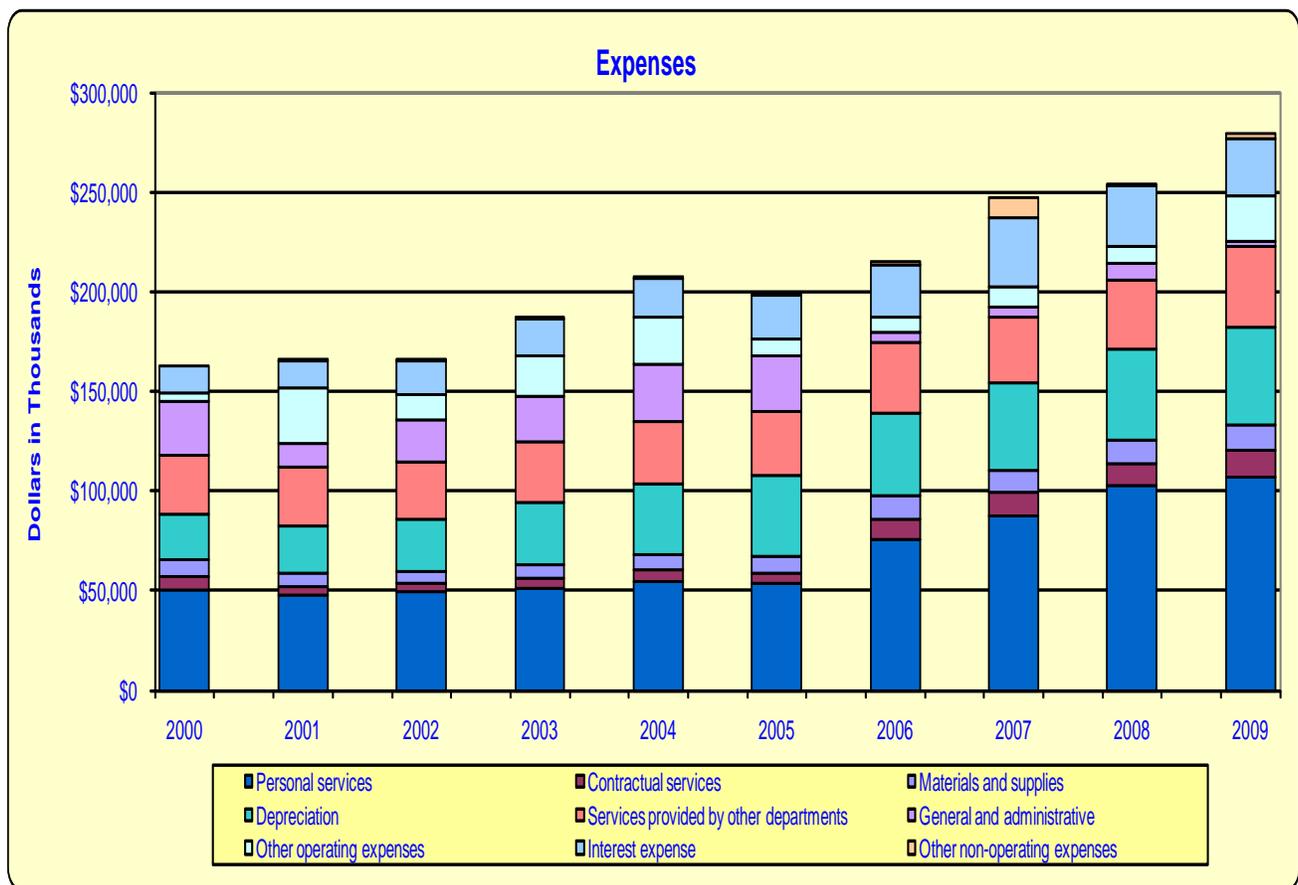
| Revenues:                      | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Charges for services           | \$ 132,551        | 135,779        | 135,139        | 157,727        | 156,660        | 173,884        | 189,603        | 202,787        | 216,819        | 247,664        |
| Rents and concessions          | 7,881             | 8,077          | 8,303          | 8,611          | 8,451          | 7,898          | 8,763          | 9,929          | 9,645          | 9,399          |
| Other operating revenues       | 3,788             | 6,061          | 3,774          | 3,915          | 3,149          | 3,053          | 3,467          | 3,815          | 7,752          | 8,718          |
| Interest and investment income | 8,632             | 15,169         | 12,691         | 7,576          | 6,268          | 5,093          | 11,665         | 24,547         | 12,456         | 7,088          |
| Other nonoperating revenues    | 1,427             | 129,275        | 4,212          | 6,133          | 22,911         | 2,062          | 1,741          | 11,798         | 29,681         | 7,202          |
| <b>Total revenues</b>          | <b>\$ 154,279</b> | <b>294,361</b> | <b>164,119</b> | <b>183,962</b> | <b>197,439</b> | <b>191,990</b> | <b>215,239</b> | <b>252,876</b> | <b>276,353</b> | <b>280,071</b> |



Financial Trends

Summary of Changes in Net Assets - Water  
Fiscal Years Ending 2000 - 2009  
(Dollars in Thousands)

| Expenses:                              | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Personal services                      | \$ 50,523         | 47,671         | 49,676         | 50,859         | 54,627         | 53,683         | 75,941         | 87,200         | 102,233        | 106,869        |
| Contractual services                   | 6,757             | 4,237          | 3,958          | 5,168          | 5,438          | 5,235          | 10,047         | 12,437         | 11,292         | 13,619         |
| Materials and supplies                 | 8,055             | 6,470          | 5,955          | 6,842          | 8,124          | 8,293          | 11,176         | 10,661         | 11,506         | 12,671         |
| Depreciation                           | 22,974            | 24,338         | 25,909         | 31,430         | 35,110         | 40,112         | 41,877         | 43,895         | 45,958         | 49,100         |
| Services provided by other departments | 29,686            | 29,238         | 29,307         | 30,496         | 31,561         | 32,146         | 35,517         | 33,242         | 34,698         | 40,103         |
| General and administrative             | 26,995            | 12,154         | 21,003         | 22,685         | 28,863         | 28,376         | 5,037          | 4,523          | 8,209          | 2,982          |
| Other operating expenses               | 4,416             | 27,937         | 12,622         | 20,043         | 23,655         | 8,608          | 7,339          | 10,540         | 9,156          | 22,971         |
| Interest expense                       | 13,040            | 12,850         | 16,932         | 19,056         | 19,315         | 21,395         | 26,650         | 34,326         | 29,750         | 28,847         |
| Other non-operating expenses           | 0                 | 443            | 470            | 639            | 172            | 549            | 1,608          | 10,540         | 792            | 1,942          |
| <b>Total expenses</b>                  | <b>\$ 162,446</b> | <b>165,338</b> | <b>165,832</b> | <b>187,218</b> | <b>206,865</b> | <b>198,397</b> | <b>215,192</b> | <b>247,364</b> | <b>253,594</b> | <b>279,104</b> |
| Changes in net assets                  | (8,167)           | 129,023        | (1,713)        | (3,256)        | (9,426)        | (6,407)        | 47             | 5,512          | 22,759         | 967            |
| Net assets at beginning of year        | 332,961           | 324,794        | 453,817        | 452,104        | 448,848        | 439,422        | 433,015        | 433,062        | 438,574        | 461,333        |
| <b>Net assets at end of year</b>       | <b>\$ 324,794</b> | <b>453,817</b> | <b>452,104</b> | <b>448,848</b> | <b>439,422</b> | <b>433,015</b> | <b>433,062</b> | <b>438,574</b> | <b>461,333</b> | <b>462,300</b> |



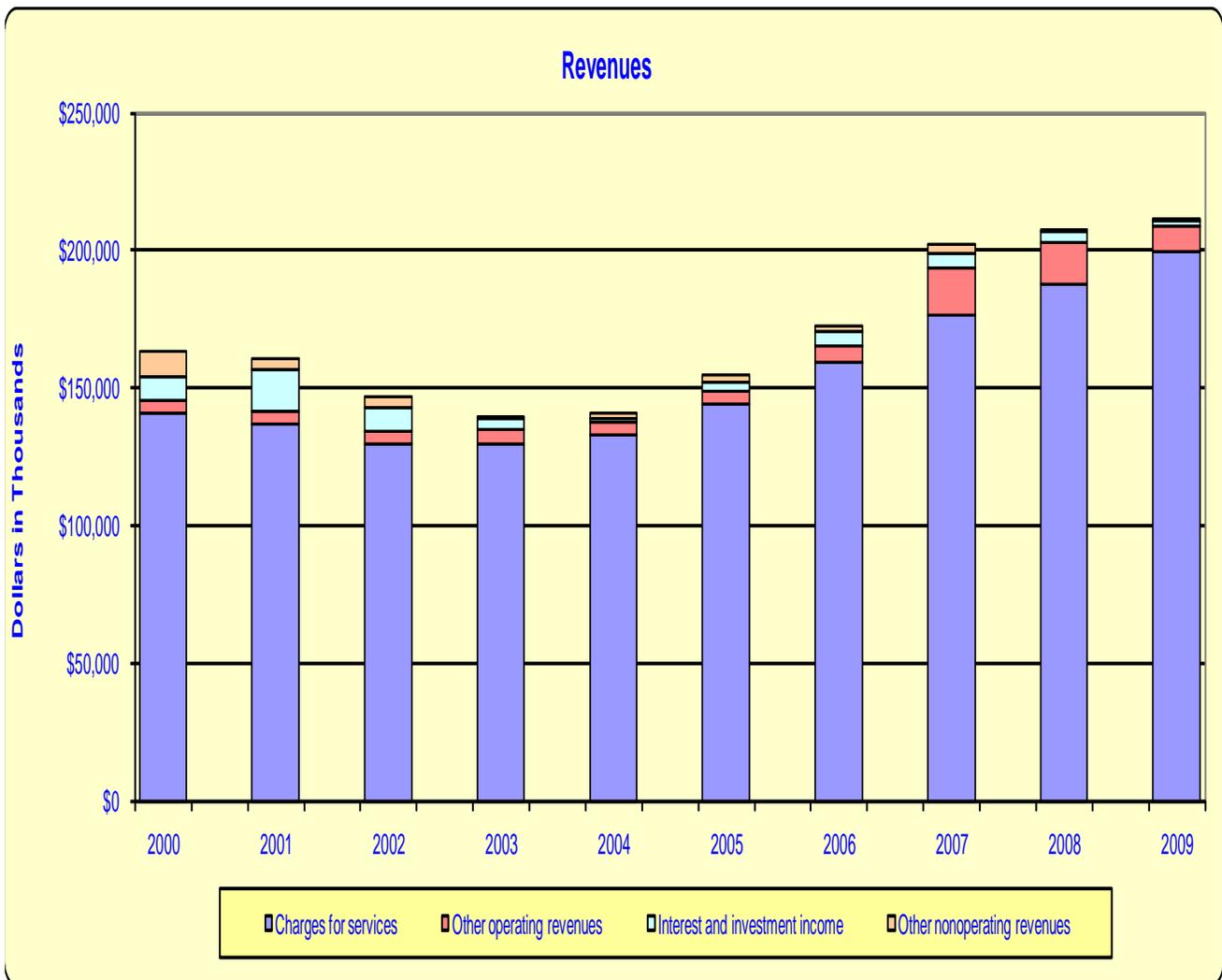
Financial Trends

Summary of Changes in Net Assets - Wastewater

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

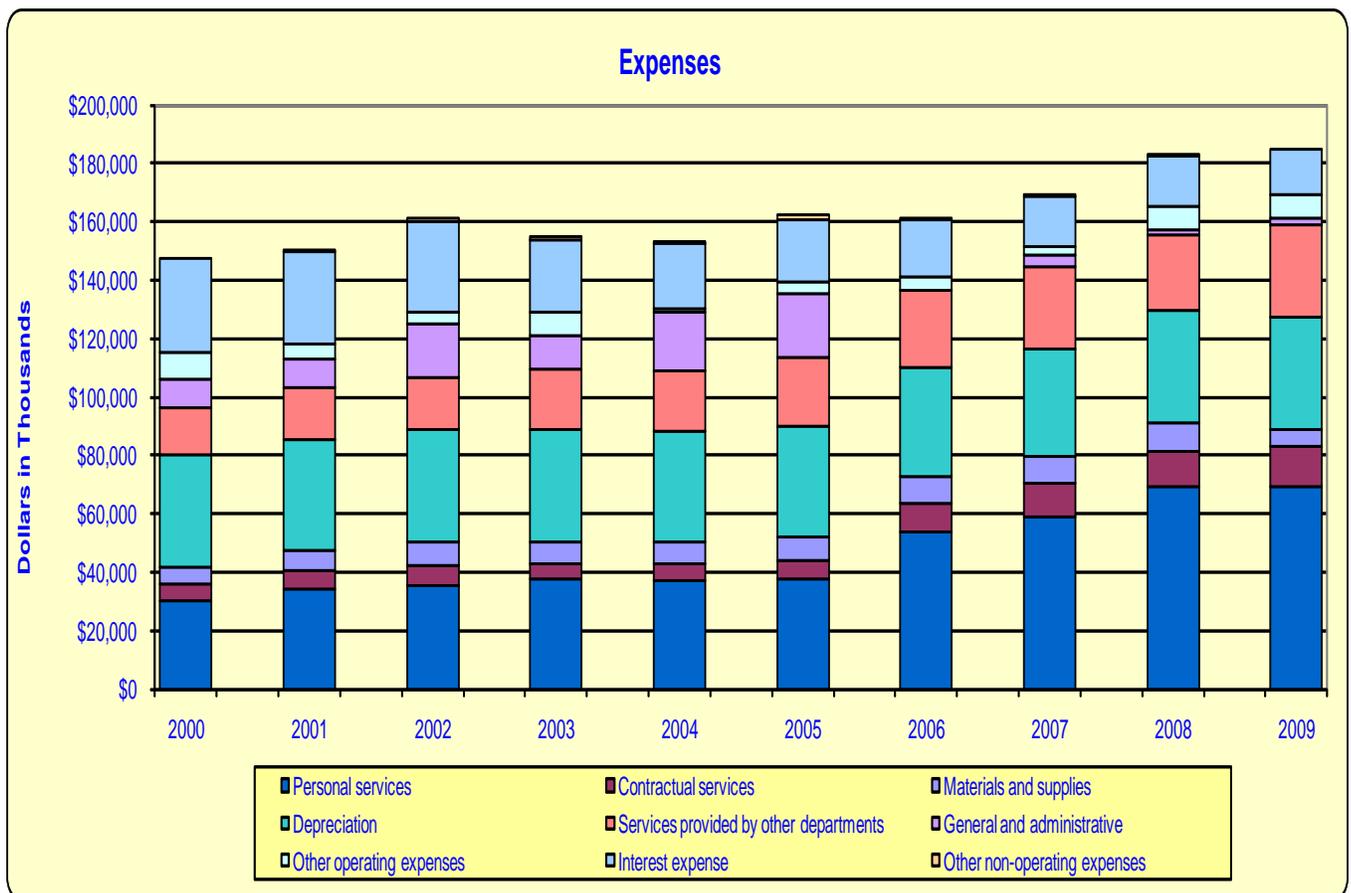
| Revenues:                      | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Charges for services           | \$ 140,878        | 136,821        | 129,925        | 130,013        | 133,160        | 144,348        | 159,281        | 176,344        | 187,810        | 199,332        |
| Other operating revenues       | 4,617             | 4,949          | 4,670          | 4,732          | 4,646          | 4,540          | 5,851          | 17,067         | 14,739         | 9,322          |
| Interest and investment income | 8,674             | 15,275         | 8,116          | 4,123          | 1,036          | 3,093          | 5,385          | 5,749          | 4,099          | 1,992          |
| Other nonoperating revenues    | 9,186             | 3,628          | 3,982          | 548            | 1,974          | 2,487          | 1,802          | 2,986          | 885            | 1,022          |
| <b>Total revenues</b>          | <b>\$ 163,355</b> | <b>160,673</b> | <b>146,693</b> | <b>139,416</b> | <b>140,816</b> | <b>154,468</b> | <b>172,319</b> | <b>202,146</b> | <b>207,533</b> | <b>211,668</b> |



Financial Trends

Summary of Changes in Net Assets - Wastewater  
Fiscal Years Ending 2000 - 2009  
(Dollars in Thousands)

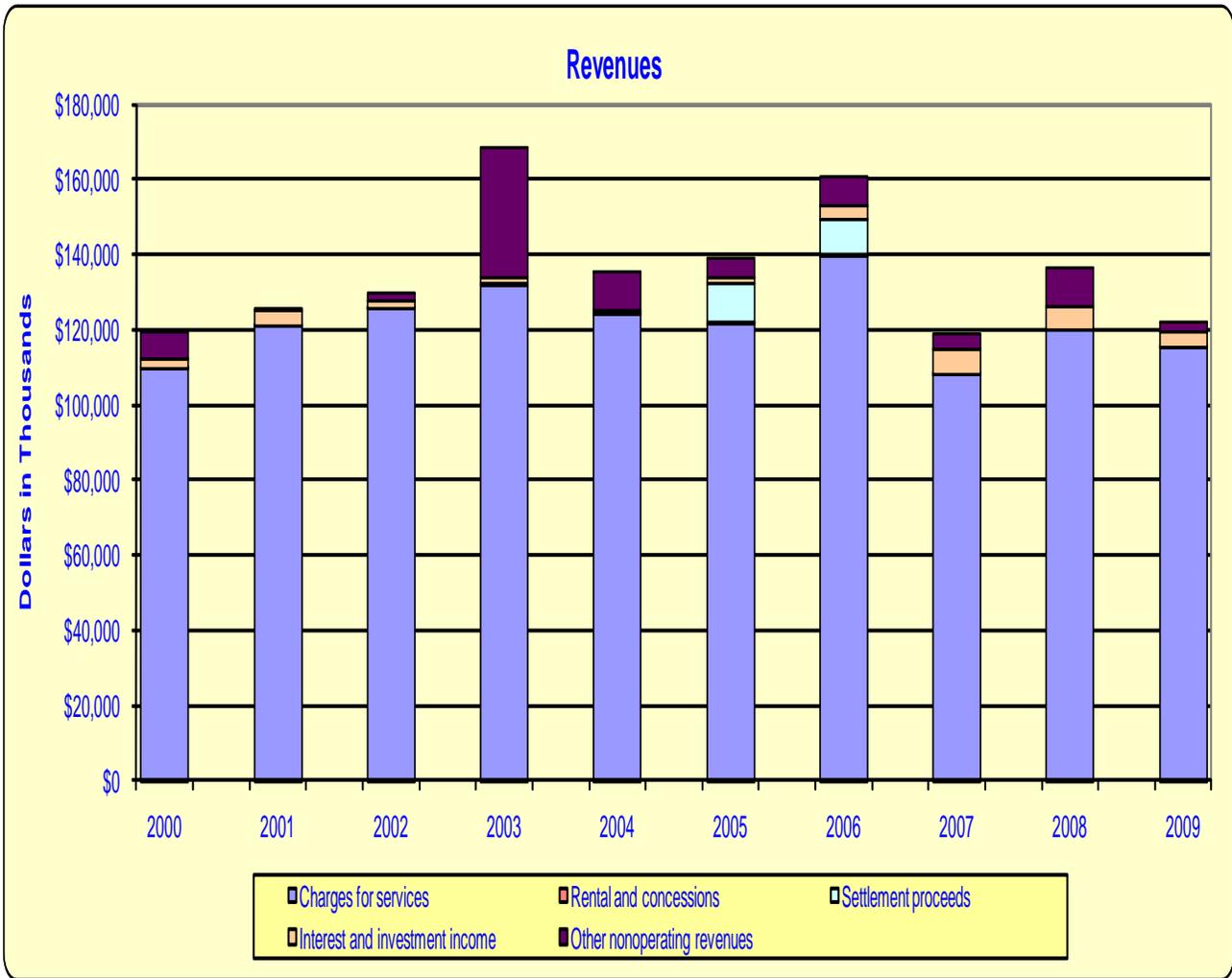
| Expenses:                              | 2000              | 2001           | 2002            | 2003            | 2004            | 2005           | 2006           | 2007           | 2008           | 2009             |
|--|-------------------|----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|------------------|
| Personal services                      | \$ 30,020         | 34,439         | 35,588          | 37,480          | 37,221          | 37,782         | 53,629         | 58,789         | 69,383         | 69,141           |
| Contractual services                   | 5,843             | 5,924          | 6,801           | 5,432           | 5,802           | 6,227          | 10,062         | 11,536         | 11,973         | 13,828           |
| Materials and supplies                 | 6,013             | 7,140          | 7,853           | 7,288           | 7,142           | 8,283          | 9,041          | 9,526          | 9,539          | 5,754            |
| Depreciation                           | 38,169            | 37,938         | 38,306          | 38,369          | 38,094          | 37,800         | 37,228         | 36,683         | 38,758         | 38,815           |
| Services provided by other departments | 16,142            | 17,563         | 17,867          | 20,656          | 20,572          | 23,234         | 26,344         | 28,010         | 26,021         | 31,634           |
| General and administrative             | 9,903             | 10,020         | 18,585          | 11,974          | 20,294          | 22,249         | 0              | 4,143          | 1,719          | 2,302            |
| Other operating expenses               | 9,183             | 4,816          | 3,948           | 7,978           | 791             | 3,715          | 4,650          | 2,913          | 7,852          | 7,826            |
| Interest expense                       | 31,902            | 31,847         | 30,948          | 24,668          | 22,396          | 21,360         | 19,747         | 17,354         | 17,467         | 15,677           |
| Other non-operating expenses           | 0                 | 661            | 1,138           | 1,136           | 267             | 1,803          | 308            | 319            | 158            | 0                |
| <b>Total expenses</b>                  | <b>\$ 147,175</b> | <b>150,348</b> | <b>161,034</b>  | <b>154,981</b>  | <b>152,579</b>  | <b>162,453</b> | <b>161,009</b> | <b>169,273</b> | <b>182,870</b> | <b>184,977</b>   |
| <b>Changes in net assets</b>           | <b>16,180</b>     | <b>10,325</b>  | <b>(14,341)</b> | <b>(15,565)</b> | <b>(11,763)</b> | <b>(7,985)</b> | <b>11,310</b>  | <b>32,873</b>  | <b>24,663</b>  | <b>26,691</b>    |
| Net assets at beginning of year        | 938,216           | 954,396        | 964,721         | 950,380         | 934,815         | 923,052        | 915,067        | 926,377        | 959,250        | 983,913          |
| <b>Net assets at end of year</b>       | <b>\$ 954,396</b> | <b>964,721</b> | <b>950,380</b>  | <b>934,815</b>  | <b>923,052</b>  | <b>915,067</b> | <b>926,377</b> | <b>959,250</b> | <b>983,913</b> | <b>1,010,604</b> |



Financial Trends

Summary of Changes in Net Assets - Hetch Hetchy Water and Power  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in Thousands)

| Revenues:                      | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Charges for services           | \$ 109,584        | 120,863        | 125,573        | 131,963        | 124,243        | 121,604        | 139,627        | 108,009        | 119,630        | 115,028        |
| Rental and concessions         | 127               | 137            | 204            | 227            | 231            | 236            | 234            | 215            | 225            | 246            |
| Settlement proceeds            | 0                 | 0              | 0              | 0              | 0              | 10,463         | 9,639          | 0              | 0              | 0              |
| Interest and investment income | 2,296             | 3,909          | 1,739          | 1,365          | 438            | 1,423          | 3,564          | 6,478          | 6,420          | 4,160          |
| Other nonoperating revenues    | 7,285             | 512            | 2,146          | 35,052         | 10,634         | 5,425          | 7,735          | 4,201          | 10,296         | 2,705          |
| <b>Total revenues</b>          | <b>\$ 119,292</b> | <b>125,421</b> | <b>129,662</b> | <b>168,607</b> | <b>135,546</b> | <b>139,151</b> | <b>160,799</b> | <b>118,903</b> | <b>136,571</b> | <b>122,139</b> |



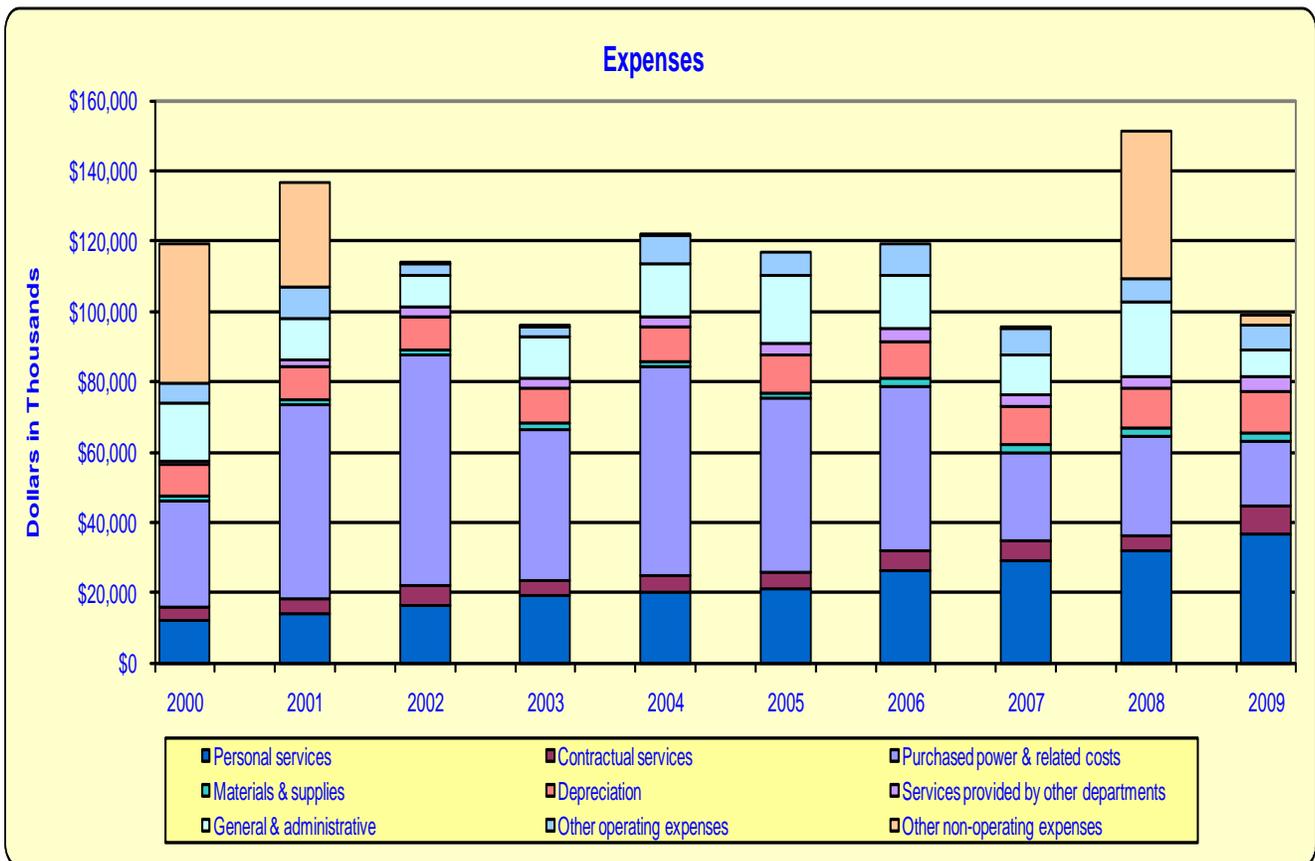
Financial Trends

Summary of Changes in Net Assets - Hetch Hetchy Water and Power

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

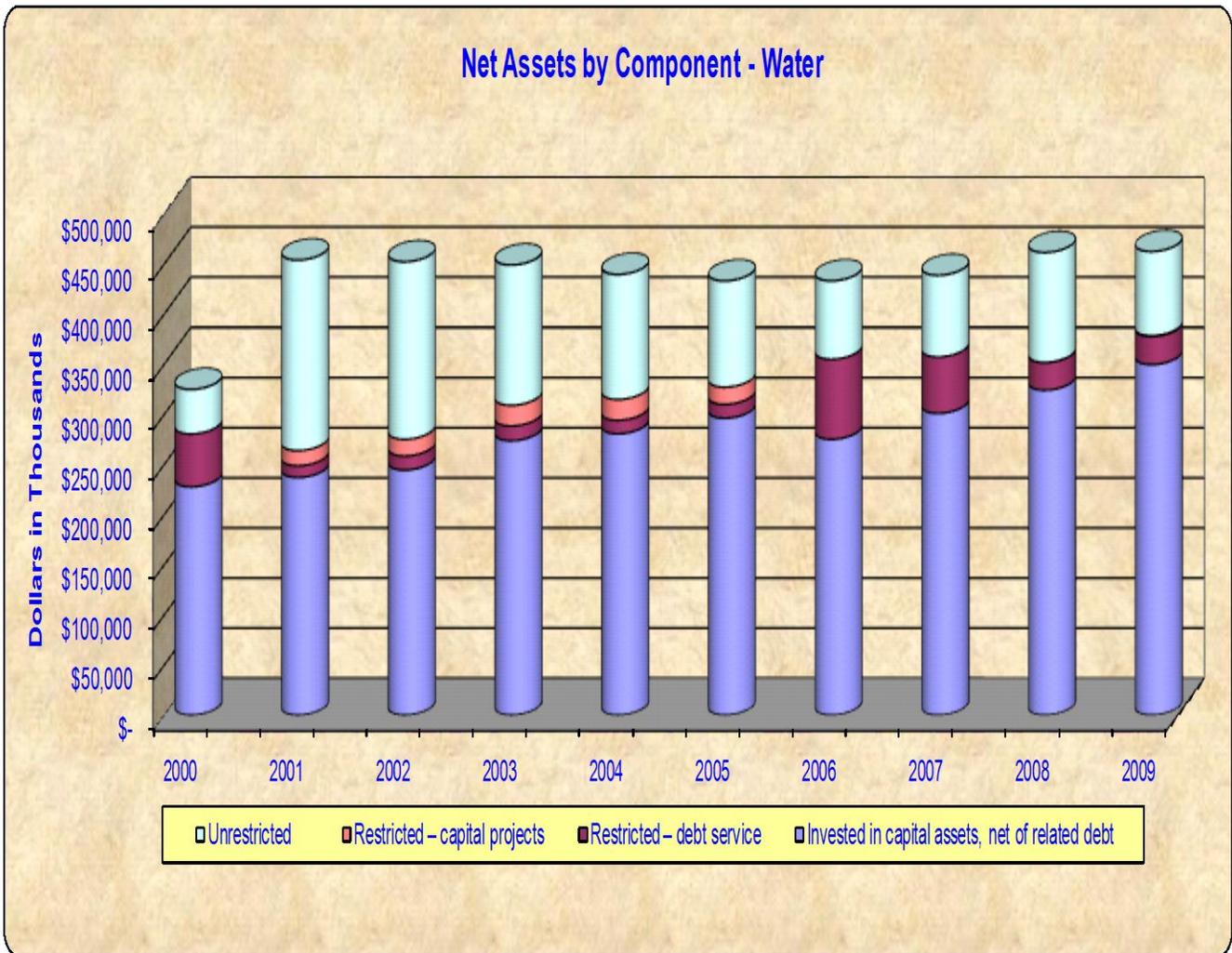
| Expenses:                          | 2000              | 2001            | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008            | 2009           |
|------------------------------------|-------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| Personal services                  | \$ 12,029         | 14,243          | 16,647         | 19,406         | 20,217         | 21,044         | 26,179         | 28,992         | 32,175          | 36,469         |
| Contractual services               | 3,702             | 4,255           | 5,426          | 4,072          | 4,477          | 4,905          | 5,766          | 5,711          | 3,972           | 8,098          |
| Purchased power & related costs    | 30,468            | 54,903          | 65,337         | 43,118         | 59,556         | 49,283         | 46,742         | 24,892         | 28,548          | 18,466         |
| Materials & supplies               | 1,531             | 1,293           | 1,586          | 1,914          | 1,535          | 1,754          | 2,103          | 2,339          | 2,291           | 2,243          |
| Depreciation                       | 8,638             | 9,509           | 9,614          | 9,572          | 9,865          | 10,759         | 10,701         | 10,919         | 11,021          | 11,869         |
| Services provided by other departm | 899               | 2,120           | 2,772          | 2,857          | 2,749          | 3,099          | 3,701          | 3,301          | 3,701           | 4,477          |
| General & administrative           | 16,525            | 11,711          | 8,677          | 11,941         | 15,364         | 19,544         | 15,295         | 11,687         | 20,997          | 7,347          |
| Other operating expenses           | 5,804             | 8,966           | 3,695          | 2,530          | 7,866          | 6,295          | 8,659          | 7,179          | 6,731           | 7,259          |
| Other non-operating expenses       | 39,850            | 29,850          | 382            | 17             | 489            | 0              | 0              | 93             | 41,824          | 2,690          |
| <b>Total expenses</b>              | <b>\$ 119,446</b> | <b>136,850</b>  | <b>114,136</b> | <b>95,427</b>  | <b>122,118</b> | <b>116,683</b> | <b>119,146</b> | <b>95,113</b>  | <b>151,260</b>  | <b>98,918</b>  |
| <b>Changes in net assets</b>       | <b>\$ (154)</b>   | <b>(11,429)</b> | <b>15,526</b>  | <b>73,180</b>  | <b>13,428</b>  | <b>22,468</b>  | <b>41,653</b>  | <b>23,790</b>  | <b>(14,689)</b> | <b>23,221</b>  |
| Net assets at beginning of year    | 257,383           | 257,229         | 245,800        | 261,326        | 334,506        | 347,934        | 370,402        | 412,055        | 435,845         | 421,156        |
| <b>Net assets at end of year</b>   | <b>\$ 257,229</b> | <b>245,800</b>  | <b>261,326</b> | <b>334,506</b> | <b>347,934</b> | <b>370,402</b> | <b>412,055</b> | <b>435,845</b> | <b>421,156</b>  | <b>444,377</b> |



Financial Trends

Summary of Net Assets by Component - Water  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in Thousands)

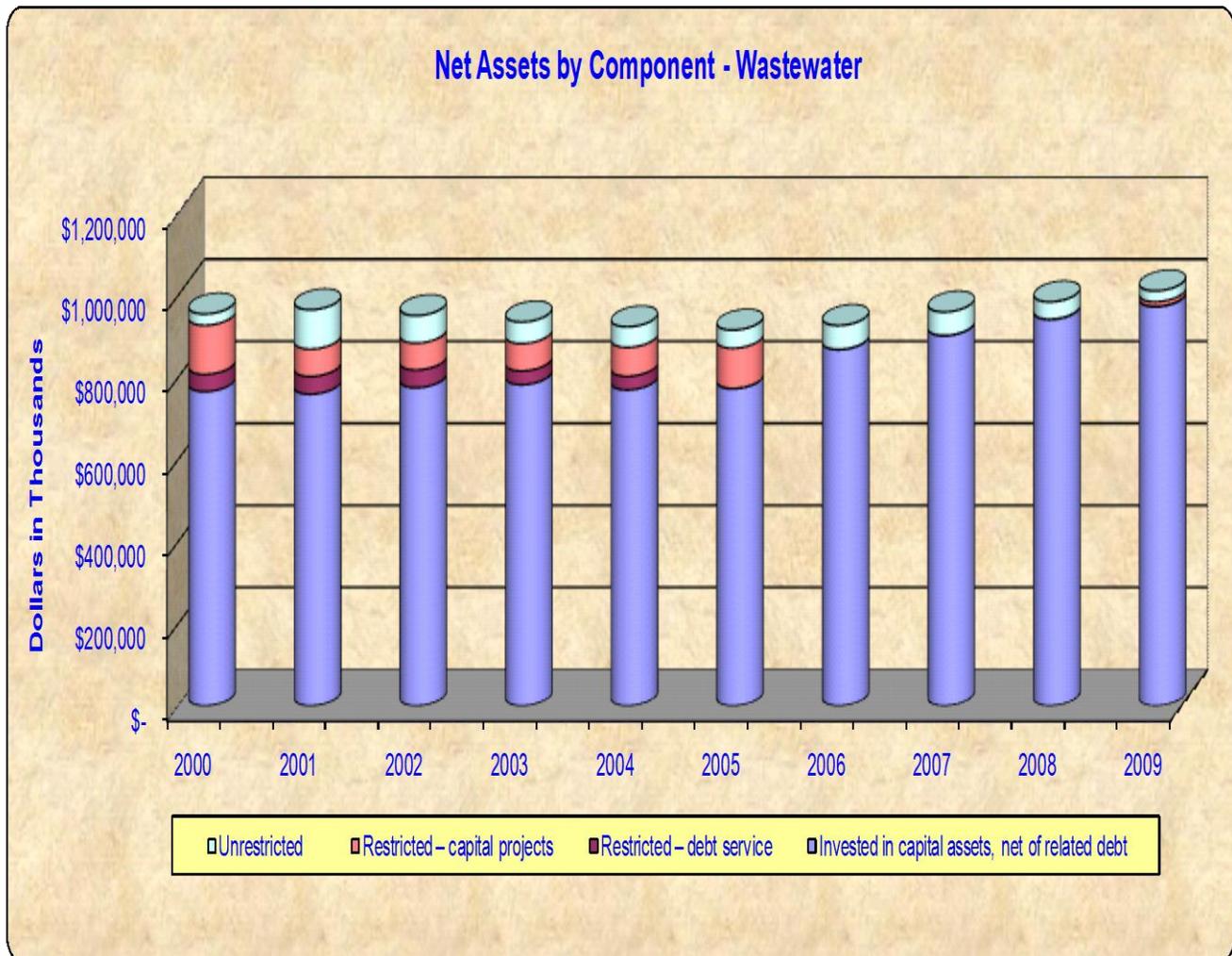
|   | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|---|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Invested in capital assets, net of related debt | \$ 227,678        | 237,035        | 244,416        | 273,644        | 280,602        | 296,107        | 275,038        | 300,996        | 324,091        | 349,629        |
| Restricted – debt service                       | 52,770            | 11,623         | 13,955         | 14,712         | 13,459         | 13,791         | 79,813         | 56,196         | 27,434         | 27,899         |
| Restricted – capital projects                   | -                 | 15,127         | 16,684         | 20,611         | 20,724         | 17,149         | 0              | 0              | 214            | 841            |
| Unrestricted                                    | 44,346            | 190,032        | 177,049        | 139,881        | 124,637        | 105,968        | 78,211         | 81,382         | 109,594        | 83,931         |
| <b>Total net assets</b>                         | <b>\$ 324,794</b> | <b>453,817</b> | <b>452,104</b> | <b>448,848</b> | <b>439,422</b> | <b>433,015</b> | <b>433,062</b> | <b>438,574</b> | <b>461,333</b> | <b>462,300</b> |



Financial Trends

Summary of Net Assets by Component - Wastewater  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in Thousands)

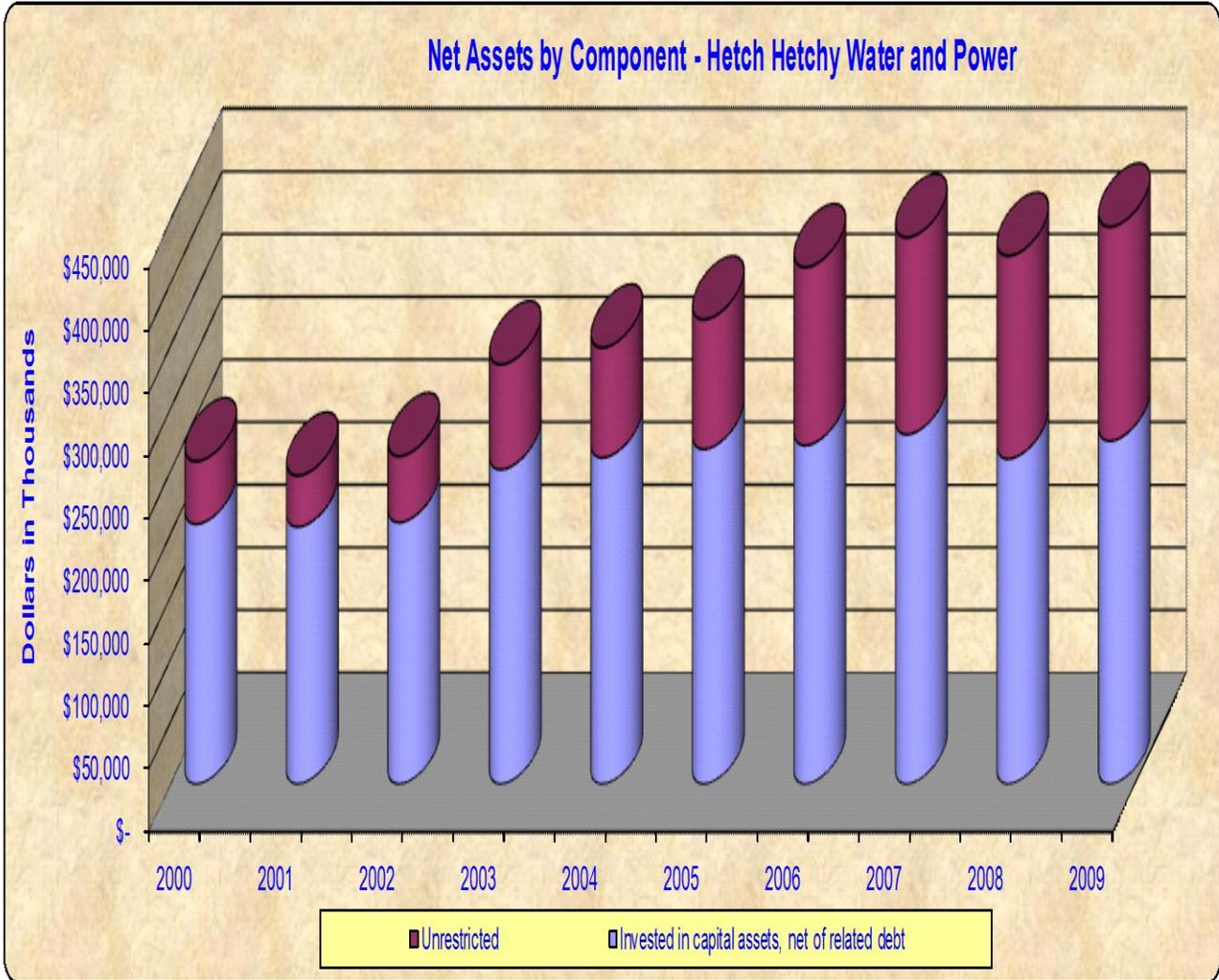
|   | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009             |
|---|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Invested in capital assets, net of related debt | \$ 765,404        | 758,884        | 774,794        | 782,268        | 769,386        | 772,188        | 867,257        | 901,113        | 940,602        | 971,789          |
| Restricted – debt service                       | 41,911            | 43,295         | 43,271         | 33,330         | 33,244         | 807            | 919            | 1,107          | 1,316          | 1,360            |
| Restricted – capital projects                   | 119,480           | 66,698         | 65,301         | 66,679         | 70,410         | 98,002         | 0              | 0              | 0              | 11,126           |
| Unrestricted                                    | 27,601            | 95,844         | 67,014         | 52,538         | 50,012         | 44,070         | 58,201         | 57,030         | 41,995         | 26,329           |
| <b>Total net assets</b>                         | <b>\$ 954,396</b> | <b>964,721</b> | <b>950,380</b> | <b>934,815</b> | <b>923,052</b> | <b>915,067</b> | <b>926,377</b> | <b>959,250</b> | <b>983,913</b> | <b>1,010,604</b> |



Financial Trends

Summary of Net Assets by Component - Hetch Hetchy Water and Power  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in thousands)

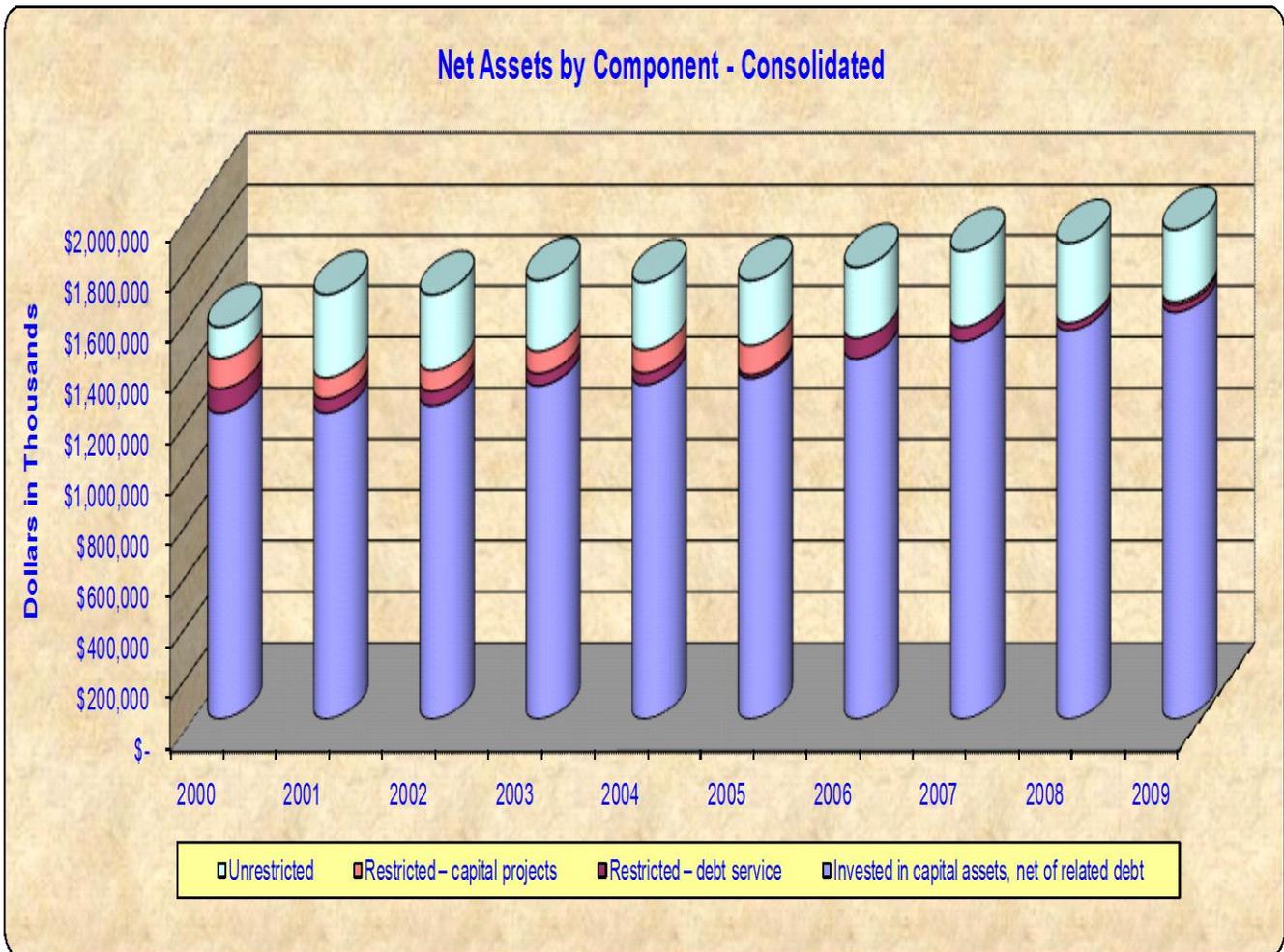
|   | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|---|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Invested in capital assets, net of related debt | \$ 207,276        | 205,071        | 208,658        | 250,798        | 260,261        | 267,009        | 270,073        | 278,820        | 259,376        | 273,639        |
| Unrestricted                                    | 49,953            | 40,729         | 52,668         | 83,708         | 87,673         | 103,393        | 141,982        | 157,025        | 161,780        | 170,738        |
| <b>Total net assets</b>                         | <b>\$ 257,229</b> | <b>245,800</b> | <b>261,326</b> | <b>334,506</b> | <b>347,934</b> | <b>370,402</b> | <b>412,055</b> | <b>435,845</b> | <b>421,156</b> | <b>444,377</b> |



Financial Trends

Summary of Net Assets by Component - Consolidated  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in thousands)

|   | 2000                | 2001             | 2002             | 2003             | 2004             | 2005             | 2006             | 2007             | 2008             | 2009             |
|---|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Invested in capital assets, net of related debt | \$ 1,200,358        | 1,200,990        | 1,227,868        | 1,306,710        | 1,310,249        | 1,335,304        | 1,412,368        | 1,480,929        | 1,524,069        | 1,595,057        |
| Restricted – debt service                       | 94,681              | 54,918           | 57,226           | 48,042           | 46,703           | 14,598           | 80,732           | 57,303           | 28,750           | 29,259           |
| Restricted – capital projects                   | 119,480             | 81,825           | 81,985           | 87,290           | 91,134           | 115,151          | -                | -                | 214              | 11,967           |
| Unrestricted                                    | 121,900             | 326,605          | 296,731          | 276,127          | 262,322          | 253,431          | 278,394          | 295,437          | 313,369          | 280,998          |
| <b>Total net assets</b>                         | <b>\$ 1,536,419</b> | <b>1,664,338</b> | <b>1,663,810</b> | <b>1,718,169</b> | <b>1,710,408</b> | <b>1,718,484</b> | <b>1,771,494</b> | <b>1,833,669</b> | <b>1,866,402</b> | <b>1,917,281</b> |



Financial Trends

Investments in Capital Assets

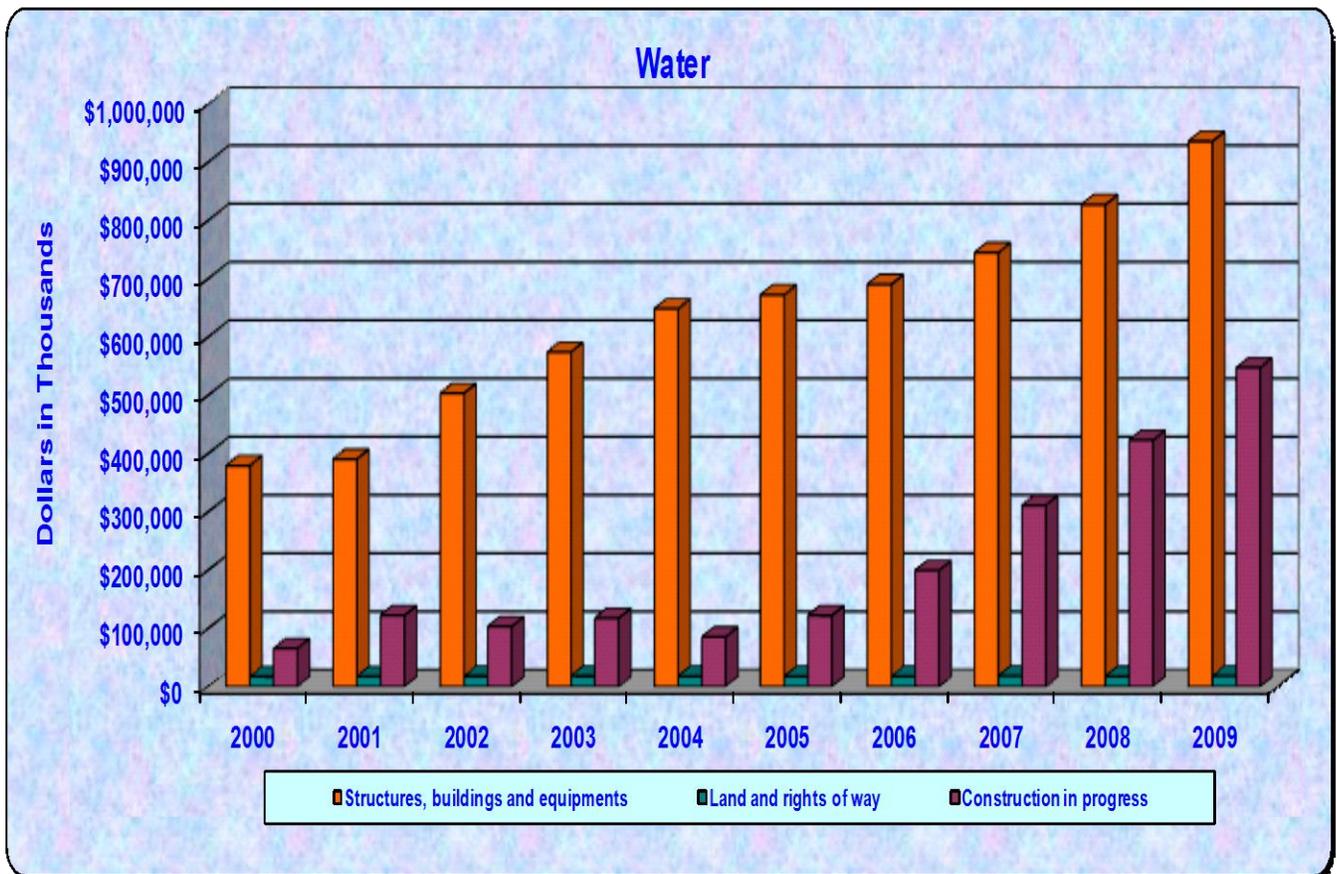
Summary of Property, Plant and Equipment

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

Water

|                                      | 2000              | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007             | 2008             | 2009             |
|--------------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|
| Structures, buildings and equipments | \$ 684,245        | 719,289        | 857,767        | 959,426        | 1,068,407      | 1,132,030      | 1,191,384      | 1,288,657        | 1,416,162        | 1,572,968        |
| Less - Accumulated depreciation      | (305,114)         | (329,032)      | (354,740)      | (385,514)      | (419,924)      | (459,657)      | (501,214)      | (543,777)        | (589,117)        | (637,387)        |
| Subtotal                             | \$ 379,131        | 390,257        | 503,027        | 573,912        | 648,483        | 672,373        | 690,170        | 744,880          | 827,045          | 935,581          |
| Land and rights of way               | 17,217            | 17,436         | 18,083         | 18,112         | 17,929         | 17,929         | 17,929         | 18,277           | 17,886           | 18,386           |
| Construction in progress             | 65,450            | 122,194        | 103,385        | 117,313        | 85,755         | 121,863        | 199,655        | 311,098          | 423,063          | 547,293          |
| <b>Total capital assets, net</b>     | <b>\$ 461,798</b> | <b>529,887</b> | <b>624,495</b> | <b>709,337</b> | <b>752,167</b> | <b>812,165</b> | <b>907,754</b> | <b>1,074,255</b> | <b>1,267,994</b> | <b>1,501,260</b> |



Financial Trends

Investments in Capital Assets

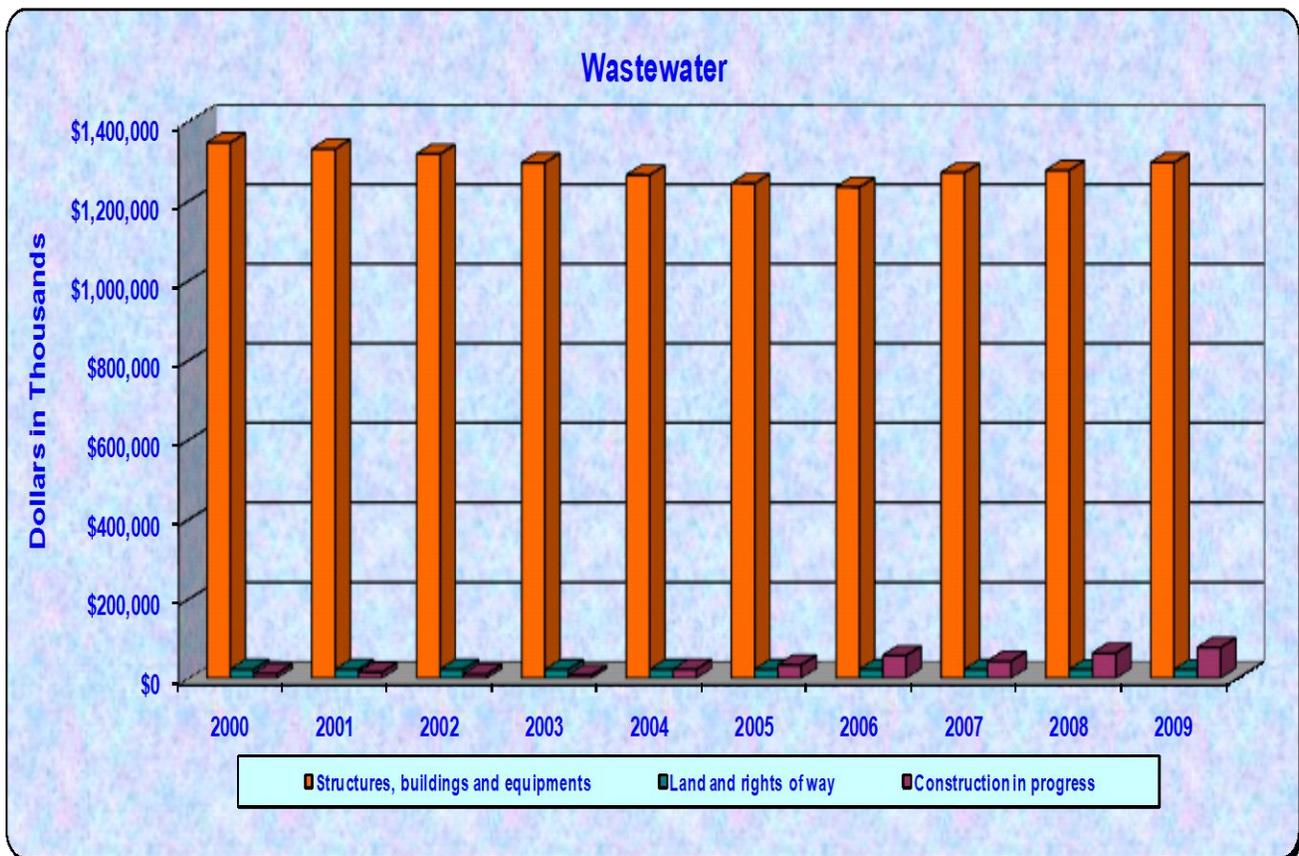
Summary of Property, Plant and Equipment

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

**Wastewater**

|                                      | 2000                | 2001             | 2002             | 2003             | 2004             | 2005             | 2006             | 2007             | 2008             | 2009             |
|--------------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Structures, buildings and equipments | \$ 1,876,171        | 1,898,117        | 1,924,006        | 1,940,274        | 1,947,718        | 1,964,122        | 1,991,941        | 2,065,166        | 2,109,208        | 2,167,395        |
| Less - Accumulated depreciation      | (530,435)           | (568,373)        | (606,679)        | (645,009)        | (683,103)        | (720,903)        | (758,078)        | (794,720)        | (833,109)        | (871,589)        |
| Subtotal                             | \$ 1,345,736        | 1,329,744        | 1,317,327        | 1,295,265        | 1,264,615        | 1,243,219        | 1,233,863        | 1,270,446        | 1,276,099        | 1,295,806        |
| Land and rights of way               | 22,445              | 22,445           | 22,445           | 22,168           | 22,168           | 22,168           | 22,168           | 22,168           | 21,787           | 21,787           |
| Construction in progress             | 11,574              | 14,855           | 10,613           | 8,524            | 22,379           | 33,558           | 56,796           | 42,856           | 62,975           | 77,330           |
| <b>Total capital assets, net</b>     | <b>\$ 1,379,755</b> | <b>1,367,044</b> | <b>1,350,385</b> | <b>1,325,957</b> | <b>1,309,162</b> | <b>1,298,945</b> | <b>1,312,827</b> | <b>1,335,470</b> | <b>1,360,861</b> | <b>1,394,923</b> |



Financial Trends

Investments in Capital Assets

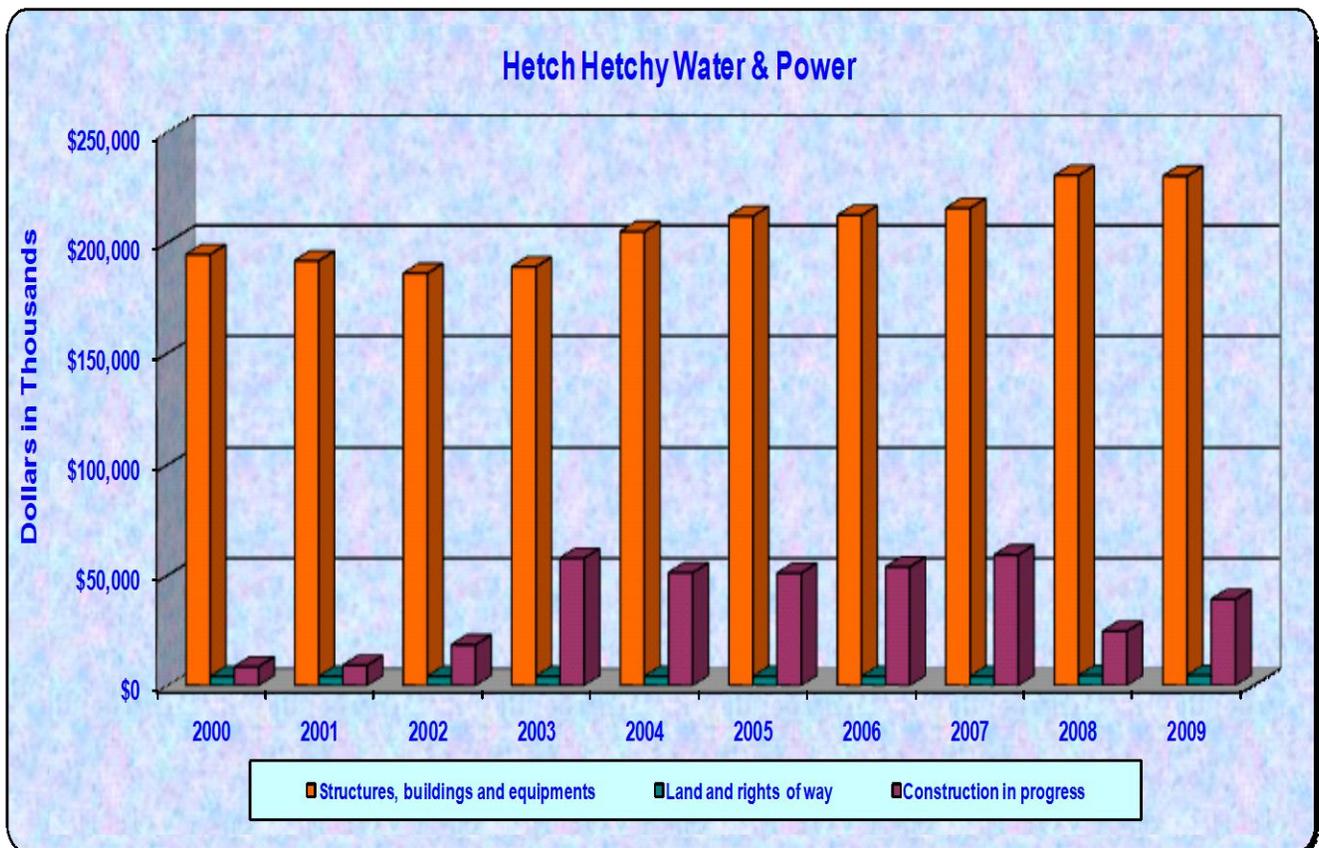
Summary of Property, Plant and Equipment

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

Hetch Hetchy

|                                      | 2000       | 2001      | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      |
|--------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Structures, buildings and equipments | \$ 416,120 | 422,788   | 426,641   | 439,065   | 464,821   | 482,430   | 493,348   | 507,421   | 533,068   | 544,504   |
| Less - Accumulated depreciation      | (221,581)  | (231,089) | (240,659) | (250,146) | (259,872) | (270,542) | (281,120) | (291,941) | (302,803) | (314,506) |
| Subtotal                             | \$ 194,539 | 191,699   | 185,982   | 188,919   | 204,949   | 211,888   | 212,228   | 215,480   | 230,265   | 229,998   |
| Land and rights of way               | 4,215      | 4,215     | 4,215     | 4,215     | 4,215     | 4,215     | 4,215     | 4,215     | 4,594     | 4,676     |
| Construction in progress             | 8,522      | 9,157     | 18,461    | 57,664    | 51,097    | 50,906    | 53,630    | 59,125    | 24,517    | 38,965    |
| Total capital assets, net            | \$ 207,276 | 205,071   | 208,658   | 250,798   | 260,261   | 267,009   | 270,073   | 278,820   | 259,376   | 273,639   |





## **REVENUE CAPACITY**

**Water and Wastewater Historical Average Rate Adjustments**

**Water Rates History**

**Wastewater Rates History**

**Hetch Hetchy Electric Rates History**

**Net Revenue & Debt Service Coverage**

**Revenue Capacity  
Historical Average Rate Adjustments  
Increase/(Decrease)**

| <b>Water</b> | <b>Year</b>            | <b>Retail Rates (%)</b> | <b>Wholesale Rates (%)</b> |
|--------------|------------------------|-------------------------|----------------------------|
|              | July 2000              | 0.0                     | 4.4                        |
|              | July 2001              | 8.7                     | 2.8                        |
|              | July 2002              | 8.6                     | 0.0                        |
|              | July 2003              | 0.0                     | 25.7                       |
|              | July 2004              | 0.0                     | 2.7                        |
|              | July 2005              | 15.0                    | (9.7) <sup>1</sup>         |
|              | July 2006              | 15.0                    | 18.8                       |
|              | July 2007              | 15.0 <sup>2</sup>       | 6.3                        |
|              | July 2008              | 15.0                    | 10.0                       |
|              | July 2009 <sup>3</sup> | 15.0                    | 15.7                       |

<sup>1</sup> Adjustment effective April 1, 2005

<sup>2</sup> Adjustment effective July 14, 2007

<sup>3</sup> July 1, 2009 was the first year of the new twenty-five year wholesale water supply agreement.

| <b>Wastewater</b> | <b>Year</b> | <b>Rates (%)</b> |
|-------------------|-------------|------------------|
|                   | July 2004   | 11.0             |
|                   | July 2005   | 13.0             |
|                   | July 2006   | 13.0             |
|                   | July 2007*  | 8.0              |
|                   | July 2008   | 9.0              |
|                   | July 2009** | 7.0              |

\* Adjustment effective July 14, 2007

\*\* Beginning of five-year rate

Revenue Capacity

Water Rate History

(Per Hundred Cubic Feet of Water Consumption)

| Fiscal Year<br>Ending June 30 | Retail                                       |                  |                         | Wholesale        |                         |
|-------------------------------|--|------------------|-------------------------|------------------|-------------------------|
|                               | Service Charge<br>Rate (\$/ccf) <sup>1</sup> | Volume<br>Charge | % Increase<br>/Decrease | Volume<br>Charge | % Increase<br>/Decrease |
| 2000                          | 3.40   | 1.26             | 0.0                     | 0.82             | 35.0                    |
| 2001                          | 3.40   | 1.26             | 0.0                     | 0.86             | 4.4                     |
| 2002                          | 3.70   | 1.37             | 8.7                     | 0.88             | 2.8                     |
| 2003                          | 4.00   | 1.49             | 8.6                     | 0.88             | 0.0                     |
| 2004                          | 4.00   | 1.49             | 0.0                     | 1.10             | 25.7                    |
| 2005                          | 4.00   | 1.49             | 0.0                     | 1.13             | 2.7                     |
| 2006 <sup>2</sup>             | 4.60   | 1.71             | 15.0                    | 1.02             | (9.4)                   |
| 2007                          | 5.30   | 1.97             | 15.0                    | 1.22             | 18.8                    |

| Fiscal Year<br>Ending June 30 | Retail                                       |                               |                                  |                         | Wholesale        |                         |
|-------------------------------|--|-------------------------------|----------------------------------|-------------------------|------------------|-------------------------|
|                               | Service Charge<br>Rate (\$/ccf) <sup>1</sup> | Volume<br>Charge<br>(0-3 ccf) | Volume<br>Charge<br>(over 3 ccf) | % Increase<br>/Decrease | Volume<br>Charge | % Increase<br>/Decrease |
| 2008                          | 4.60   | 2.08                          | 2.50                             | 15.0                    | 1.30             | 6.3                     |
| 2009                          | 4.70   | 2.28                          | 2.89                             | 15.0                    | 1.43             | 9.5                     |

<sup>1</sup> Monthly service charge for 5/8" meter

<sup>2</sup> Adjustment effective April 1, 2005 for Wholesale volume charge

**Revenue Capacity**  
**Wastewater Rate History**  
(Per Hundred Cubic Feet of Water Consumption)

| Fiscal Year Ending<br>June 30, | Lifeline Rate <sup>1</sup> |            | Regular Residential Rate |            | Non-Residential Rate |            |
|--------------------------------|----------------------------|------------|--------------------------|------------|----------------------|------------|
|                                | Rate (\$/ccf)              | % Increase | Rate (\$/ccf)            | % Increase | Rate (\$/ccf)        | % Increase |
| 2000                           | 1.86                       | 0.0        | 4.83                     | 0.0        | 5.35                 | 0.0        |
| 2001                           | 1.86                       | 0.0        | 4.83                     | 0.0        | 5.35                 | 0.0        |
| 2002                           | 1.86                       | 0.0        | 4.83                     | 0.0        | 5.35                 | 0.0        |
| 2003                           | 1.86                       | 0.0        | 4.83                     | 0.0        | 5.35                 | 0.0        |
| 2004                           | 1.86                       | 0.0        | 4.83                     | 0.0        | 5.35                 | 0.0        |
| 2005                           | 2.15                       | 15.6       | 5.37                     | 11.2       | 5.82                 | 8.8        |

| Fiscal Year Ending<br>June 30, | Tier 1:<br>First 3 Ccf |            | Tier 2:<br>4-5 Ccf |            | Tier 3:<br>6+ Ccf |            | Non-Residential Rate |            |
|--------------------------------|------------------------|------------|--------------------|------------|-------------------|------------|----------------------|------------|
|                                | Rate (\$/ccf)          | % Increase | Rate (\$/ccf)      | % Increase | Rate (\$/ccf)     | % Increase | Rate (\$/ccf)        | % Increase |
| 2006                           | 2.54                   | 6.3        | 6.36               | 6.6        | 7.27              | 21.9       | 7.31                 | 13.0       |
| 2007                           | 2.88                   | 13.4       | 7.19               | 13.1       | 8.22              | 13.1       | 8.26                 | 13.0       |
| 2008 <sup>2</sup>              | 3.14                   | 8.0        | 7.84               | 8.0        | 8.96              | 8.0        | 8.80                 | 6.5        |
| 2009                           | 3.42                   | 9.0        | 8.55               | 9.0        | 9.77              | 9.0        | 9.60                 | 9.0        |

<sup>1</sup> First 300 cubic feet of water consumption per dwelling unit per month are billed at the lifeline rate and all excess use at the regular resident rate.

<sup>2</sup> Adjustment effective July 14, 2007.

Source: San Francisco Public Utilities Commission Annual Disclosure Report

**Revenue Capacity**  
**Hetch Hetchy Electric Rate History**  
**Fiscal Years Ending 2000 to 2009**  
**(Per Kilowatt Hours)**

|  | 2000       | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
|--|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Residential (*)</b>   |            |         |         |         |         |         |         |         |         |         |
| Residential Services (E-1)   | \$ 0.11006 | 0.11006 | 0.14182 | 0.14182 | 0.14182 | 0.13232 | 0.13660 | 0.15818 | 0.16342 | 0.16474 |
| Master-Metered Multifamily Service (EM)  | 0.11006    | 0.11006 | 0.14182 | 0.14182 | 0.14182 | 0.13232 | 0.13660 | 0.15818 | 0.16342 | 0.16474 |
| Multifamily Service (ES)   | 0.11006    | 0.11006 | 0.14182 | 0.14182 | 0.14182 | 0.13232 | 0.13660 | 0.15818 | 0.16342 | 0.16474 |
| <b>Commercial</b>  |            |         |         |         |         |         |         |         |         |         |
| Small General Service (A-1)  | 0.12111    | 0.12111 | 0.17668 | 0.17668 | 0.17668 | 0.15670 | 0.15483 | 0.16326 | 0.16716 | 0.16528 |
| Medium General Demand-Metered Service (A-10)   | 0.09904    | 0.09904 | 0.15430 | 0.15430 | 0.15430 | 0.14125 | 0.13707 | 0.14700 | 0.14497 | 0.13764 |
| Medium General Demand-Metered TOU Service (E-19)   | 0.08825    | 0.08825 | 0.13972 | 0.13972 | 0.13972 | 0.12608 | 0.12328 | 0.12305 | 0.11855 | 0.11353 |
| <b>Industrial</b>  |            |         |         |         |         |         |         |         |         |         |
| Service to Customers with Maximum Demand of 1,000 Kilowatts or More - Secondary Voltage (E-20S)    | 0.08334    | 0.08334 | 0.13479 | 0.13479 | 0.13479 | 0.12332 | 0.12036 | 0.12996 | 0.12624 | 0.11475 |
| Service to Customers with Maximum Demand of 1,000 Kilowatts or More - Primary Voltage (E-20P)      | 0.07012    | 0.07012 | 0.12156 | 0.12156 | 0.12156 | 0.10806 | 0.10412 | 0.11209 | 0.10750 | 0.10460 |
| Service to Customers with Maximum Demand of 1,000 Kilowatts or More - Transmission Voltage (E-20T) | 0.05132    | 0.05132 | 0.10266 | 0.10266 | 0.10266 | 0.08882 | 0.08451 | 0.08996 | 0.08140 | 0.08230 |
| <b>City General Fund Departments</b>   | 0.03125    | 0.03125 | 0.03750 | 0.03750 | 0.03750 | 0.03750 | 0.03750 | 0.03750 | 0.03750 | 0.03750 |
| <b>Street Lights</b>   |            |         |         |         |         |         |         |         |         |         |
| Customer-Owned Street and Highway Lighting Electrolier Meter Rate (LS-3)                           | 0.12648    | 0.12648 | 0.12648 | 0.12648 | 0.12648 | 0.09979 | 0.10140 | 0.11936 | 0.12537 | 0.11279 |
| City-Owned Street Lights (**)  | 0.00000    | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |
| <b>Traffic Signals</b>   |            |         |         |         |         |         |         |         |         |         |
| Traffic Control Service (TC-1)   | 0.15682    | 0.15682 | 0.15682 | 0.15682 | 0.15682 | 0.12169 | 0.12913 | 0.14192 | 0.14702 | 0.11942 |

(\*) Residential rates shown from Fiscal Years Ending 2000 to 2009 are for customers up north in Moccasin.

(\*\*) Power historically provided at no charge.

Note: The rates shown for each year are rates charged in the month of July, and may change during the year.

Source: Pacific Gas & Electric Rate Schedule

## Revenue Capacity

## Water - Net Revenue and Debt Service Coverage

Fiscal Years Ending 2000 - 2009

(Dollars in Thousands)

|   | 2000       | 2001    | 2002    | 2003    | 2004    | 2005    | 2006     | 2007    | 2008    | 2009    |
|---|------------|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| Operating & investment revenue                    | \$ 152,852 | 165,086 | 159,907 | 177,829 | 174,528 | 189,928 | 213,499  | 241,078 | 246,885 | 272,869 |
| Operating & maintenance expense                   | 149,406    | 152,045 | 148,430 | 167,523 | 187,378 | 176,453 | 186,934  | 202,498 | 223,052 | 248,315 |
| Adjustment to investing activities <sup>(1)</sup> | 2,088      | (372)   | (1,506) | 3,446   | 5,709   | 2,429   | (1,272)  | (212)   | 6,971   | 2,021   |
| Depreciation & non-cash expenses                  | 22,974     | 47,121  | 29,683  | 34,945  | 57,843  | 48,552  | 46,286   | 52,631  | 54,295  | 54,055  |
| Changes in working capital                        | 16,322     | (1,738) | 24,253  | (3,599) | (2,377) | (9,619) | (26,441) | 2,814   | 7,605   | 2,348   |
| Net revenue                                       | \$ 44,830  | 58,052  | 63,907  | 45,098  | 48,325  | 54,837  | 45,138   | 93,813  | 92,704  | 82,978  |
| Other available funds <sup>(2)</sup>              | 29,897     | 35,514  | 176,884 | 60,082  | 41,715  | 92,065  | 63,888   | 56,868  | 65,344  | 66,779  |
| Funds available for revenue bond debt service     | \$ 74,727  | 93,566  | 240,791 | 105,180 | 90,040  | 146,902 | 109,026  | 150,681 | 158,048 | 149,757 |
| Revenue bond debt service                         | \$ 20,073  | 20,063  | 25,164  | 31,634  | 37,882  | 37,994  | 35,374   | 65,115  | 64,193  | 69,585  |
| Revenue bond debt service coverage                | 3.72       | 4.66    | 9.57    | 3.32    | 2.38    | 3.87    | 3.08     | 2.31    | 2.46    | 2.15    |

<sup>(1)</sup> Adjustment of Investing Activities and Non-operating Revenues to cash basis.

<sup>(2)</sup> As per the Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of all funds except for Trust and Agency Fund not budgeted to be spent in such 12 months and legally available to pay debt service.

Source: San Francisco Public Utilities Commission Annual Disclosure Reports.

**Revenue Capacity**  
**Wastewater - Net Revenue and Debt Service Coverage**  
**Fiscal Years Ending 2000 - 2009**  
**(Dollars in Thousands)**

|   | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008        | 2009        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operating & investment revenue                    | \$ 154,169  | 157,045     | 142,711     | 138,868     | 138,842     | 151,981     | 170,517     | 199,160     | 206,648     | 210,646     |
| Operating & maintenance expense                   | 115,273     | 117,840     | 128,948     | 129,177     | 129,916     | 139,290     | 140,954     | 151,600     | 165,245     | 169,300     |
| Adjustment to investing activities <sup>(1)</sup> | 156         | (2,994)     | (1,836)     | (1,051)     | 535         | (256)       | (361)       | (959)       | 1,297       | 161         |
| Depreciation & non-cash expenses                  | 37,669      | 37,938      | 38,306      | 38,977      | 40,836      | 39,504      | 38,643      | 37,461      | 40,395      | 41,429      |
| Changes in working capital                        | 832         | 4,941       | 10,134      | 98          | 4,538       | 3,192       | (3,859)     | (2,461)     | 6,223       | 4,699       |
| State revolving fund loan payments                | (16,554)    | (18,381)    | (20,133)    | (20,132)    | (20,132)    | (20,132)    | (20,132)    | (20,132)    | (16,505)    | (16,505)    |
| Net revenue                                       | \$ 60,999   | 60,709      | 40,234      | 27,583      | 34,703      | 34,999      | 43,854      | 61,469      | 72,813      | 71,130      |
| Other available funds <sup>(2)</sup>              | 25,996      | 99,027      | 71,212      | 39,334      | 31,684      | 14,392      | 21,497      | 35,691      | 34,699      | 48,016      |
| Funds available for revenue bond debt service     | \$ 86,995   | 159,736     | 111,446     | 66,917      | 66,387      | 49,391      | 65,351      | 97,160      | 107,512     | 119,146     |
| Revenue bond debt service                         | \$ 47,685   | 48,059      | 47,283      | 36,074      | 20,233      | 17,219      | 17,219      | 50,163      | 50,198      | 50,311      |
| <b>Revenue bond debt service coverage</b>         | <b>1.82</b> | <b>3.32</b> | <b>2.36</b> | <b>1.85</b> | <b>3.28</b> | <b>2.87</b> | <b>3.80</b> | <b>1.94</b> | <b>2.14</b> | <b>2.37</b> |

<sup>(1)</sup> Adjustment of Investing Activities to cash basis.

<sup>(2)</sup> As per the Indenture, in addition to current year cash flow, the coverage calculation permits the inclusion of all funds except for Trust and Agency Fund not budgeted to be spent in such 12 months and legally available to pay debt service.

Source: San Francisco Public Utilities Commission Annual Disclosure Reports.

Revenue Capacity  
 Hetch Hetchy - Net Revenue and Debt Service Coverage  
 Fiscal Years Ending 2000 - 2009  
 (Dollars in Thousands)

|   | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009                 |
|---|------|------|------|------|------|------|------|------|------|----------------------|
| Operating & investment revenue                    |      |      |      |      |      |      |      |      |      | \$ 94,966            |
| Operating & maintenance expense                   |      |      |      |      |      |      |      |      |      | 49,307               |
| Adjustment to investing activities <sup>(1)</sup> |      |      |      |      |      |      |      |      |      | 2,705                |
| Depreciation & non-cash expenses                  |      |      |      |      |      |      |      |      |      | 8,279                |
| Changes in working capital                        |      |      |      |      |      |      |      |      |      | (3,409)              |
| State revolving fund loan payments                |      |      |      |      |      |      |      |      |      |                      |
| Net revenue                                       |      |      |      |      |      |      |      |      |      | <u>\$ 53,234</u>     |
| Other available funds <sup>(2)</sup>              |      |      |      |      |      |      |      |      |      | -                    |
| Funds available for revenue bond debt service     |      |      |      |      |      |      |      |      |      | <u>\$ 53,234</u>     |
| Revenue bond debt service                         |      |      |      |      |      |      |      |      |      | <u>\$ 422</u>        |
| <b>Revenue bond debt service coverage</b>         |      |      |      |      |      |      |      |      |      | <u><u>126.15</u></u> |

No debt service prior to fiscal year 2009

<sup>(1)</sup> Adjustment of Investing Activities and Non-operating Revenues to cash basis.

<sup>(2)</sup> No Fund Balance assumed available in Debt Service Coverage calculation, as no Indenture provision currently applies.

Source: San Francisco Public Utilities Commission Annual Disclosure Reports.



## **DEBT CAPACITY**

Debt Ratings

Summary of Debt Outstanding

History of Outstanding Debt by Type

Water - Principal and Interest Payments for Debt Issues

Wastewater - Principal and Interest Payments for Debt Issues

Hetch Hetchy - Principal Payments for Debt Issues

**Debt Capacity**  
**Debt Ratings**  
**As of June 30, 2009**

| <b>Debt by Type</b>   | <b>Rating by</b>                         |                                  |
|---|--|----------------------------------|
|   | <b>Moody's<br/>Investors<br/>Service</b> | <b>Standard &amp;<br/>Poor's</b> |
| <b>Water</b>  |  |                                  |
| Revenue bonds   | A1                                       | AA-                              |
| Commercial paper - \$250 million tax-exempt                 | P-1                                      | A-1                              |
| Commercial paper - \$250 million tax-exempt and taxable (*) | P-1                                      | A-1+                             |
| <b>Wastewater</b>   |  |                                  |
| Revenue bonds   | A2                                       | A+                               |
| Commercial paper - \$150 million tax-exempt                 | P-1                                      | A-1+                             |

\* These ratings became effective on October 30, 2009.

Source: Rating agency reports

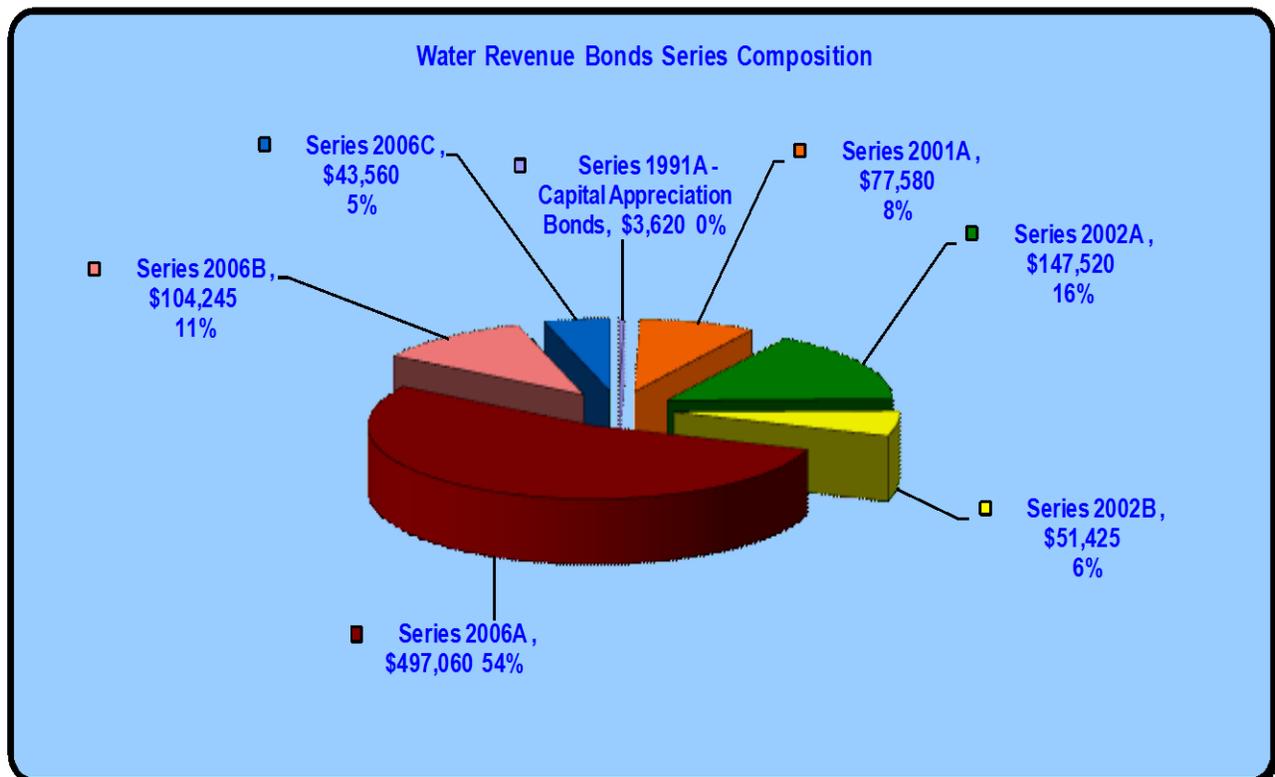
**Debt Capacity**

**Water - Summary of Debt Outstanding**

As of June 30, 2009  
(Dollars in Thousands)

**Revenue Bonds & Commercial Paper**

| <b>Revenue bonds</b>                      | <b>Amount</b>             | <b>Use of proceeds</b>                               |
|---|---------------------------|--|
| Series 1991A - Capital Appreciation Bonds | \$ 3,620                  | Repair and Replacement of Water Facilities           |
| Series 2001A                              | 77,580                    | System Reliability Project and Safe Water Project    |
| Series 2002A                              | 147,520                   | System Reliability Project and Safe Water Project    |
| Series 2002B                              | 51,425                    | Refunded 1992 Bonds                                  |
| Series 2006A                              | 497,060                   | Water System Improvement Program, Prop A (Nov. 2002) |
| Series 2006B                              | 104,245                   | Refunded part of 1996 Bonds and 2001 Bonds           |
| Series 2006C                              | 43,560                    | Refunded remainder of 1996 Bonds                     |
| <b>Commercial Paper</b>                   | <b>229,600</b>            | <b>\$250 million authorization</b>                   |
| <b>Total Water debt outstanding</b>       | <b><u>\$1,154,610</u></b> |  |



## Debt Capacity

## Summary of Debt Outstanding

As of June 30, 2009

(Dollars in Thousands)

## Wastewater

Revenue Bonds, Commercial Paper & Loans

## Revenue bonds

Series 2003A \$ 292,660 Refunded 1992, 1994, and 1995 Bonds

Commercial paper \$ 100,000 \$150 million authorization, BNP Letter of Credit

State loans \$ 75,339 SRF loans issued from 1990 - 2001

|  |                   |  |
|--|-------------------|--|
| <b>Total Wastewater debt outstanding</b> | <b>\$ 467,999</b> |  |
|--|-------------------|--|

## Hetch Hetchy Water &amp; Power

## Revenue bonds

Clean Renewable Energy Bond (CREB) \$ 5,903 Installation of Solar energy projects on City facilities

|  |                 |  |
|--|-----------------|--|
| <b>Total Hetch Hetchy debt outstanding</b> | <b>\$ 5,903</b> |  |
|--|-----------------|--|

Debt Capacity

History of Outstanding Debt by Type (Principal Payments Only)

Fiscal Year Ending June 30 - 2000 to 2009

(Dollars in Thousands)

Water

| <u>Fiscal Year Ending</u> | <u>Revenue Bonds (*)</u> | <u>Commercial Paper</u> | <u>Total</u> | <u>Number of Customer Accounts</u> | <u>Debt per Customer Account</u> |
|---------------------------|--------------------------|-------------------------|--------------|------------------------------------|----------------------------------|
| 2000                      | \$229,880                | \$20,000                | \$249,880    | 169,318                            | \$1.48                           |
| 2001                      | 224,525                  | 75,000                  | 299,525      | 169,735                            | 1.76                             |
| 2002                      | 358,870                  | 90,000                  | 448,870      | 170,133                            | 2.64                             |
| 2003                      | 512,435                  | -                       | 512,435      | 170,495                            | 3.01                             |
| 2004                      | 501,025                  | 25,000                  | 526,025      | 170,961                            | 3.08                             |
| 2005                      | 486,970                  | 80,000                  | 566,970      | 171,281                            | 3.31                             |
| 2006                      | 981,765                  | -                       | 981,765      | 171,808                            | 5.71                             |
| 2007                      | 966,080                  | -                       | 966,080      | 172,236                            | 5.61                             |
| 2008                      | 946,910                  | -                       | 946,910      | 172,528                            | 5.49                             |
| 2009                      | 921,390                  | 229,600                 | 1,150,990    | 172,911                            | 6.66                             |

Wastewater

| <u>Fiscal Year Ending</u> | <u>Revenue Bonds</u> | <u>State Loans Payable</u> | <u>Commercial Paper</u> | <u>Total</u> | <u>Number of Customer Accounts</u> | <u>Debt per Customer Account</u> |
|---------------------------|----------------------|----------------------------|-------------------------|--------------|------------------------------------|----------------------------------|
| 2000                      | \$491,283            | \$180,296                  | \$ -                    | \$671,579    | 168,694                            | \$3.98                           |
| 2001                      | 469,883              | 193,597                    | -                       | 663,480      | 169,097                            | 3.92                             |
| 2002                      | 418,808              | 179,591                    | -                       | 598,399      | 169,525                            | 3.53                             |
| 2003                      | 396,270              | 165,125                    | -                       | 561,395      | 169,898                            | 3.30                             |
| 2004                      | 396,270              | 150,196                    | -                       | 546,466      | 170,339                            | 3.21                             |
| 2005                      | 396,270              | 134,783                    | -                       | 531,053      | 170,681                            | 3.11                             |
| 2006                      | 396,270              | 118,869                    | -                       | 515,139      | 171,183                            | 3.01                             |
| 2007                      | 362,825              | 102,438                    | 50,000                  | 515,263      | 171,613                            | 3.00                             |
| 2008                      | 328,325              | 89,101                     | 50,000                  | 467,426      | 171,900                            | 2.72                             |
| 2009                      | 292,660              | 75,339                     | 100,000                 | 467,999      | 172,321                            | 2.72                             |

Hetch Hetchy Water & Power

| <u>Fiscal Year Ending</u> | <u>Clean Renewable Energy Bond</u> | <u>Total</u> | <u>Number of Customer Accounts</u> | <u>Debt per Customer Account</u> |
|---------------------------|------------------------------------|--------------|------------------------------------|----------------------------------|
| 2009                      | \$5,903                            | \$5,903      | 2,228                              | \$2.65                           |

(\*) Exclude Series 1991A Capital Appreciation Bonds

## Debt Capacity

**Water - Principal and Interest Payments for Debt Issues**  
**(Excludes Commercial Paper and Series 1991A Capital Appreciation Bonds)**

(Dollars in Thousands)

| Payments Due<br>for FY Ending | Principal Payments         |                            |                            |                            |                            |                            |                   | Total                | Total                               | Total |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------------|----------------------|-------------------------------------|-------|
|                               | 2001A Series<br>Bond Issue | 2002A Series<br>Bond Issue | 2002B Series<br>Bond Issue | 2006A Series<br>Bond Issue | 2006B Series<br>Bond Issue | 2006C Series<br>Bond Issue | Total             | Interest<br>Payments | Principal &<br>Interest<br>Payments |       |
| 2010                          | \$ 2,945                   | \$ 3,260                   | \$ 6,375                   | \$ 8,505                   | \$ 3,145                   | \$ 2,375                   | \$ 26,605         | \$ 42,990            | \$ 69,595                           |       |
| 2011                          | 3,065                      | 3,425                      | 6,640                      | 8,895                      | 3,300                      | 2,470                      | 27,795            | 41,784               | 69,579                              |       |
| 2012                          | 3,195                      | 3,605                      | 6,985                      | 9,350                      | 3,465                      | 2,590                      | 29,190            | 40,401               | 69,591                              |       |
| 2013                          | 3,340                      | 3,785                      | 7,305                      | 9,830                      | 3,645                      | 2,705                      | 30,610            | 38,984               | 69,594                              |       |
| 2014                          | 3,500                      | 3,980                      | 7,640                      | 10,335                     | 3,825                      | 2,810                      | 32,090            | 37,510               | 69,600                              |       |
| 2015                          | 3,685                      | 4,185                      | 8,035                      | 10,865                     | 4,015                      | 2,925                      | 33,710            | 35,934               | 69,644                              |       |
| 2016                          | 3,875                      | 4,400                      | 8,445                      | 11,425                     | 4,215                      | 3,055                      | 35,415            | 34,261               | 69,676                              |       |
| 2017                          | -                          | 4,625                      | -                          | 12,010                     | 8,505                      | 3,190                      | 28,330            | 32,702               | 61,032                              |       |
| 2018                          | -                          | 4,865                      | -                          | 12,625                     | 8,900                      | 3,325                      | 29,715            | 31,322               | 61,037                              |       |
| 2019                          | -                          | 5,115                      | -                          | 13,270                     | 6,540                      | 1,375                      | 26,300            | 30,014               | 56,314                              |       |
| 2020                          | -                          | 5,375                      | -                          | 13,955                     | 8,340                      | 2,600                      | 30,270            | 28,683               | 58,953                              |       |
| 2021                          | -                          | 5,650                      | -                          | 14,670                     | 9,895                      | 3,640                      | 33,855            | 27,161               | 61,016                              |       |
| 2022                          | -                          | 5,940                      | -                          | 15,420                     | 7,410                      | 1,565                      | 30,335            | 25,625               | 55,960                              |       |
| 2023                          | -                          | 6,245                      | -                          | 16,210                     | 7,750                      | 1,630                      | 31,835            | 24,141               | 55,976                              |       |
| 2024                          | -                          | 6,565                      | -                          | 17,045                     | 8,090                      | 1,710                      | 33,410            | 22,582               | 55,992                              |       |
| 2025                          | -                          | 6,900                      | -                          | 17,915                     | 8,460                      | 1,785                      | 35,060            | 20,941               | 56,001                              |       |
| 2026                          | 6,540                      | 7,255                      | -                          | 18,835                     | 2,325                      | 1,865                      | 36,820            | 19,194               | 56,014                              |       |
| 2027                          | 6,895                      | 7,630                      | -                          | 19,775                     | 2,420                      | 1,945                      | 38,665            | 17,359               | 56,024                              |       |
| 2028                          | 7,270                      | 8,020                      | -                          | 20,740                     | -                          | -                          | 36,030            | 15,556               | 51,586                              |       |
| 2029                          | 7,670                      | 8,430                      | -                          | 21,720                     | -                          | -                          | 37,820            | 13,790               | 51,610                              |       |
| 2030                          | 8,085                      | 8,860                      | -                          | 22,720                     | -                          | -                          | 39,665            | 11,964               | 51,629                              |       |
| 2031                          | 8,525                      | 9,315                      | -                          | 23,765                     | -                          | -                          | 41,605            | 10,048               | 51,653                              |       |
| 2032                          | 8,990                      | 9,795                      | -                          | 24,860                     | -                          | -                          | 43,645            | 8,039                | 51,684                              |       |
| 2033                          | -                          | 10,295                     | -                          | 25,970                     | -                          | -                          | 36,265            | 6,200                | 42,465                              |       |
| 2034                          | -                          | -                          | -                          | 27,100                     | -                          | -                          | 27,100            | 4,815                | 31,915                              |       |
| 2035                          | -                          | -                          | -                          | 28,350                     | -                          | -                          | 28,350            | 3,566                | 31,916                              |       |
| 2036                          | -                          | -                          | -                          | 29,725                     | -                          | -                          | 29,725            | 2,187                | 31,912                              |       |
| 2037                          | -                          | -                          | -                          | 31,175                     | -                          | -                          | 31,175            | 740                  | 31,915                              |       |
| <b>Total</b>                  | <b>\$ 77,580</b>           | <b>\$ 147,520</b>          | <b>\$ 51,425</b>           | <b>\$ 497,060</b>          | <b>\$ 104,245</b>          | <b>\$ 43,560</b>           | <b>\$ 921,390</b> | <b>\$ 628,493</b>    | <b>\$1,549,883</b>                  |       |

**Debt Capacity**  
**Wastewater Principal and Interest Payments for Debt Issues**  
**(Excludes Commercial Paper)**  
**(Dollars in Thousands)**

| Payments Due<br>for FY Ending | 2003A Series            | 2003A Series           | Total 2003A             | State Revolving         | State Revolving        | Total State                               | Grand                            |
|-------------------------------|-------------------------|------------------------|-------------------------|-------------------------|------------------------|---|----------------------------------|
|                               | Bond Issue<br>Principal | Bond Issue<br>Interest | Principal &<br>Interest | Fund Loans<br>Principal | Fund Loans<br>Interest | Revolving Fund<br>Principal &<br>Interest | Total<br>Principal &<br>Interest |
| 2010                          | \$ 37,130               | \$ 13,183              | \$ 50,313               | \$ 14,199               | \$ 2,307               | \$ 16,506                                 | \$ 66,819                        |
| 2011                          | 26,320                  | 11,827                 | 38,147                  | 14,648                  | 1,855                  | 16,503                                    | 54,650                           |
| 2012                          | 22,010                  | 10,959                 | 32,969                  | 9,594                   | 1,389                  | 10,983                                    | 43,952                           |
| 2013                          | 23,095                  | 9,941                  | 33,036                  | 8,322                   | 1,099                  | 9,421                                     | 42,457                           |
| 2014                          | 24,395                  | 8,754                  | 33,149                  | 8,192                   | 848                    | 9,040                                     | 42,189                           |
| 2015                          | 25,790                  | 7,467                  | 33,257                  | 5,686                   | 602                    | 6,288                                     | 39,545                           |
| 2016                          | 27,325                  | 6,073                  | 33,398                  | 4,837                   | 431                    | 5,268                                     | 38,666                           |
| 2017                          | 11,920                  | 5,102                  | 17,022                  | 3,335                   | 284                    | 3,619                                     | 20,641                           |
| 2018                          | 12,575                  | 4,519                  | 17,094                  | 1,562                   | 189                    | 1,751                                     | 18,845                           |
| 2019                          | 13,315                  | 3,839                  | 17,154                  | 1,608                   | 143                    | 1,751                                     | 18,905                           |
| 2020                          | 14,120                  | 3,119                  | 17,239                  | 1,654                   | 97                     | 1,751                                     | 18,990                           |
| 2021                          | 14,960                  | 2,356                  | 17,316                  | 1,702                   | 50                     | 1,752                                     | 19,068                           |
| 2022                          | 15,835                  | 1,567                  | 17,402                  | -                       | -                      | -   | 17,402                           |
| 2023                          | 15,005                  | 796                    | 15,801                  | -                       | -                      | -   | 15,801                           |
| 2024                          | 2,610                   | 359                    | 2,969                   | -                       | -                      | -   | 2,969                            |
| 2025                          | 2,745                   | 232                    | 2,977                   | -                       | -                      | -   | 2,977                            |
| 2026                          | 3,510                   | 84                     | 3,594                   | -                       | -                      | -   | 3,594                            |
| <b>Total</b>                  | <b>\$ 292,660</b>       | <b>\$ 90,177</b>       | <b>\$ 382,837</b>       | <b>\$ 75,339</b>        | <b>\$ 9,294</b>        | <b>\$ 84,633</b>                          | <b>\$ 467,470</b>                |

## Debt Capacity

Hetch Hetchy - Principal Payments for Debt Issues  
(Dollars in Thousands)

---

| <u>Payments Due<br/>for FY</u> | <u>Clean Renewable<br/>Energy Bond Issue (*)</u> |
|--------------------------------|--|
| 2010                           | \$ 422   |
| 2011                           | 422  |
| 2012                           | 422  |
| 2013                           | 422  |
| 2014                           | 422  |
| 2015                           | 422  |
| 2016                           | 422  |
| 2017                           | 422  |
| 2018                           | 422  |
| 2019                           | 422  |
| 2020                           | 421  |
| 2021                           | 421  |
| 2022                           | 421  |
| 2023                           | 420  |
| <b>Total</b>                   | <b><u><u>\$ 5,903</u></u></b>                    |

\* No interest payments are required.



## **DEMOGRAPHIC & ECONOMIC INFORMATION**

**City and County of San Francisco Economy & General Information**

**Summary of Accounts by Type of Customer**

**Water Accounts and Billings**

**Historical Water Sales in Hundred Cubic Feet**

**Historical Water Sales in Millions of Gallons**

**Historical Water Sales in Millions of Gallons per Day**

**Water Accounts & Billings by Type of Customer**

**Wastewater Sewer Accounts and Billings by Type of Customer**

**Hetch Hetchy Historical Electric Sales in Megawatt Hours**

# City and County of San Francisco Economy and General Information

## Area and Economy

The corporate limits of the City encompass over 93 square miles, of which approximately 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the “Bay”). The City is located on a peninsula bounded by the Pacific Ocean to the west, the Bay to the east, the entrance to the Bay and the Golden Gate Bridge to the north and San Mateo County to the south. The City is the economic center of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (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 retail and entertainment, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology, and higher education.

## Taxable Sales

The following table provides information on taxable sales for the City for calendar years 2003 through 2007. Total retail sales increased in calendar year 2007 by approximately \$0.4 million compared to calendar year 2006.

| CITY AND COUNTY OF SAN FRANCISCO                  |                     |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Taxable Sales – Calendar Year 2003-2007 (\$'000s) |                     |                     |                     |                     |                     |
|   | 2003                | 2004                | 2005                | 2006                | 2007 <sup>(1)</sup> |
| Apparel   | \$760,715           | \$826,686           | \$880,718           | \$941,299           | \$1,028,602         |
| General Merchandise                               | 1,065,160           | 1,143,657           | 1,199,308           | 1,280,908           | 1,349,158           |
| Food Stores                                       | 405,673             | 419,286             | 439,472             | 454,970             | 480,587             |
| Eating/Drinking                                   | 1,879,879           | 2,067,418           | 2,237,384           | 2,367,548           | 2,589,892           |
| Household   | 484,455             | 527,519             | 575,985             | 598,279             | 608,766             |
| Building Materials                                | 319,503             | 353,002             | 397,218             | 428,795             | 459,332             |
| Automotive  | 804,964             | 850,984             | 956,031             | 1,031,786           | 1,068,661           |
| Other Retail Stores                               | 2,046,339           | 2,226,229           | 2,363,672           | 2,484,935           | 2,421,574           |
| <b>Retail Stores Total</b>                        | <b>\$7,766,688</b>  | <b>\$8,414,781</b>  | <b>\$9,049,788</b>  | <b>\$9,588,520</b>  | <b>\$10,006,572</b> |
| Business & Personal Svcs                          | \$945,689           | \$937,411           | \$939,108           | \$999,112           | \$1,001,472         |
| All Other Outlets                                 | 2,784,369           | 2,855,315           | 3,037,078           | 3,304,556           | 3,606,692           |
| <b>Total All Outlets</b>                          | <b>\$11,496,746</b> | <b>\$12,207,507</b> | <b>\$13,025,974</b> | <b>\$13,892,188</b> | <b>\$14,614,736</b> |

<sup>(1)</sup> Most recent annual data available

Source: California State Board of Equalization – Taxable Sales in California (Sales & Use Tax) Annual Reports

Data for full years after 2007 are not available from the California State Board of Equalization at this time. However, the more recent sales tax trend is negative.

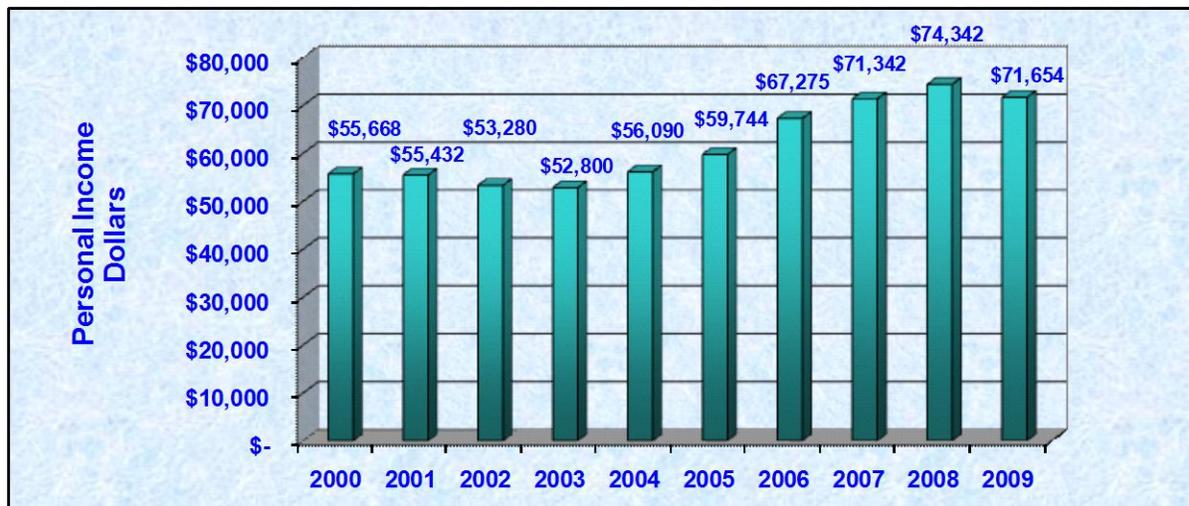
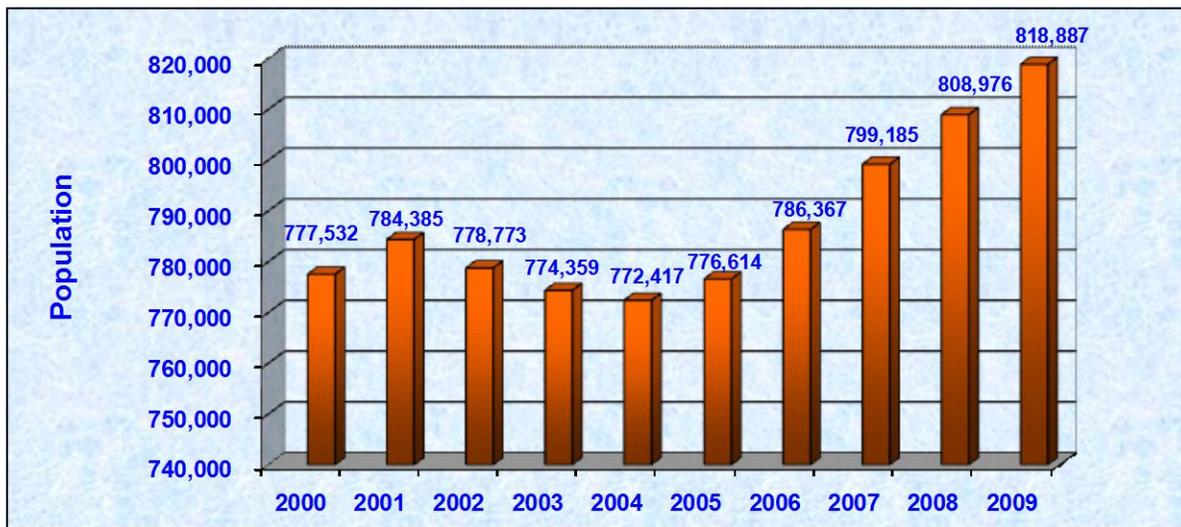
## Population and Income

The City had a population estimated at 773,674 as of FY 2007-08. The table and chart reflect the population and per capita personal income of the City, as estimated by the Controller’s Office.

Demographic and Economic Information

Population and Income  
Fiscal Years Ending 2000 - 2009

| Year | Population <sup>(1)</sup> | Per Capita Personal Income <sup>(2)</sup> |
|------|---------------------------|---|
| 2000 | 777,532                   | \$ 55,668                                 |
| 2001 | 784,385                   | 55,432                                    |
| 2002 | 778,773                   | 53,280                                    |
| 2003 | 774,359                   | 52,800                                    |
| 2004 | 772,417                   | 56,090                                    |
| 2005 | 776,614                   | 59,744                                    |
| 2006 | 786,367                   | 67,275                                    |
| 2007 | 799,185                   | 71,342                                    |
| 2008 | 808,976                   | 74,342 <sup>(4)</sup>                     |
| 2009 | 818,887 <sup>(3)</sup>    | 71,654 <sup>(4)</sup>                     |



Source: Office of the Controller, City and County of San Francisco

(1) Fiscal years 2000 - 2008 is updated with newly available data from US Census Bureau released on March 19, 2009.

(2) Fiscal Years 2000 - 2008 is updated with newly available data from US Bureau of Economic Analysis.

(3) 2009 population was estimated by multiplying the 2008 population by the 2007-08 population growth rate.

(4) Per capita personal income for 2008 and 2009 was estimated by dividing the estimated personal income for 2008 and 2009 by the reported and estimated population in 2008 and 2009, respectively.

## Conventions and Tourism

According to the San Francisco Convention & Visitors Bureau (the “Convention & Visitors Bureau”), a non-profit membership organization, during the calendar year 2007 approximately 16.1 million people (124,628 average per day) visited the City, generating approximately \$8.2 billion for local businesses. On average, these visitors spent about \$244 per visitor per day and stayed three to four nights in the City. Also, as reported by PKF Consulting, hotel occupancy rates in the City averaged 77.9% for calendar year 2007, an increase of 3% over the previous year. Average daily room rates in the City during 2007 increased about 7.1% compared to the prior year’s average of \$182. Although only 35% of all out-of-town visitors stayed in City hotels, the Convention & Visitors Bureau estimates that such visitors generated 65% of total spending by out-of-town visitors. An estimated 40% of City visitors are on vacation, 35% are convention and trade show attendees, 22% are individual business travelers and the remaining 3% are en route elsewhere. Approximately 25% to 35% of overnight hotel visitors are international visitors. The federal government estimates that the majority of international visitors to the City in 2007 were from the United Kingdom, Japan, France, Germany, and Australia. In 2006, the City was ranked third in market share for international visitors to the U.S. behind New York and Los Angeles. The City was ranked even with Orlando, and ahead of Miami, Honolulu, and Las Vegas. The following table illustrates hotel occupancy and related spending from calendar years 2003 through 2007, as reported by the San Francisco Convention and Visitors Bureau.

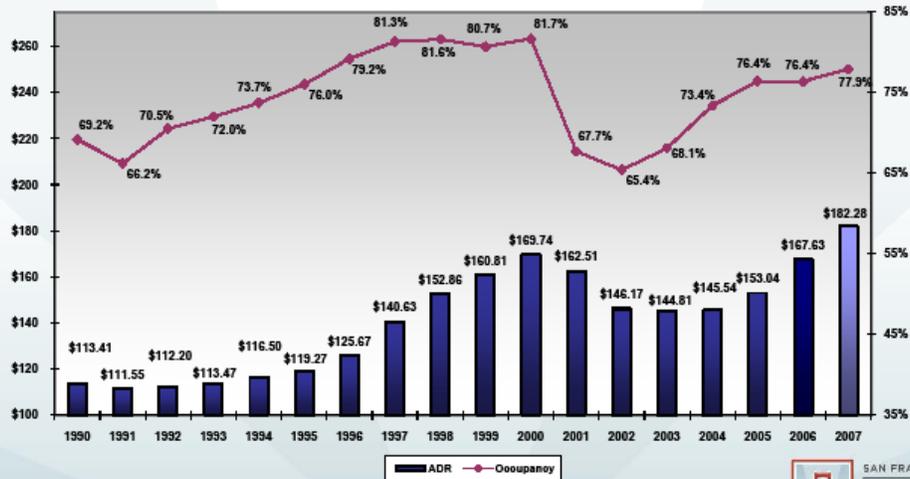
### CITY AND COUNTY OF SAN FRANCISCO San Francisco Overnight Hotel Guests

| Calendar Year | Annual Average Hotel Occupancy | Visitors Staying in Hotels or Motels (In Thousands) | Estimated Hotel Visitor Spending (In Thousands) |
|---------------|--------------------------------|---|---|
| 2003          | 68.1%                          | 3,860   | \$3,680,000                                     |
| 2004          | 73.4%                          | 4,200   | 4,070,000                                       |
| 2005          | 76.4%                          | 4,490   | 4,530,000                                       |
| 2006          | 76.4%                          | 4,500   | 4,780,000                                       |
| 2007          | 77.9%                          | 4,590   | 5,060,000                                       |
| 2008          | 79.2%                          | 4,740   | 5,310,000                                       |

Source: San Francisco Convention & Visitors Bureau

According to the Convention & Visitors Bureau, as of June 1, 2007, convention business was almost at full capacity at the Moscone Convention Center and was at strong levels at individual hotels providing self-contained convention services. Due to an expansion to the Moscone Convention facilities completed spring 2003, the Moscone Convention Center offers over 700,000 square feet of exhibit space covering more than 20 acres on three adjacent blocks. Data for full years after 2007 are not available from the Convention & Visitors Bureau at this time. However, it is likely that the more recent hotel occupancy trend is negative.

# San Francisco Hotel Market Historical ADR and Occupancy



Source: PKF Consulting



## Employment

The City benefits from a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. See Table below for more information on the top employment sectors in the Metropolitan Statistical Area (MSA) consisting of San Francisco, Marin and San Mateo counties. Industry employment data are only available for the MSA, not the City. According to the California Employment Development Department, the unemployment rate for the City was 9.1% for March 2009 compared with an unadjusted unemployment rate of 11.5% for the State. See Table below for more information on the civilian labor of employment and unemployment in the MSA.

**CITY AND COUNTY OF SAN FRANCISCO**

Civilian Labor Force, Employment, and Unemployment<sup>(1)(2)</sup>  
as of November 2008 and 2009<sup>(3)</sup>

| <u>Year</u>             | <u>Area</u>   | <u>Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Unemployment Rate</u> |
|-------------------------|---------------|--------------------|-------------------|---------------------|--------------------------|
| Nov 2009                | San Francisco | 444,600            | 401,500           | 43,100              | 9.7%                     |
|                         | State         | 18,314,700         | 16,084,300        | 2,230,400           | 12.2%                    |
| Nov 2008 <sup>(4)</sup> | San Francisco | 450,400            | 426,700           | 23,700              | 5.3%                     |
|                         | State         | 18,391,800         | 17,059,600        | 1,332,300           | 7.2%                     |

<sup>(1)</sup> Civilian labor force data are by place of residence; include self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>(2)</sup> San Francisco is in a multi-county Metropolitan Statistical Area (MSA) or Metropolitan Division (MD). Industry employment data are only available for the MSA or MD, not the City. The MSA Counties include: San Francisco, Marin, and San Mateo Counties.

<sup>(3)</sup> Data not seasonally adjusted.

<sup>(4)</sup> Data are annual average.

Source: Labor Market Information Division of the California Employment Development Department (EDD)

**CITY AND COUNTY OF SAN FRANCISCO**

Estimated Average Annual Employment by Sector in 2003-2007<sup>(1)</sup>

|                                      | <u>2003</u>    | <u>2004</u>    | <u>2005</u>    | <u>2006</u>    | <u>2007</u>    |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Professional and Business Services   | 103,400        | 100,400        | 105,000        | 111,000        | 117,300        |
| Government                           | 83,700         | 81,700         | 82,600         | 83,800         | 89,200         |
| Leisure and Hospitality              | 69,600         | 70,700         | 72,100         | 74,000         | 76,400         |
| Trade, Transportation and Utilities  | 71,200         | 70,000         | 69,600         | 69,700         | 69,200         |
| Financial, Insurance and Real Estate | 59,100         | 57,000         | 57,300         | 58,000         | 58,900         |
| Educational and Health Service       | 53,200         | 54,400         | 55,100         | 56,000         | 57,500         |
| Other Services                       | 21,700         | 21,100         | 21,300         | 21,400         | 21,900         |
| Information                          | 20,500         | 19,100         | 17,300         | 18,100         | 19,400         |
| Natural Resources, Mining & Const.   | 17,300         | 16,000         | 16,600         | 17,500         | 18,300         |
| Manufacturing                        | 13,100         | 12,300         | 11,400         | 11,100         | 11,100         |
| <b>Total</b>                         | <b>512,800</b> | <b>502,700</b> | <b>508,300</b> | <b>520,600</b> | <b>539,200</b> |

<sup>(1)</sup> San Francisco is a multi-county Metropolitan Statistical Area (MSA) or Metropolitan Division (MD).

Source: California Employment Development Department

The table below lists the 10 largest employers in the City as of December 2008. More recently, many Bay Area employers have announced layoffs, some significant, possibly including some of the employers listed in the following table.

| CITY AND COUNTY OF SAN FRANCISCO<br>Largest Employers in San Francisco as of December 30, 2008 |                                      |                           |
|--|--------------------------------------|---------------------------|
| <b>Employer</b>  | <b>Number of Employees<br/>in SF</b> | <b>Nature of Business</b> |
| City and County of San Francisco   | 26,657                               | City Government           |
| University of California, San Francisco  | 13,237                               | Education                 |
| Wells Fargo & Co.  | 9,269                                | Financial Services        |
| California Pacific Medical Center  | 6,782                                | Health Care               |
| State of California  | 5,768                                | State Government          |
| San Francisco Unified School District  | 5,313                                | Education                 |
| United States Postal Service   | 4,633                                | Postal Service            |
| PG&E Corp.   | 4,394                                | Utility                   |
| Charles Schwab & Co. Inc.  | 4,100                                | Financial Services        |
| Gap Inc.   | 3,930                                | Specialty Retailer        |

Source: San Francisco Business Times, Book of Lists 2008

Demographic & Economic Information

Principal Employers  
Current Year and Seven Years Ago

| Employer                                | Year 2008     |      |                                     | Year 2001 <sup>(1)</sup> |      |  |
|---|---------------|------|-------------------------------------|--------------------------|------|--|
|   | Employees     | Rank | Percentage of Total City Employment | Employees                | Rank | Percentage of Total City Employment <sup>(2)</sup> |
| City and County of San Francisco        | 26,656        | 1    | 6.2%                                | 29,610                   | 1    | 6.6%   |
| University of California, San Francisco | 18,200        | 2    | 4.3                                 | 13,835                   | 2    | 3.1  |
| Wells Fargo & Co                        | 8,718         | 3    | 2.0                                 | 6,366                    | 5    | 1.4  |
| California Pacific Medical Center       | 6,600         | 4    | 1.5                                 | -                        | -    | -  |
| State of California                     | 6,021         | 5    | 1.4                                 | 11,296                   | 3    | 2.5  |
| Charles Schwab & Co., Inc.              | 4,600         | 6    | 1.1                                 | 9,873                    | 4    | 2.2  |
| United States Postal Service            | 4,571         | 7    | 1.1                                 | 4,500                    | 10   | 1.0  |
| PG&E Corporation                        | 4,350         | 8    | 1.0                                 | 5,000                    | 8    | 1.1  |
| GAP, Inc.                               | 4,172         | 9    | 1.0                                 | -                        | -    | -  |
| San Francisco State University          | 3,831         | 10   | 0.9                                 | -                        | -    | -  |
| San Francisco Unified School District   | -             | -    | -                                   | 5,579                    | 6    | 1.3  |
| AT&T                                    | -             | -    | -                                   | 5,200                    | 7    | 1.2  |
| Pacific Bell/SBC Communications, Inc.   | -             | -    | -                                   | 4,600                    | 9    | 1.0  |
| <b>Total</b>                            | <b>87,719</b> |      | <b>20.6%<sup>(3)</sup></b>          | <b>95,859</b>            |      | <b>21.5%<sup>(3)</sup></b>                         |
| <b>Total City Employment</b>            |               |      | <b>426,700</b>                      |                          |      | <b>445,600</b>                                     |

(1) Information is not available for 1999 or 2000.

(2) Percentages have been restated based on updated employment information, and as a result, may differ from amounts reported in The Comprehensive Financial Report for the City and County of San Francisco.

(3) May not total due to rounding.

Source: Total City and County of San Francisco employee count is obtained from the California Employment Development Department. All other data is obtained from San Francisco Business Times Book of Lists.

City and County of San Francisco  
Office of the Controller  
**Monthly Economic Barometer - June 2009**



|  | Most Recent<br>Month/Quarter | Value     | Month-to-<br>Month<br>Change | Year-to-<br>Year<br>Change | Five-Year<br>Position | Trend           |
|--|------------------------------|-----------|------------------------------|----------------------------|-----------------------|-----------------|
| <b>Economy-Wide</b>  |                              |           |                              |                            |                       |                 |
| San Francisco Unemployment Rate <sup>1</sup>                 | June-09                      | 9.8%      | 0.5%                         | 4.3%                       | <b>Weak</b>           | <b>Negative</b> |
| Number of Unemployed, San Francisco County <sup>1</sup>      | June-09                      | 44,100    | 2,600                        | 20,200                     | <b>Weak</b>           | <b>Negative</b> |
| County Adult Assistance Program (CAAP) Caseload <sup>2</sup> | June-09                      | 7,473     | 0.7%                         | 11.1%                      | <b>Neutral</b>        | <b>Negative</b> |
| Total Employment, San Francisco MD <sup>1</sup>              | June-09                      | 955,900   | -0.3%                        | -5.0%                      | <b>Neutral</b>        | <b>Negative</b> |
| Temporary employment, San Francisco MD <sup>1</sup>          | June-09                      | 13,100    | -0.8%                        | -16.0%                     | <b>Weak</b>           | <b>Negative</b> |
| <b>Real Estate</b>   |                              |           |                              |                            |                       |                 |
| Median Home Sales Price <sup>3</sup>                         | June-09                      | \$650,750 | 2.0%                         | -13.7%                     | <b>Weak</b>           | <b>Neutral</b>  |
| Average 1BR Asking Rent <sup>4</sup>                         | June-09                      | \$1,902   | 1.5%                         | -11.3%                     | <b>Neutral</b>        | <b>Neutral</b>  |
| <b>Tourism</b>   |                              |           |                              |                            |                       |                 |
| Domestic Air Passengers <sup>5</sup>                         | June-09                      | 2,646,978 | 6.7%                         | 1.2%                       | <b>Neutral</b>        | <b>Positive</b> |
| International Air Passengers <sup>5</sup>                    | June-09                      | 760,102   | 10.6%                        | -8.0%                      | <b>Neutral</b>        | <b>Positive</b> |
| Hotel Average Daily Rate <sup>6</sup>                        | June-09                      | \$145.54  | -4.7%                        | -26.1%                     | <b>Weak</b>           | <b>Negative</b> |
| Hotel Occupancy Rate <sup>6</sup>                            | June-09                      | 81.2%     | 7.3%                         | -4.4%                      | <b>Neutral</b>        | <b>Negative</b> |
| <b>Retail</b>  |                              |           |                              |                            |                       |                 |
| Average Daily Parking Garage Customers <sup>7</sup>          | June-09                      | 11,124    | -2.3%                        | -5.1%                      | <b>Neutral</b>        | <b>Negative</b> |
| Powell St. BART Average Saturday Exits <sup>8</sup>          | June-09                      | 23,490    | 2.7%                         | -8.0%                      | <b>Neutral</b>        | <b>Negative</b> |

Month-to-month change is the percentage change to the most recent month or quarter from the prior one.

Temporary employment refers to employment in the "Employment Services" industry.

Year-to-Year change is the percentage change from a given month or quarter to the same one last year.

Five-year position is a relative measure of how strong or weak the indicator is compared to the average over the last five years.

Unemployment and hotel occupancy rate changes are shown as a percentage point difference, not a percentage change.

Parking garages include Union Square, Fifth-Mission, Sutter-Stockton, and Ellis-O'Farrell.

## Discussion

The city's unemployment rate rose to 9.8% in June, continuing its rise in line with state and national trends. San Francisco still has the 8th lowest rate among California counties, despite the rapid increase in unemployment over the past year. The city's jobless rate was 1.8 points lower than California's unemployment rate in June.

Signs of a leveling-off are beginning to appear in two segments of the City's economy: residential real estate and airport travel. June saw the third consecutive month of rises in median home sale prices in San Francisco, providing further evidence of a developing bottom in the city's residential real estate market. Rental listings also ticked upwards in June, after a large drop in May. The number of one-bedrooms listed in Craigslist has also declined from earlier in the year, though the number of listings is still about 50% higher than one year ago.

Airport data continues to be the primary bright spot in the city's economic picture at the moment. Domestic air traffic continued to rise in June, posting gains both on a month-to-month and annual basis. While down from last year, international travel increased more than 10% between May and June, nearly double the increase between May and June in 2008.

However, growth in airport travel has not yet led to a recovery in the hotel sector. Hotel occupancy is up over May figures, but average daily rates continue to fall, contributing to a 30% decline in revenue per available room-night (revPAR) in June compared to a year ago. Through the first 6 months of the year revPAR is down about 24% compared to the same period in 2008. The steep decline in revPAR has contributed to some high-profile hotel owners defaulting on their loans, including the Four Seasons and Stanford Court hotels.

More broadly, commercial real estate continued to see major declines in the second quarter of 2009, as reported in last month's barometer. Several buildings have been given back to lenders, including 333 Bush Street, which was prompted by the bankruptcy of Heller Ehrman. Other notable transactions include 250 Montgomery, which sold for about 60% of the previous purchase price. The deep discount on the property was due in part to the building's 50% vacancy rate.

### Sources:

- [1] – California Employment Development Department. MD refers to the San Francisco Metropolitan Division: San Francisco, Marin, and San Mateo counties.
- [2] – San Francisco Human Services Agency
- [3] – DataQuick
- [4] – Craigslist
- [5] – San Francisco International Airport
- [6] – PKF Consulting
- [7] – San Francisco Municipal Transportation Agency
- [8] – Bay Area Rapid Transit

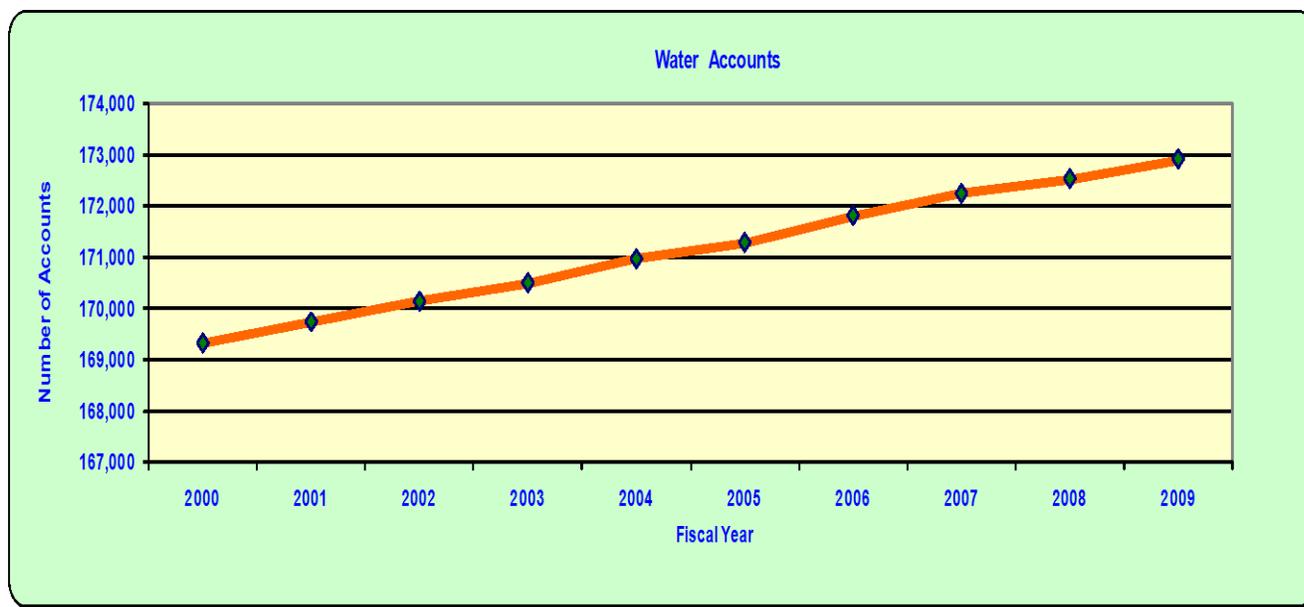
For more information contact Ted Egan, Chief Economist at 415-554-5268, or Kurt Fuchs, Senior Economist, at 415-554-5369.

If you would like to receive this report every month, please e-mail your request to Debbie Toy in the Controller's Office: [debbie.toy@sfgov.org](mailto:debbie.toy@sfgov.org)

Source: U.S. Census Bureau

**Demographic & Economic Information**  
**Summary of Accounts by Type of Customer**  
**Fiscal Years Ending 2000 to 2009**

| <b>Water</b>               |                |                |                |                |                |                |                |                |                |                |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Type of accounts           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
| <b>Retail &amp; resale</b> |                |                |                |                |                |                |                |                |                |                |
| Commercial                 | 21,329         | 21,293         | 21,201         | 21,137         | 21,148         | 21,095         | 21,037         | 21,009         | 21,113         | 20,196         |
| Docks & ships              | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              |
| Industrial                 | 117            | 114            | 113            | 110            | 108            | 105            | 107            | 105            | 103            | 97             |
| Municipal                  | 416            | 418            | 420            | 422            | 424            | 419            | 423            | 419            | 1,732          | 1,764          |
| Residential                | 145,837        | 146,276        | 146,760        | 147,167        | 147,598        | 147,951        | 148,496        | 148,933        | 149,124        | 150,423        |
| <b>Subtotal</b>            | <b>167,700</b> | <b>168,102</b> | <b>168,495</b> | <b>168,837</b> | <b>169,279</b> | <b>169,571</b> | <b>170,064</b> | <b>170,467</b> | <b>172,073</b> | <b>172,481</b> |
| <b>Suburban</b>            |                |                |                |                |                |                |                |                |                |                |
| Commercial                 | 117            | 117            | 113            | 115            | 111            | 108            | 108            | 109            | 106            | 104            |
| Municipal                  | -              | -              | -              | -              | -              | -              | -              | -              | 2              | 1              |
| Residential                | 204            | 206            | 206            | 208            | 207            | 204            | 206            | 205            | 206            | 205            |
| Other                      | 2              | 14             | 14             | 14             | 14             | 14             | 14             | 13             | 13             | 13             |
| <b>Subtotal</b>            | <b>323</b>     | <b>337</b>     | <b>333</b>     | <b>337</b>     | <b>332</b>     | <b>326</b>     | <b>328</b>     | <b>327</b>     | <b>327</b>     | <b>323</b>     |
| <b>Suburban resale</b>     |                |                |                |                |                |                |                |                |                |                |
| Private utilities          | 20             | 20             | 20             | 20             | 20             | 20             | 20             | 20             | 20             | 20             |
| Public utilities           | 57             | 57             | 57             | 57             | 58             | 58             | 59             | 59             | 61             | 61             |
| <b>Subtotal</b>            | <b>77</b>      | <b>77</b>      | <b>77</b>      | <b>77</b>      | <b>78</b>      | <b>78</b>      | <b>79</b>      | <b>79</b>      | <b>81</b>      | <b>81</b>      |
| <b>Total accounts</b>      | <b>168,100</b> | <b>168,516</b> | <b>168,905</b> | <b>169,251</b> | <b>169,689</b> | <b>169,975</b> | <b>170,471</b> | <b>170,873</b> | <b>172,481</b> | <b>172,885</b> |

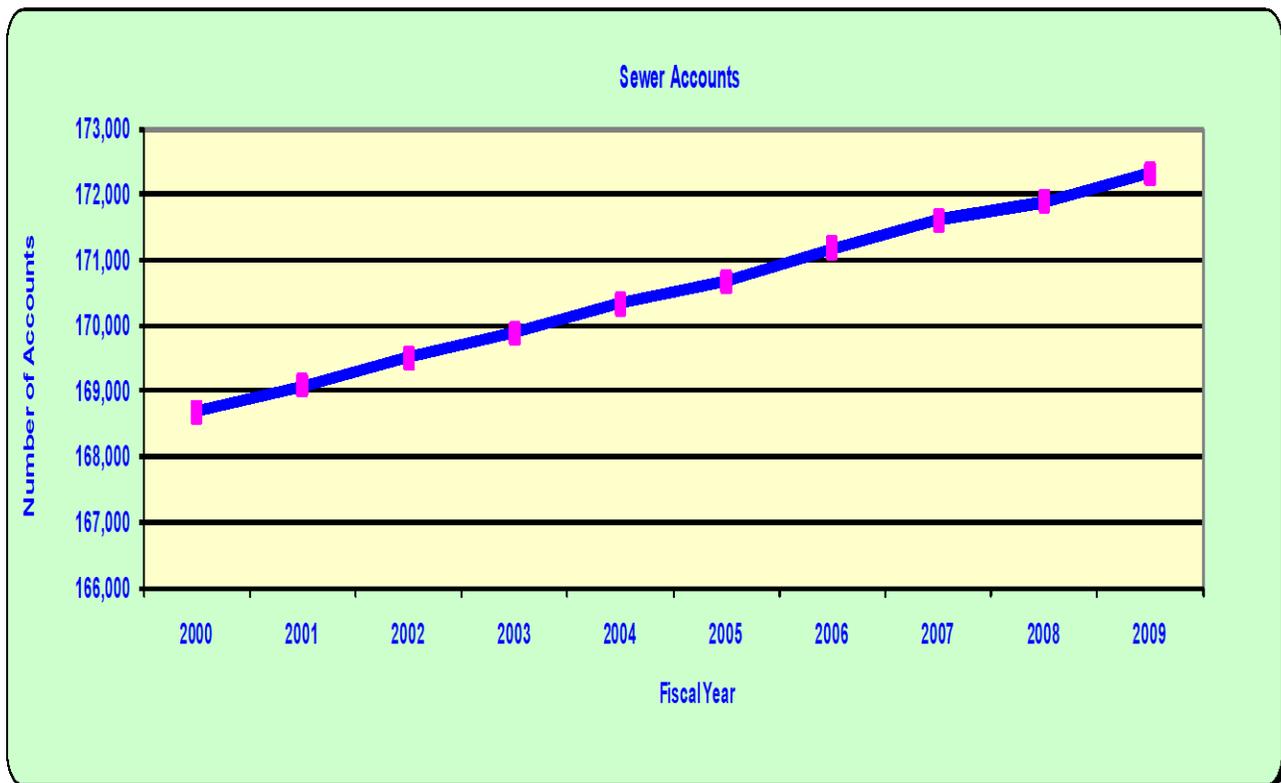


Source: San Francisco Public Utilities Commission's Customer Information & Billing System, Power Enterprise's Scheduling System and Customer Service Retail Billing System

**Demographic & Economic Information**  
**Summary of Accounts by Type of Customer**  
**Fiscal Years Ending 2000 to 2009**

**Wastewater**

| Type of accounts           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <i>Retail &amp; resale</i> |                |                |                |                |                |                |                |                |                |                |
| Commercial                 | 21,112         | 21,064         | 20,998         | 20,949         | 20,931         | 20,894         | 20,814         | 20,788         | 20,887         | 20,003         |
| Industrial                 | 117            | 114            | 113            | 110            | 108            | 105            | 107            | 105            | 103            | 97             |
| Municipal                  | 416            | 418            | 420            | 422            | 424            | 419            | 423            | 419            | 1,732          | 1,764          |
| Residential                | 145,837        | 146,276        | 146,760        | 147,167        | 147,598        | 147,951        | 148,496        | 148,933        | 149,124        | 150,423        |
| <b>Subtotal</b>            | <b>167,482</b> | <b>167,872</b> | <b>168,291</b> | <b>168,648</b> | <b>169,061</b> | <b>169,369</b> | <b>169,840</b> | <b>170,245</b> | <b>171,846</b> | <b>172,287</b> |
| Suburban                   | -              | 12             | 12             | 12             | 12             | 12             | 12             | 11             | 11             | 11             |
| <b>Total accounts</b>      | <b>167,482</b> | <b>167,884</b> | <b>168,303</b> | <b>168,660</b> | <b>169,073</b> | <b>169,381</b> | <b>169,852</b> | <b>170,256</b> | <b>171,857</b> | <b>172,298</b> |



Source: San Francisco Public Utilities Commission's Customer Information & Billing System, Power Enterprise's Scheduling System and Customer Service Retail Billing System

**Demographic & Economic Information**  
**Summary of Accounts by Type of Customer**  
**Fiscal Years Ending 2000 to 2009**

**Hetch Hetchy Water & Power**

|                                      | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Type of accounts                     |              |              |              |              |              |              |              |              |              |              |
| Up Country Water Sales               | 7            | 7            | 7            | 7            | 7            | 7            | 7            | 7            | 7            | 7            |
| Electric Meters                      |              |              |              |              |              |              |              |              |              |              |
| Municipal                            | 1,363        | 1,302        | 1,322        | 1,431        | 1,415        | 1,408        | 1,414        | 1,439        | 1,429        | 1,418        |
| Retail                               | 689          | 679          | 666          | 694          | 698          | 705          | 706          | 697          | 755          | 761          |
| Moccasin/Norris                      | 7            | 7            | 37           | 38           | 37           | 40           | 39           | 37           | 36           | 40           |
| Modesto/Tullock Irrigation Districts | 2            | 2            | 2            | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| <b>Total accounts</b>                | <b>2,068</b> | <b>1,997</b> | <b>2,034</b> | <b>2,172</b> | <b>2,159</b> | <b>2,162</b> | <b>2,168</b> | <b>2,182</b> | <b>2,229</b> | <b>2,228</b> |



Source: San Francisco Public Utilities Commission's Customer Information & Billing System, Power Enterprise's Scheduling System and Customer Service Retail Billing System

Demographic & Economic Information

Water Accounts and Billings  
 Fiscal Years Ending 2000 to 2009  
 (Dollars in Thousands)

| Fiscal Year | Number of Consumer Accounts | Water Consumed (CCF)* | Water Consumed (MG)** | Service Charge Billed (\$) | Water & Miscellaneous Billed (\$) | Total Amount Billed (\$) |
|-------------|-----------------------------|-----------------------|-----------------------|----------------------------|-----------------------------------|--------------------------|
| 2000        | 168,100                     | 122,217,446           | 91,419                | Data is not available      |                                   | 135,950                  |
| 2001        | 168,516                     | 122,852,757           | 91,894                | Data is not available      |                                   | 139,719                  |
| 2002        | 168,905                     | 119,982,459           | 89,747                | 19,499                     | 124,805                           | 144,304                  |
| 2003        | 169,251                     | 118,669,159           | 88,765                | 20,862                     | 127,476                           | 148,338                  |
| 2004        | 169,689                     | 125,529,139           | 93,896                | 21,812                     | 153,122                           | 174,934                  |
| 2005        | 169,975                     | 116,953,069           | 87,481                | 22,211                     | 142,226                           | 164,437                  |
| 2006        | 170,471                     | 115,297,765           | 86,243                | 24,362                     | 143,432                           | 167,794                  |
| 2007        | 170,873                     | 120,597,170           | 90,207                | 26,811                     | 174,905                           | 201,716                  |
| 2008        | 172,481                     | 120,755,904           | 90,325                | 21,355                     | 198,639                           | 219,994                  |
| 2009        | 172,885                     | 116,254,494           | 86,958                | 22,135                     | 214,839                           | 236,974                  |

\* Hundred cubic feet = 748 gallons

\*\* Millions of gallons

Source: San Francisco Public Utilities Commission's Customer Information & Billing System and summary of Annual Water Sales Reports.

## Demographic &amp; Economic Information

Historical Water Sales in Hundred Cubic Feet  
Fiscal Years Ending 2000 to 2009

|                                  | 2000               | 2001               | 2002               | 2003               | 2004               | 2005               | 2006               | 2007               | 2008               | 2009               | % of Total   |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------|
| <b>Retail customers</b>          |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |              |
| Residential                      | 23,199,940         | 23,299,078         | 23,166,044         | 23,102,746         | 23,428,537         | 22,509,970         | 22,533,134         | 22,204,792         | 21,248,938         | 20,991,172         | 18.1%        |
| Commercial                       | 10,970,686         | 10,929,830         | 9,992,460          | 10,069,094         | 10,410,951         | 9,814,755          | 9,860,593          | 9,764,866          | 10,511,527         | 10,930,755         | 9.4%         |
| Suburban Retail                  | 1,563,656          | 1,534,349          | 1,614,074          | 1,402,784          | 1,703,269          | 1,469,498          | 1,310,599          | 1,517,791          | 1,618,012          | 1,444,284          | 1.2%         |
| Municipal                        | 1,461,269          | 1,443,415          | 1,377,365          | 1,243,664          | 1,325,765          | 1,311,299          | 1,167,914          | 1,196,316          | 2,634,791          | 2,719,235          | 2.3%         |
| Industrial                       | 325,470            | 294,892            | 252,984            | 172,280            | 139,901            | 134,861            | 129,425            | 108,874            | 107,494            | 100,217            | 0.1%         |
| Docks & Shipping                 | 21,180             | 23,800             | 17,234             | 24,429             | 40,419             | 39,820             | 40,987             | 22,463             | 13,902             | 32,123             | 0.0%         |
| <b>Retail water sales</b>        | <b>37,542,201</b>  | <b>37,525,364</b>  | <b>36,420,161</b>  | <b>36,014,997</b>  | <b>37,048,842</b>  | <b>35,280,203</b>  | <b>35,042,652</b>  | <b>34,815,102</b>  | <b>36,134,664</b>  | <b>36,217,786</b>  | <b>31.2%</b> |
| <b>Wholesale customers</b>       |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |              |
| California Water Service         | 17,315,716         | 17,966,554         | 17,326,626         | 17,052,741         | 18,823,399         | 16,873,907         | 16,893,674         | 18,472,846         | 18,409,651         | 17,544,304         | 15.1%        |
| Hayward Municipal Water          | 9,133,496          | 8,959,450          | 8,592,175          | 8,631,661          | 9,587,543          | 9,030,652          | 8,761,512          | 8,901,286          | 9,434,134          | 9,256,544          | 8.0%         |
| City of Palo Alto                | 6,719,841          | 6,730,016          | 6,436,196          | 6,174,327          | 6,524,654          | 5,896,965          | 5,802,911          | 6,361,100          | 6,205,790          | 5,677,018          | 4.9%         |
| Alameda County Water             | 6,163,900          | 5,733,920          | 5,853,104          | 6,074,761          | 6,023,430          | 5,270,508          | 5,192,872          | 6,667,959          | 6,294,887          | 5,528,087          | 4.8%         |
| City of Sunnyvale                | 4,807,751          | 4,785,841          | 4,858,185          | 4,327,425          | 4,816,808          | 4,276,739          | 4,580,523          | 4,575,407          | 5,133,801          | 5,200,504          | 4.5%         |
| City of Redwood City             | 5,784,279          | 5,749,916          | 5,679,249          | 5,561,922          | 5,950,319          | 5,423,431          | 5,308,460          | 5,694,374          | 5,373,572          | 5,048,309          | 4.3%         |
| City of Mountain View            | 4,932,552          | 5,423,871          | 5,442,425          | 5,187,433          | 5,361,740          | 5,138,116          | 4,973,996          | 5,279,243          | 5,127,029          | 4,818,468          | 4.1%         |
| City of Milpitas                 | 3,528,024          | 3,444,476          | 3,404,363          | 3,290,835          | 3,476,406          | 3,255,284          | 3,195,719          | 3,378,811          | 3,393,790          | 3,353,762          | 2.9%         |
| Estero Muni Improvement District | 2,717,561          | 2,873,777          | 2,741,916          | 2,576,965          | 2,729,471          | 2,542,371          | 2,527,846          | 2,747,662          | 2,691,080          | 2,509,929          | 2.2%         |
| City of Daly City                | 2,268,814          | 2,215,685          | 2,348,666          | 3,078,921          | 3,193,899          | 3,385,617          | 3,003,123          | 3,016,092          | 2,192,526          | 2,168,708          | 1.9%         |
| All Other Wholesale Customers    | 21,303,311         | 21,443,887         | 20,879,393         | 20,697,171         | 21,992,628         | 20,579,276         | 20,014,477         | 20,687,288         | 20,364,980         | 18,931,075         | 16.3%        |
| <b>Wholesale water sales</b>     | <b>84,675,245</b>  | <b>85,327,393</b>  | <b>83,562,298</b>  | <b>82,654,162</b>  | <b>88,480,297</b>  | <b>81,672,866</b>  | <b>80,255,113</b>  | <b>85,782,068</b>  | <b>84,621,240</b>  | <b>80,036,708</b>  | <b>68.8%</b> |
| <b>Total water sales</b>         | <b>122,217,446</b> | <b>122,852,757</b> | <b>119,982,459</b> | <b>118,669,159</b> | <b>125,529,139</b> | <b>116,953,069</b> | <b>115,297,765</b> | <b>120,597,170</b> | <b>120,755,904</b> | <b>116,254,494</b> | <b>100%</b>  |
| <b>% Change from prior year</b>  | <b>2.1%</b>        | <b>0.5%</b>        | <b>-2.3%</b>       | <b>-1.1%</b>       | <b>5.8%</b>        | <b>-6.8%</b>       | <b>-1.4%</b>       | <b>4.6%</b>        | <b>0.1%</b>        | <b>-3.7%</b>       |              |
| <b>Number of accounts</b>        | <b>168,100</b>     | <b>168,516</b>     | <b>168,905</b>     | <b>169,251</b>     | <b>169,689</b>     | <b>169,975</b>     | <b>170,471</b>     | <b>170,873</b>     | <b>172,481</b>     | <b>172,885</b>     |              |
| Retail                           | 168,023            | 168,439            | 168,828            | 169,174            | 169,611            | 169,897            | 170,392            | 170,794            | 172,400            | 172,804            |              |
| Wholesale                        | 77                 | 77                 | 77                 | 77                 | 78                 | 78                 | 79                 | 79                 | 81                 | 81                 |              |

Source: Summary of Annual Water Sales reports and San Francisco Public Utilities Commission's Customer Information &amp; Billing System.

**Demographic & Economic Information**  
**Historical Water Sales in Millions of Gallons**  
**Fiscal Years Ending 2000 to 2009**

|                                  | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           | % of Total   |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| <b>Retail Customers</b>          |                |                |                |                |                |                |                |                |                |                |              |
| Residential                      | 17,354         | 17,428         | 17,328         | 17,281         | 17,525         | 16,837         | 16,855         | 16,609         | 15,894         | 15,701         | 18.1%        |
| Commercial                       | 8,206          | 8,176          | 7,474          | 7,532          | 7,787          | 7,341          | 7,376          | 7,304          | 7,863          | 8,176          | 9.4%         |
| Suburban Retail                  | 1,170          | 1,148          | 1,207          | 1,049          | 1,274          | 1,099          | 980            | 1,135          | 1,210          | 1,080          | 1.2%         |
| Municipal                        | 1,093          | 1,080          | 1,030          | 930            | 992            | 981            | 874            | 895            | 1,971          | 2,034          | 2.3%         |
| Industrial                       | 243            | 221            | 189            | 129            | 105            | 101            | 97             | 81             | 80             | 75             | 0.1%         |
| Docks & Shipping                 | 16             | 18             | 13             | 18             | 30             | 30             | 31             | 17             | 10             | 24             | 0.0%         |
| <b>Retail water sales</b>        | <b>28,082</b>  | <b>28,069</b>  | <b>27,242</b>  | <b>26,939</b>  | <b>27,713</b>  | <b>26,390</b>  | <b>26,212</b>  | <b>26,042</b>  | <b>27,029</b>  | <b>27,091</b>  | <b>31.2%</b> |
| <b>Wholesale Customers</b>       |                |                |                |                |                |                |                |                |                |                |              |
| California Water Service         | 12,952         | 13,439         | 12,960         | 12,755         | 14,080         | 12,622         | 12,636         | 13,818         | 13,770         | 13,123         | 15.1%        |
| Hayward Municipal Water          | 6,832          | 6,702          | 6,427          | 6,456          | 7,171          | 6,755          | 6,554          | 6,658          | 7,057          | 6,924          | 8.0%         |
| City of Palo Alto                | 5,026          | 5,034          | 4,814          | 4,618          | 4,880          | 4,411          | 4,341          | 4,758          | 4,642          | 4,246          | 4.9%         |
| Alameda County Water             | 4,611          | 4,289          | 4,378          | 4,544          | 4,506          | 3,942          | 3,884          | 4,988          | 4,709          | 4,135          | 4.8%         |
| City of Sunnyvale                | 3,596          | 3,580          | 3,634          | 3,237          | 3,603          | 3,199          | 3,426          | 3,422          | 3,840          | 3,890          | 4.5%         |
| City of Redwood City             | 4,327          | 4,301          | 4,248          | 4,160          | 4,451          | 4,057          | 3,971          | 4,259          | 4,019          | 3,776          | 4.3%         |
| City of Mountain View            | 3,690          | 4,057          | 4,071          | 3,880          | 4,011          | 3,843          | 3,721          | 3,949          | 3,835          | 3,604          | 4.1%         |
| City of Milpitas                 | 2,639          | 2,576          | 2,546          | 2,462          | 2,600          | 2,435          | 2,390          | 2,527          | 2,539          | 2,509          | 2.9%         |
| Estero Muni Improvement District | 2,033          | 2,150          | 2,051          | 1,928          | 2,042          | 1,902          | 1,891          | 2,055          | 2,013          | 1,877          | 2.2%         |
| City of Daly City                | 1,697          | 1,657          | 1,757          | 2,303          | 2,389          | 2,532          | 2,246          | 2,256          | 1,640          | 1,622          | 1.9%         |
| All Other Wholesale Customers    | 15,935         | 16,040         | 15,618         | 15,481         | 16,450         | 15,393         | 14,971         | 15,474         | 15,233         | 14,160         | 16.3%        |
| <b>Wholesale water sales</b>     | <b>63,337</b>  | <b>63,825</b>  | <b>62,505</b>  | <b>61,825</b>  | <b>66,183</b>  | <b>61,091</b>  | <b>60,031</b>  | <b>64,165</b>  | <b>63,297</b>  | <b>59,867</b>  | <b>68.8%</b> |
| <b>Total water sales</b>         | <b>91,419</b>  | <b>91,894</b>  | <b>89,747</b>  | <b>88,765</b>  | <b>93,896</b>  | <b>87,481</b>  | <b>86,243</b>  | <b>90,207</b>  | <b>90,325</b>  | <b>86,958</b>  | <b>100%</b>  |
| <b>% Change from prior year</b>  | <b>2.1%</b>    | <b>0.5%</b>    | <b>-2.3%</b>   | <b>-1.1%</b>   | <b>5.8%</b>    | <b>-6.8%</b>   | <b>-1.4%</b>   | <b>4.6%</b>    | <b>0.1%</b>    | <b>-3.7%</b>   |              |
| <b>Number of accounts</b>        | <b>168,100</b> | <b>168,516</b> | <b>168,905</b> | <b>169,251</b> | <b>169,689</b> | <b>169,975</b> | <b>170,471</b> | <b>170,873</b> | <b>172,481</b> | <b>172,885</b> |              |
| <b>Retail</b>                    | <b>168,023</b> | <b>168,439</b> | <b>168,828</b> | <b>169,174</b> | <b>169,611</b> | <b>169,897</b> | <b>170,392</b> | <b>170,794</b> | <b>172,400</b> | <b>172,804</b> |              |
| <b>Wholesale</b>                 | <b>77</b>      | <b>77</b>      | <b>77</b>      | <b>77</b>      | <b>78</b>      | <b>78</b>      | <b>79</b>      | <b>79</b>      | <b>81</b>      | <b>81</b>      |              |

Source: Summary of Annual Water Sales reports and San Francisco Public Utilities Commission's Customer Information & Billing System.

## Demographic &amp; Economic Information

Historical Water Sales in Millions of Gallons per Day  
Fiscal Years Ending 2000 to 2009

|                                  | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           | % of Total   |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| <b>2009</b>                      |                |                |                |                |                |                |                |                |                |                |              |
| <b>Retail customers</b>          |                |                |                |                |                |                |                |                |                |                |              |
| Residential                      | 47.5           | 47.7           | 47.5           | 47.3           | 48.0           | 46.1           | 46.2           | 45.5           | 43.5           | 43.0           | 18.1%        |
| Commercial                       | 22.5           | 22.4           | 20.5           | 20.6           | 21.3           | 20.1           | 20.2           | 20.0           | 21.5           | 22.4           | 9.4%         |
| Suburban Retail                  | 3.2            | 3.1            | 3.3            | 2.9            | 3.5            | 3.0            | 2.7            | 3.1            | 3.3            | 3.0            | 1.2%         |
| Municipal                        | 3.0            | 3.0            | 2.8            | 2.5            | 2.7            | 2.7            | 2.4            | 2.5            | 5.4            | 5.6            | 2.3%         |
| Industrial                       | 0.7            | 0.6            | 0.5            | 0.4            | 0.3            | 0.3            | 0.3            | 0.2            | 0.2            | 0.2            | 0.1%         |
| Docks & Shipping                 | 0.0            | 0.0            | 0.0            | 0.1            | 0.1            | 0.1            | 0.1            | 0.0            | 0.0            | 0.1            | 0.0%         |
| <b>Retail water sales</b>        | <b>76.9</b>    | <b>76.9</b>    | <b>74.6</b>    | <b>73.8</b>    | <b>75.9</b>    | <b>72.3</b>    | <b>71.8</b>    | <b>71.3</b>    | <b>74.1</b>    | <b>74.2</b>    | <b>31.2%</b> |
| <b>Wholesale customers</b>       |                |                |                |                |                |                |                |                |                |                |              |
| California Water Service         | 35.5           | 36.8           | 35.5           | 34.9           | 38.6           | 34.6           | 34.6           | 37.9           | 37.7           | 36.0           | 15.1%        |
| Hayward Municipal Water          | 18.7           | 18.4           | 17.6           | 17.7           | 19.6           | 18.5           | 18.0           | 18.2           | 19.3           | 19.0           | 8.0%         |
| City of Palo Alto                | 13.8           | 13.8           | 13.2           | 12.7           | 13.4           | 12.1           | 11.9           | 13.0           | 12.7           | 11.6           | 4.9%         |
| Alameda County Water             | 12.6           | 11.8           | 12.0           | 12.4           | 12.3           | 10.8           | 10.6           | 13.7           | 12.9           | 11.3           | 4.8%         |
| City of Sunnyvale                | 9.9            | 9.8            | 10.0           | 8.9            | 9.9            | 8.8            | 9.4            | 9.4            | 10.5           | 10.7           | 4.5%         |
| City of Redwood City             | 11.9           | 11.8           | 11.6           | 11.4           | 12.2           | 11.1           | 10.9           | 11.7           | 11.0           | 10.3           | 4.3%         |
| City of Mountain View            | 10.1           | 11.1           | 11.2           | 10.6           | 11.0           | 10.5           | 10.2           | 10.8           | 10.5           | 9.9            | 4.1%         |
| City of Milpitas                 | 7.2            | 7.1            | 7.0            | 6.7            | 7.1            | 6.7            | 6.5            | 6.9            | 7.0            | 6.9            | 2.9%         |
| Estero Muni Improvement District | 5.6            | 5.9            | 5.6            | 5.3            | 5.6            | 5.2            | 5.2            | 5.6            | 5.5            | 5.1            | 2.2%         |
| City of Daly City                | 4.6            | 4.5            | 4.8            | 6.3            | 6.5            | 6.9            | 6.2            | 6.2            | 4.5            | 4.4            | 1.9%         |
| All Other Wholesale Customers    | 43.7           | 43.9           | 42.8           | 42.4           | 45.1           | 42.2           | 41.0           | 42.4           | 41.7           | 38.8           | 16.3%        |
| <b>Wholesale water sales</b>     | <b>173.6</b>   | <b>174.9</b>   | <b>171.2</b>   | <b>169.4</b>   | <b>181.3</b>   | <b>167.4</b>   | <b>164.5</b>   | <b>175.8</b>   | <b>173.4</b>   | <b>164.0</b>   | <b>68.8%</b> |
| <b>Total water sales</b>         | <b>250.5</b>   | <b>251.8</b>   | <b>245.9</b>   | <b>243.2</b>   | <b>257.2</b>   | <b>239.7</b>   | <b>236.3</b>   | <b>247.1</b>   | <b>247.5</b>   | <b>238.2</b>   | <b>100%</b>  |
| <b>% Change from prior year</b>  | <b>2.1%</b>    | <b>0.5%</b>    | <b>-2.3%</b>   | <b>-1.1%</b>   | <b>5.8%</b>    | <b>-6.8%</b>   | <b>-1.4%</b>   | <b>4.6%</b>    | <b>0.1%</b>    | <b>-3.7%</b>   |              |
| <b>Number of accounts</b>        | <b>168,100</b> | <b>168,516</b> | <b>168,905</b> | <b>169,251</b> | <b>169,689</b> | <b>169,975</b> | <b>170,471</b> | <b>170,873</b> | <b>172,481</b> | <b>172,885</b> |              |
| Retail                           | 168,023        | 168,439        | 168,828        | 169,174        | 169,611        | 169,897        | 170,392        | 170,794        | 172,400        | 172,804        |              |
| Wholesale                        | 77             | 77             | 77             | 77             | 78             | 78             | 79             | 79             | 81             | 81             |              |

Source: Summary of Annual Water Sales reports and San Francisco Public Utilities Commission's Customer Information &amp; Billing System.

**Demographic & Economic Information**  
**Water Accounts & Billings by Type of Customer**  
**(Dollars in Thousands)**

| Customer Type                     | Fiscal Year Ending |         |         |         |         |         |         |         |         |         |
|-----------------------------------|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                   | 2000               | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
| <b>Builders &amp; Contractors</b> |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 217                | 229     | 203     | 188     | 217     | 201     | 223     | 221     | 226     | 193     |
| Billings                          | \$ 251             | 252     | 353     | 299     | 258     | 240     | 298     | 379     | 450     | 440     |
| <b>Commercial</b>                 |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 21,112             | 21,064  | 20,998  | 20,949  | 20,931  | 20,894  | 20,814  | 20,788  | 20,887  | 20,003  |
| Billings                          | \$ 19,749          | 19,467  | 19,518  | 21,354  | 21,823  | 20,315  | 24,093  | 27,011  | 31,660  | 34,889  |
| <b>Docks &amp; Ships</b>          |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 1                  | 1       | 1       | 1       | 1       | 1       | 1       | 1       | 1       | 1       |
| Billings                          | \$ 55              | 55      | 49      | 68      | 98      | 99      | 102     | 88      | 79      | 81      |
| <b>Industrial</b>                 |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 117                | 114     | 113     | 110     | 108     | 105     | 107     | 105     | 103     | 97      |
| Billings                          | \$ 473             | 431     | 409     | 325     | 278     | 266     | 278     | 298     | 301     | 327     |
| <b>Municipal customers</b>        |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 416                | 418     | 420     | 422     | 424     | 419     | 423     | 419     | 1,732   | 1,764   |
| Billings                          | \$ 1,216           | 1,184   | 1,256   | 1,274   | 1,272   | 1,270   | 1,286   | 1,352   | 4,920   | 5,906   |
| <b>Multi family residential</b>   |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 37,487             | 37,730  | 38,014  | 38,216  | 38,477  | 38,589  | 38,760  | 38,943  | 38,607  | 39,664  |
| Billings                          | \$ 22,209          | 22,219  | 23,979  | 25,969  | 26,295  | 25,950  | 29,995  | 34,010  | 35,411  | 40,515  |
| <b>Single family residential</b>  |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 108,350            | 108,546 | 108,746 | 108,951 | 109,121 | 109,362 | 109,736 | 109,990 | 110,517 | 110,759 |
| Billings                          | \$ 17,317          | 17,444  | 18,916  | 20,728  | 21,109  | 20,308  | 23,085  | 26,337  | 26,919  | 29,656  |
| <b>Suburban</b>                   |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 323                | 337     | 333     | 337     | 332     | 326     | 328     | 327     | 327     | 323     |
| Billings                          | \$ 2,540           | 2,511   | 3,436   | 3,369   | 3,813   | 3,543   | 3,767   | 4,878   | 6,095   | 6,533   |
| <b>Suburban Resale</b>            |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 77                 | 77      | 77      | 77      | 78      | 78      | 79      | 79      | 81      | 81      |
| Billings                          | \$ 72,140          | 76,156  | 76,388  | 74,952  | 99,988  | 92,446  | 84,890  | 107,363 | 114,159 | 118,627 |
| <b>Total</b>                      |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                | 168,100            | 168,516 | 168,905 | 169,251 | 169,689 | 169,975 | 170,471 | 170,873 | 172,481 | 172,885 |
| Billings - dollars in thousands   | \$ 135,950         | 139,719 | 144,304 | 148,338 | 174,934 | 164,437 | 167,794 | 201,716 | 219,994 | 236,974 |

Source: San Francisco Public Utilities Commission's Customer Information &amp; Billing System.

**Demographic & Economic Information**  
**Wastewater Sewer Accounts & Billings by Type of Customer**  
**(Dollars in Thousands)**

| Customer Type                           | Fiscal Year Ending |         |         |         |         |         |         |         |         |         |
|---|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|   | 2000               | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
| <b>Single family residential</b>        |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 108,350            | 108,546 | 108,746 | 108,951 | 109,121 | 109,362 | 109,736 | 109,990 | 110,517 | 110,759 |
| Billings                                | \$ 32,373          | 32,979  | 32,959  | 32,762  | 33,735  | 34,881  | 37,472  | 41,196  | 44,944  | 48,555  |
| <b>Multi family residential</b>         |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 37,487             | 37,730  | 38,014  | 38,216  | 38,477  | 38,589  | 38,760  | 38,943  | 38,607  | 39,664  |
| Billings                                | \$ 45,593          | 45,583  | 44,970  | 43,798  | 44,669  | 50,392  | 55,460  | 60,796  | 59,682  | 63,690  |
| <b>Industrial</b>                       |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 117                | 114     | 113     | 110     | 108     | 105     | 107     | 105     | 103     | 97      |
| Billings                                | \$ 1,164           | 1,361   | 1,136   | 747     | 681     | 715     | 776     | 836     | 843     | 935     |
| <b>Commercial</b>                       |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 21,112             | 21,064  | 20,998  | 20,949  | 20,931  | 20,894  | 20,814  | 20,788  | 20,887  | 20,003  |
| Billings                                | \$ 53,321          | 52,001  | 47,893  | 48,225  | 48,335  | 51,086  | 58,685  | 64,927  | 73,799  | 78,377  |
| <b>Municipal customers</b>              |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 416                | 418     | 420     | 422     | 424     | 419     | 423     | 419     | 1,732   | 1,764   |
| Billings                                | \$ 1,474           | 1,276   | 1,296   | 1,235   | 1,433   | 1,282   | 1,313   | 1,621   | 7,005   | 7,826   |
| <b>Suburban (watershed keepers) (*)</b> |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 0                  | 12      | 12      | 12      | 12      | 12      | 12      | 11      | 11      | 11      |
| Billings                                | \$ 0               | 1       | 3       | 3       | 2       | 3       | 2       | 2       | 2       | 2       |
| <b>Total</b>                            |                    |         |         |         |         |         |         |         |         |         |
| Number of accounts                      | 167,482            | 167,884 | 168,303 | 168,660 | 169,073 | 169,381 | 169,852 | 170,256 | 171,857 | 172,298 |
| Billings - dollars in thousands         | \$ 133,926         | 133,201 | 128,257 | 126,770 | 128,855 | 138,359 | 153,708 | 169,378 | 186,275 | 199,385 |

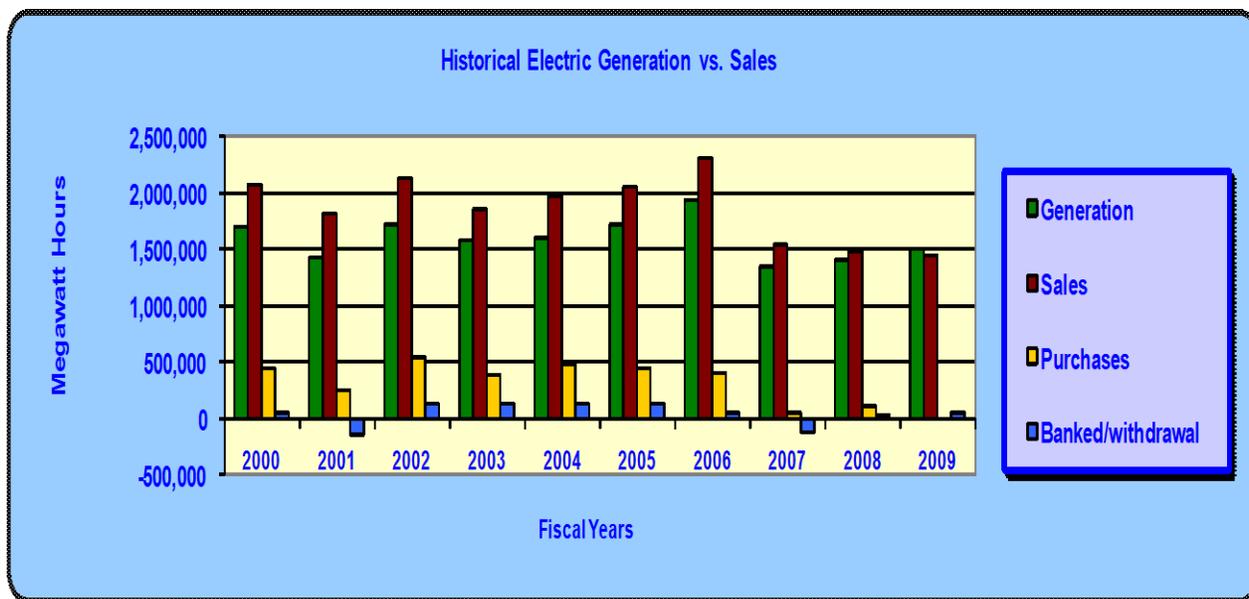
(\*) In addition to suburban customers, we provide service to three special districts, North San Mateo County Sanitation District, Bayshore Sanitary District, and the City of Brisbane.

Source: San Francisco Public Utilities Commission's Customer Information & Billing System

Demographic & Economic Information

Hetch Hetchy Historical Electric Sales in Megawatt Hours  
Fiscal Years Ending 2000 to 2009

|                                     | 2000             | 2001             | 2002             | 2003             | 2004             | 2005             | 2006             | 2007             | 2008             | 2009             |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Sales</b>                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Municipal                           | 879,366          | 844,586          | 813,872          | 829,717          | 851,455          | 836,677          | 845,569          | 858,215          | 884,580          | 878,938          |
| Retail                              | 78,123           | 74,190           | 73,710           | 76,085           | 73,425           | 84,788           | 86,326           | 83,378           | 79,351           | 79,231           |
| Moccasin/Nomis                      | 7,073            | 7,981            | 9,310            | 9,459            | 10,011           | 10,660           | 11,681           | 13,211           | 15,556           | 15,094           |
| Modesto/Turlock Irigation Districts | 970,286          | 813,119          | 871,807          | 803,593          | 834,549          | 965,348          | 1,004,856        | 548,459          | 386,568          | 258,268          |
| Western Systems Power Pool          | 142,825          | 80,619           | 370,772          | 139,029          | 212,259          | 158,127          | 368,045          | 36,093           | 125,528          | 217,792          |
| <b>Total sales</b>                  | <b>2,077,673</b> | <b>1,820,494</b> | <b>2,139,471</b> | <b>1,857,883</b> | <b>1,981,699</b> | <b>2,055,600</b> | <b>2,316,477</b> | <b>1,539,357</b> | <b>1,491,584</b> | <b>1,449,323</b> |
| <b>Purchases</b>                    |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Western Systems Power Pool          | 443,642          | 260,655          | 547,322          | 389,580          | 498,926          | 456,277          | 420,807          | 66,200           | 126,250          | 0                |
| South East Cogen Plant              | 0                | 0                | 0                | 5,012            | 0                | 0                | 0                | 0                | 0                | 0                |
| <b>Generation</b>                   | <b>1,698,142</b> | <b>1,423,786</b> | <b>1,729,416</b> | <b>1,592,007</b> | <b>1,611,949</b> | <b>1,728,037</b> | <b>1,946,779</b> | <b>1,352,438</b> | <b>1,413,184</b> | <b>1,517,394</b> |
| <b>Total purchases/generation</b>   | <b>2,141,784</b> | <b>1,684,441</b> | <b>2,276,738</b> | <b>1,986,599</b> | <b>2,110,875</b> | <b>2,184,314</b> | <b>2,367,586</b> | <b>1,418,638</b> | <b>1,539,434</b> | <b>1,517,394</b> |
| <b>Banked/(draw down from bank)</b> | <b>64,111</b>    | <b>(136,054)</b> | <b>137,267</b>   | <b>128,716</b>   | <b>129,176</b>   | <b>128,714</b>   | <b>51,109</b>    | <b>(120,719)</b> | <b>47,850</b>    | <b>68,071</b>    |
| <b>Number of accounts</b>           |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Electric                            | 2,061            | 1,990            | 2,027            | 2,165            | 2,152            | 2,155            | 2,161            | 2,175            | 2,222            | 2,221            |
| Natural Gas                         | 348              | 334              | 345              | 336              | 340              | 341              | 342              | 344              | 348              | 341              |
| Steam                               | 14               | 12               | 12               | 13               | 12               | 12               | 13               | 13               | 13               | 12               |
| <b>Total</b>                        | <b>2,423</b>     | <b>2,336</b>     | <b>2,384</b>     | <b>2,514</b>     | <b>2,504</b>     | <b>2,508</b>     | <b>2,516</b>     | <b>2,532</b>     | <b>2,583</b>     | <b>2,574</b>     |



Sources: Customer Service Retail Billing System and Power Enterprise Scheduling System



## **OPERATING INFORMATION**

**Full-Time Equivalent (FTEs) Employees by Division**

**Operating & Capacity Indicators**

**Major Water Wholesale and Retail Customer Accounts by Revenues**

**Major Sewer Customer Accounts by Revenues**

**Major Electric Retail and Wholesale Customer Accounts by Revenues**

**Performance Measures**

**Operating Information**  
**Full-time Equivalent (FTEs) Employees by Division**  
**Fiscal Years Ending 2000 to 2009**

|  | <u>2000</u>  | <u>2001</u>  | <u>2002</u>  | <u>2003</u>  | <u>2004</u>  | <u>2005</u>  | <u>2006</u>  | <u>2007</u>  | <u>2008</u>  | <u>2009</u>  |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Enterprises and Bureaus</b>                 |              |              |              |              |              |              |              |              |              |              |
| City Distribution Division & Administration    | 253          | 256          | 252          | 268          | 286          | 279          | 279          | 271          | 272          | 268          |
| Water Quality                                  | 95           | 98           | 98           | 100          | 104          | 102          | 87           | 86           | 83           | 80           |
| Water Supply & Treatment                       | 219          | 224          | 218          | 226          | 243          | 239          | 248          | 242          | 242          | 235          |
| Natural Resources                              | 28           | 29           | 31           | 42           | 46           | 42           | 55           | 61           | 66           | 65           |
| Water Resources Management                     | 6            | 8            | 5            | 5            | 5            | 5            | 23           | 23           | 23           | 22           |
| <b>Total Water</b>                             | <b>601</b>   | <b>615</b>   | <b>604</b>   | <b>641</b>   | <b>684</b>   | <b>667</b>   | <b>692</b>   | <b>683</b>   | <b>686</b>   | <b>670</b>   |
| Administration                                 | 39           | 38           | 33           | 37           | 41           | 38           | 41           | 41           | 40           | 32           |
| Maintenance                                    | 121          | 122          | 126          | 136          | 139          | 133          | 136          | 146          | 144          | 138          |
| Operations                                     | 111          | 101          | 100          | 113          | 114          | 111          | 120          | 122          | 121          | 141          |
| Environmental Engineering                      | 46           | 48           | 45           | 47           | 56           | 55           | 55           | 58           | 58           | 45           |
| Planning & Regulations                         | 5            | 5            | 5            | 4            | 5            | 5            | 3            | 7            | 8            | 10           |
| Sewer Operations                               | 36           | 35           | 34           | 35           | 37           | 35           | 35           | 39           | 38           | 39           |
| Collection System                              | 59           | 61           | 59           | 58           | 61           | 62           | 64           | 64           | 66           | 63           |
| <b>Total Wastewater</b>                        | <b>417</b>   | <b>410</b>   | <b>402</b>   | <b>430</b>   | <b>453</b>   | <b>439</b>   | <b>454</b>   | <b>477</b>   | <b>475</b>   | <b>468</b>   |
| Power Administration                           | 19           | 5            | 4            | 5            | 8            | 7            | 6            | 8            | 8            | 6            |
| Energy Services                                | 14           | 39           | 47           | 41           | 32           | 32           | 42           | 47           | 61           | 64           |
| Power Long Range Planning                      | 8            | 8            | 13           | 19           | 24           | 21           | 22           | 19           | 16           | 17           |
| Water Project Operations & Engineering         | 139          | 140          | 139          | 146          | 155          | 151          | 153          | 159          | 169          | 174          |
| <b>Total Hetch Hetchy</b>                      | <b>180</b>   | <b>192</b>   | <b>203</b>   | <b>211</b>   | <b>219</b>   | <b>211</b>   | <b>223</b>   | <b>233</b>   | <b>254</b>   | <b>261</b>   |
| General Manager                                | 15           | 14           | 12           | 14           | 18           | 8            | 7            | 8            | 7            | 7            |
| Infrastructure                                 | 224          | 239          | 238          | 252          | 300          | 310          | 309          | 363          | 411          | 414          |
| Business Services & Finance                    | 42           | 47           | 45           | 46           | 56           | 50           | 54           | 56           | 54           | 56           |
| Information Technology Services                | 45           | 61           | 63           | 68           | 76           | 71           | 76           | 75           | 80           | 79           |
| Human Resource Services                        | 46           | 49           | 49           | 49           | 53           | 48           | 52           | 50           | 50           | 51           |
| Customer Services                              | 97           | 98           | 95           | 98           | 99           | 95           | 100          | 100          | 107          | 110          |
| Governmental Affairs                           |              |              | 9            | 10           | 15           | 19           | 21           | 22           | 21           | 21           |
| Communications, Real Estate & Others           | 42           | 41           | 43           | 38           | 44           | 49           | 32           | 16           | 18           | 17           |
| <b>Total SFPUC annually budgeted positions</b> | <b>1,709</b> | <b>1,766</b> | <b>1,763</b> | <b>1,857</b> | <b>2,017</b> | <b>1,967</b> | <b>2,020</b> | <b>2,083</b> | <b>2,163</b> | <b>2,154</b> |
| <b>Annual Salary Ordinance Positions</b>       | <b>1,891</b> | <b>1,939</b> | <b>1,932</b> | <b>1,976</b> | <b>2,118</b> | <b>2,116</b> | <b>2,122</b> | <b>2,210</b> | <b>2,307</b> | <b>2,307</b> |

Note: Funded full-time employee counts include the operating and project funded positions net of the attrition savings.

Source: Annual Appropriation Ordinance

Operating Information  
Operating & Capacity Indicators  
Fiscal Years Ending 2000 to 2009

| Water   | 2000          | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Water mains (miles) (excludes Suburban)               | 1,219         | 1,219         | 1,220         | 1,220         | 1,220         | 1,223         | 1,227         | 1,227         | 1,227         | 1,235         |
| Water main breaks repaired                            | 70            | 150           | 124           | 114           | 130           | 118           | 101           | 151           | 159           | 92            |
| New service installations                             | 767           | 629           | 641           | 597           | 557           | 491           | 544           | 533           | 539           | 437           |
| Meter repairs/replacements                            | 11,037        | 9,217         | 8,963         | 6,419         | 4,175         | 5,050         | 4,610         | 4,945         | 3,798         | 1,115         |
| Responses to fire alarms                              | 61            | 63            | 55            | 43            | 33            | 37            | 39            | 43            | 28            | 18            |
| Water production (millions of gallons)                | 100,064       | 99,244        | 94,681        | 98,112        | 100,321       | 89,973        | 84,315        | 88,732        | 90,585        | 85,556        |
| Average daily production (millions of gallons daily)  | 273           | 272           | 259           | 269           | 274           | 247           | 231           | 243           | 248           | 234           |
| Maximum daily production (millions of gallons daily)  | 390           | 390           | 381           | 387           | 394           | 359           | 338           | 352           | 356           | 333           |
| Water consumption (millions of gallons)               | 91,419        | 91,894        | 89,747        | 88,765        | 93,896        | 87,481        | 86,243        | 90,207        | 90,325        | 86,958        |
| Average daily consumption (millions of gallons)       | 250.5         | 251.8         | 245.9         | 243.2         | 257.2         | 239.7         | 236.3         | 247.1         | 247.4         | 238.2         |
| <b>Watershed acreage (acres)</b>                      |               |               |               |               |               |               |               |               |               |               |
| Alameda   | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        | 36,895        |
| San Mateo   | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        | 23,000        |
| <b>Total</b>  | <b>59,895</b> |
| <b>Reservoir storage (millions of gallons) (*)</b>    |               |               |               |               |               |               |               |               |               |               |
| Calaveras   | 27,774        | 22,730        | 13,581        | 10,920        | 12,094        | 13,434        | 14,054        | 11,970        | 12,604        | 12,242        |
| San Antonio   | 14,931        | 13,783        | 15,763        | 15,172        | 12,658        | 12,414        | 14,789        | 14,680        | 15,076        | 14,990        |
| Crystal Springs                                       | 14,760        | 13,962        | 15,103        | 15,522        | 16,124        | 15,606        | 15,232        | 15,513        | 13,710        | 15,932        |
| San Andreas   | 5,208         | 5,615         | 5,804         | 5,048         | 5,855         | 5,549         | 5,878         | 5,843         | 5,836         | 5,842         |
| Pilarcitos  | 755           | 762           | 793           | 788           | 714           | 788           | 736           | 777           | 785           | 726           |
| <b>Total</b>  | <b>63,428</b> | <b>56,852</b> | <b>51,044</b> | <b>47,450</b> | <b>47,445</b> | <b>47,791</b> | <b>50,689</b> | <b>48,783</b> | <b>48,011</b> | <b>49,732</b> |
| <b>Treatment plant capacity (millions of gallons)</b> |               |               |               |               |               |               |               |               |               |               |
| Harry Tracy   | 50.1          | 37.8          | 44.5          | 43.1          | 52.0          | 45.2          | 40.4          | 41.2          | 36.9          | 26.9          |
| Sunol Valley  | 49.0          | 34.9          | 29.0          | 28.0          | 36.7          | 28.5          | 29.4          | 17.6          | 21.1          | 23.6          |
| <b>Total</b>  | <b>99.1</b>   | <b>72.7</b>   | <b>73.5</b>   | <b>71.1</b>   | <b>88.7</b>   | <b>73.7</b>   | <b>69.8</b>   | <b>58.8</b>   | <b>58.0</b>   | <b>50.5</b>   |

(\*) In addition to these regional reservoirs, SFPUC has In-City System Storage Capacity of 411.9 million of gallons.

Sources: Water Monthly Operating Report, Hetch Hetchy Capital Outlays Summary, and Treatment Plant Influent Flow & Sewer Service Charge Calculation Reports.

## Operating Information

## Operating &amp; Capacity Indicators

## Fiscal Years Ending 2000 to 2009

| Wastewater  | 2000             | 2001             | 2002             | 2003             | 2004             | 2005             | 2006             | 2007             | 2008             | 2009             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Sanitary sewers (miles)   | 993              | 993              | 993              | 993              | 993              | 993              | 993              | 993              | 993              | 993              |
| Sewer breaks repaired   | 410              | 436              | 444              | 411              | 456              | 432              | 394              | 464              | 419              | 52               |
| Inspection performed (miles)                                      | 43               | 45               | 47               | 49               | 51               | 53               | 53               | 56               | 73               | 111              |
| Sewer replaced (miles)  | 5.6              | 5.8              | 4.8              | 3.5              | 9.4              | 5.2              | 5.4              | 6.8              | 6.6              | 3.2              |
| Responses to customer calls                                       | 859              | 1,022            | 1,370            | 1,522            | 1,701            | 1,729            | 2,093            | 2,152            | 2,683            | 3,309            |
| Treatment plant average daily flow<br>(millions of daily gallons) |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Southeast Plant   | 76.9             | 75.3             | 74.6             | 70.9             | 71.4             | 80.0             | 79.6             | 69.4             | 67.2             | 67.2             |
| Oceanside Plant   | 21.8             | 20.6             | 21.1             | 20.4             | 20.2             | 21.8             | 22.4             | 19.8             | 19.3             | 19.1             |
| North Point Plant   | 3.3              | 2.6              | 3.0              | 3.0              | 2.0              | 4.9              | 4.5              | 1.8              | 2.2              | 2.8              |
| <b>Total</b>  | <b>102.0</b>     | <b>98.5</b>      | <b>98.7</b>      | <b>94.3</b>      | <b>93.6</b>      | <b>106.7</b>     | <b>106.5</b>     | <b>91.0</b>      | <b>88.7</b>      | <b>89.1</b>      |
| <b>Hetch Hetchy Water &amp; Power</b>                             | <b>2000</b>      | <b>2001</b>      | <b>2002</b>      | <b>2003</b>      | <b>2004</b>      | <b>2005</b>      | <b>2006</b>      | <b>2007</b>      | <b>2008</b>      | <b>2009</b>      |
| <b>Watershed acreage (square miles)</b>                           |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Hetch Hetchy  | 459              | 459              | 459              | 459              | 459              | 459              | 459              | 459              | 459              | 459              |
| Lake Eleanor  | 79               | 79               | 79               | 79               | 79               | 79               | 79               | 79               | 79               | 79               |
| Lake Lloyd (Cherry)   | 114              | 114              | 114              | 114              | 114              | 114              | 114              | 114              | 114              | 114              |
| <b>Total</b>  | <b>652</b>       |
| <b>Reservoir storage (million of gallons)</b>                     |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Hetch Hetchy  | 117,682          | 113,465          | 117,295          | 117,231          | 116,140          | 117,682          | 115,437          | 114,799          | 116,525          | 117,424          |
| Lake Eleanor  | 8,866            | 8,459            | 8,429            | 8,247            | 8,247            | 7,459            | 8,929            | 8,677            | 7,489            | 8,677            |
| Lake Lloyd (Cherry)   | 87,019           | 87,478           | 87,888           | 89,247           | 86,790           | 89,247           | 88,951           | 81,305           | 83,353           | 87,763           |
| <b>Total</b>  | <b>213,567</b>   | <b>209,402</b>   | <b>213,612</b>   | <b>214,725</b>   | <b>211,177</b>   | <b>214,388</b>   | <b>213,317</b>   | <b>204,781</b>   | <b>207,367</b>   | <b>213,864</b>   |
| <b>Hydro electric generation (megawatt hours)</b>                 |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Holm  | 720,500          | 558,826          | 717,588          | 728,447          | 685,103          | 726,942          | 852,411          | 576,851          | 563,919          | 667,191          |
| Kirkwood  | 583,509          | 481,221          | 577,357          | 496,128          | 548,504          | 596,567          | 667,282          | 428,901          | 469,416          | 473,320          |
| Moccasin  | 387,595          | 378,428          | 429,680          | 363,794          | 373,304          | 397,647          | 418,814          | 344,361          | 377,327          | 372,777          |
| Moccasin Low-Head   | 6,538            | 5,311            | 4,791            | 3,638            | 5,038            | 6,881            | 8,272            | 2,324            | 2,522            | 4,106            |
| <b>Total</b>  | <b>1,698,142</b> | <b>1,423,786</b> | <b>1,729,416</b> | <b>1,592,007</b> | <b>1,611,949</b> | <b>1,728,037</b> | <b>1,946,779</b> | <b>1,352,437</b> | <b>1,413,184</b> | <b>1,517,394</b> |

(\*) In addition to these regional reservoirs, SFPUC has In-City System Storage Capacity of 411.9 million of gallons.

Sources: Water Monthly Operating Report, Hetch Hetchy Capital Outlays Summary, and Treatment Plant Influent Flow & Sewer Service Charge Calculation Reports.

## Operating Information

**Major Water Wholesale and Retail Customer Accounts by Revenues**  
**Fiscal Years Ending 2000 to 2009**  
(Dollars in Thousands)

| <b>Wholesale Customers</b>             | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Hayward Muni Water System              | \$7,681     | 7,906       | 7,770       | 7,805       | 10,809      | 10,222      | 9,200       | 11,123      | 12,528      | 13,500      |
| City of Palo Alto                      | 5,703       | 5,995       | 5,874       | 5,644       | 7,442       | 6,770       | 6,183       | 8,391       | 8,332       | 8,383       |
| City of Sunnyvale                      | 4,155       | 4,329       | 4,488       | 4,021       | 5,572       | 5,010       | 4,939       | 5,849       | 6,898       | 7,703       |
| Calif. Water Service Co (S.Mateo)      | 4,192       | 4,699       | 4,616       | 4,526       | 5,931       | 5,788       | 5,633       | 6,965       | 7,065       | 7,494       |
| Alameda Co Water District              | 4,476       | 4,589       | 4,645       | 4,808       | 6,082       | 5,234       | 4,713       | 6,793       | 7,138       | 7,198       |
| City of Mountain View                  | 4,204       | 4,824       | 4,949       | 4,724       | 6,104       | 5,912       | 5,274       | 6,641       | 6,818       | 7,091       |
| City of Milpitas                       | 2,994       | 3,064       | 3,097       | 3,019       | 3,996       | 3,792       | 3,414       | 4,257       | 4,550       | 4,964       |
| City of Redwood City                   | 3,752       | 4,043       | 3,982       | 3,794       | 5,318       | 5,015       | 4,212       | 5,715       | 5,419       | 4,946       |
| Estero Municipal Improvement District  | 2,293       | 2,536       | 2,478       | 2,332       | 3,084       | 2,889       | 2,660       | 3,434       | 3,580       | 3,671       |
| <b>Retail Customers</b>                | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Parkmerced Investors Properties, LLC   | \$1,772     | 1,480       | 1,630       | 1,702       | 1,761       | 1,761       | 1,854       | 2,092       | 2,452       | 2,527       |
| SF International Airport               | 902         | 911         | 1,194       | 1,154       | 1,326       | 1,305       | 1,345       | 1,742       | 2,123       | 2,314       |
| University of California San Francisco | 1,014       | 1,100       | 1,047       | 1,315       | 734         | 837         | 1,372       | 1,542       | 2,183       | 1,761       |
| NRG Energy Center SF                   | 459         | 453         | 125         | 765         | 965         | 1,023       | 1,140       | 1,206       | 1,218       | 1,155       |
| Nasa Shared Services Center (NSSC)     | 466         | 425         | 691         | 622         | 667         | 631         | 661         | 773         | 996         | 1,070       |
| SF State University-State of Calif     | 426         | 416         | 418         | 420         | 518         | 480         | 596         | 764         | 917         | 974         |
| Treasure Island                        | 216         | 346         | 374         | 449         | 494         | 401         | 476         | 566         | 710         | 856         |
| Marriott Hotel                         | 509         | 484         | 441         | 427         | 443         | 577         | 634         | 696         | 769         | 806         |
| Castlewood Country Club                | 234         | 233         | 354         | 332         | 395         | 349         | 428         | 541         | 695         | 736         |
| Fairmont Hotel & Tower                 | 429         | 396         | 325         | 365         | 427         | 480         | 564         | 669         | 540         | 655         |
| American Linen                         | 414         | 440         | 345         | 314         | 307         | 420         | 545         | 509         | 468         | 488         |

Source: San Francisco Public Utilities Commission's Customer Information &amp; Billing System

## Operating Information

**Major Sewer Customer Accounts by Revenues  
Fiscal Years Ending 2000 to 2009  
(Dollars in Thousands)**

| <b>Customer</b>                        | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Parkmerced Investors Properties, LLC   | \$1,246     | 1,026       | 1,111       | 1,130       | 1,169       | 1,272       | 1,350       | 1,514       | 1,704       | 1,715       |
| University of California San Francisco | 788         | 854         | 798         | 981         | 561         | 663         | 1,034       | 1,146       | 1,574       | 1,270       |
| NRG Energy Center SF                   | 345         | 341         | 83          | 483         | 609         | 666         | 738         | 775         | 845         | 786         |
| SF State University-State of Calif     | 331         | 315         | 318         | 305         | 374         | 350         | 448         | 577         | 643         | 676         |
| Marriott Hotel                         | 408         | 388         | 347         | 330         | 342         | 454         | 498         | 543         | 577         | 596         |
| Fairmont Hotel & Tower                 | 343         | 316         | 254         | 281         | 329         | 377         | 441         | 522         | 405         | 484         |
| Hyatt Corporation                      | 321         | 321         | 269         | 285         | 287         | 282         | 339         | 392         | 442         | 400         |
| American Linen                         | 340         | 356         | 272         | 246         | 242         | 348         | 450         | 403         | 353         | 372         |

Source: San Francisco Public Utilities Commission's Customer Information & Billing System

## Operating Information

**Major Electric Retail and Wholesale Customer Accounts by Revenues**  
**Fiscal Years Ending 2000 to 2009**  
**(Dollars in Thousands)**

| <b>Retail Customer</b>                | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| San Francisco International Airport   | \$19,139    | 23,998      | 33,807      | 33,984      | 33,205      | 29,635      | 29,275      | 29,161      | 29,853      | 31,659      |
| PUC - Wastewater Enterprise           | 5,459       | 6,160       | 8,654       | 9,028       | 7,773       | 7,577       | 7,211       | 7,254       | 7,273       | 7,567       |
| PUC - Water Enterprise                | 3,707       | 3,802       | 5,823       | 6,334       | 6,199       | 5,704       | 5,593       | 5,758       | 5,263       | 5,477       |
| Municipal Transportation Agency       | 4,813       | 5,262       | 5,500       | 4,606       | 4,562       | 4,323       | 4,219       | 4,275       | 4,420       | 4,513       |
| Administrative Services Agency        | 1,964       | 2,134       | 2,656       | 3,495       | 2,022       | 1,713       | 3,876       | 4,009       | 4,232       | 4,233       |
| San Francisco Housing Authority       | 2,432       | 2,679       | 3,394       | 3,169       | 2,963       | 3,048       | 3,210       | 3,455       | 3,473       | 3,672       |
| City Owned Parking Garages            | 928         | 1,136       | 1,507       | 1,552       | 1,615       | 1,482       | 1,546       | 1,548       | 1,572       | 1,719       |
| San Francisco Port                    | 1,475       | 1,139       | 1,364       | 1,562       | 1,386       | 1,300       | 1,246       | 1,258       | 1,326       | 1,435       |
| Recreation and Parks Department       | 1,201       | 1,107       | 1,340       | 1,344       | 1,240       | 869         | 1,221       | 1,308       | 1,286       | 1,305       |
| San Francisco Unified School District | 1,228       | 1,246       | 1,257       | 1,295       | 1,251       | 1,301       | 1,262       | 1,309       | 1,309       | 1,292       |
| Department of Public Health           | 1,566       | 1,651       | 1,788       | 1,802       | 1,728       | 1,704       | 1,662       | 221         | 630         | 1,179       |
| <b>Wholesale Customer</b>             | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Western Systems Power Pool            | \$4,376     | 10,340      | 8,305       | 3,910       | 6,021       | 7,399       | 23,383      | 1,911       | 9,247       | 6,162       |
| Turlock Irrigation Districts          | 8,439       | 7,103       | 7,117       | 8,424       | 6,734       | 8,049       | 10,876      | 5,838       | 6,085       | 3,717       |
| Modesto Irrigation Districts          | 18,969      | 16,094      | 14,874      | 17,777      | 18,912      | 16,973      | 13,651      | 8,426       | 4,378       | 1,322       |

Sources: Customer Service Retail Billing System and Power Enterprise Scheduling System

## Performance Measures

| Water Distribution  | 2006-07<br>Actual | 2007-08<br>Actual | 2008-09<br>Target | 2008-09<br>Actual | 2009-10<br>Target |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Deliver high quality drinking water to our customers</b>   |                   |                   |                   |                   |                   |
| California Department of Public Health (DPH) violations in the Regional Water System                            | 0                 | 0                 | 0                 | 0                 | 0                 |
| California Department of Health and Safety (DHS) violations in the Local Water System                           | 0                 | 0                 | 0                 | 0                 | 0                 |
| Number of unplanned service interruptions to wholesale customers and to the retail service area (San Francisco) | 151               | 159               | 0                 | 92                | 0                 |
| <b>Maintain and improve customer service</b>  |                   |                   |                   |                   |                   |
| Percent of customer inquiries or complaints responded to within 2 business hours of initial contact             | 100%              | 100%              | 99%               | 100%              | 100%              |
| Unplanned disruptions of less than 4 hours in San Francisco (per 1,000 customer accounts)                       | 1.10              | 1.06              | 1.10              | 0.63              | 2.20              |
| Unplanned disruptions of greater than 12 hours in San Francisco (per 1,000 customer accounts)                   | 0.00              | 0.02              | 0.01              | 0.01              | 0.01              |
| <b>Maintain infrastructure to keep water system in a state of good repair and operation</b>                     |                   |                   |                   |                   |                   |
| Percent of wholesale water meters calibrated  | 46%               | 67%               | 50%               | 33%               | 50%               |
| Percent of transmission line valves exercised   | 17%               | 13%               | 33%               | 32%               | 33%               |
| Number of residential and commercial water meters replaced in San Francisco                                     | 4,053             | 3,561             | 4,200             | 1,115             | 500               |
| Miles of water main replaced in San Francisco   | 6.2               | 6.0               | 12.0              | 8.1               | 6.0               |
| Miles of water conveyance facilities inspected in the Hetch Hetchy system (Hetch Hetchy to Tesla Portal)        | 17                | 47                | 16                | 16                | 16                |
| Percent of maintenance that is scheduled rather than unscheduled in the Hetch Hetchy system                     | 46%               | 52%               | 45%               | 48%               | 45%               |
| Percent of maintenance that is scheduled rather than unscheduled in the Regional system (Tesla to CDD)          | 63%               | 66%               | 54%               | 56%               | 54%               |

| <b>Wastewater Operations</b>  | <b>2006-07<br/>Actual</b> | <b>2007-08<br/>Actual</b> | <b>2008-09<br/>Target</b> | <b>2008-09<br/>Actual</b> | <b>2009-10<br/>Target</b> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Collect wastewater in an efficient and effective fashion</b>   |                           |                           |                           |                           |                           |
| Number of catch basins inspected and cleaned  | 6,193                     | 7,009                     | 7,500                     | 7,361                     | 7,500                     |
| Linear feet of main collection system sewer lines inspected   | 441,081                   | 399,565                   | 528,000                   | 587,928                   | 528,000                   |
| Number of dental office inspections performed (to control source of mercury discharge)                  | 201                       | 130                       | 150                       | 6                         | 25                        |
| Number of Fats, Oils, & Grease (FOG) inspections (to reduce sewer blockages and control odor problems)  | 706                       | 862                       | 750                       | 767                       | 840                       |
| <b>Operate the treatment plants efficiently and effectively</b>   |                           |                           |                           |                           |                           |
| Major National Pollution Discharge Elimination System (NPDES) Permit violations per year                | 1                         | 0                         | 2                         | 2                         | 2                         |
| Kilowatt-hours of electric power consumed per million gallons treated (includes plants & pump stations) | 1,976                     | 1,981                     | 1,900                     | 2,065                     | 1,800                     |
| Percent of solids in dewatered (post-centrifuge) cake   | 24%                       | 23%                       | 23%                       | 24%                       | 23%                       |
| <b>Maintain the wastewater system in a state of good repair</b>   |                           |                           |                           |                           |                           |
| Percent maintenance work done that is planned vs. unplanned   | 53%                       | 64%                       | 76%                       | 84%                       | 80%                       |
| Percent of scheduled maintenance jobs completed within 10% of initial estimate for staff hours required | 28%                       | 29%                       | 40%                       | 38%                       | 80%                       |
| Percent of preventive maintenance (PM) tasks completed  | 27%                       | 38%                       | 80%                       | 77%                       | 80%                       |
| <b>Foster Constructive Relationships with Neighborhoods and Contribute to the Community</b>             |                           |                           |                           |                           |                           |
| Percent of sewer complaints responded to in person within 8 hours                                       | 100%                      | 100%                      | 100%                      | 100%                      | 100%                      |
| Number of confirmed treatment plant odor complaints made by the public                                  | 8                         | 12                        | 13                        | 9                         | 6                         |

| <b>Hetch Hetchy Power</b>   | <b>2006-07<br/>Actual</b> | <b>2007-08<br/>Actual</b> | <b>2008-09<br/>Target</b> | <b>2008-09<br/>Actual</b> | <b>2009-10<br/>Target</b> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Manage the City's power supply effectively and efficiently</b>   |                           |                           |                           |                           |                           |
| Actual municipal power load falls within 90% to 110% of forecast load (megawatt hours)                                    | 832,963                   | 842,347                   | 848,253                   | 836,060                   | 880,492                   |
| Number of days per month the balance of Deferred Delivery Account (DDA) accounts exceeds 110,000 megawatt hours           | 0                         | 0                         | 0                         | 0                         | 0                         |
| <b>Promote energy conservation</b>  |                           |                           |                           |                           |                           |
| Total number of kilowatt hours reduced  | 1,500,000                 | 2,339,000                 | 3,000,000                 | 3,035,387                 | 5,500,000                 |
| Total number of peak kilowatts reduced  | 26                        | 87                        | 350                       | 528                       | 610                       |
| <b>Develop and implement renewable energy projects</b>  |                           |                           |                           |                           |                           |
| Increase in kilowatts per year of renewable capacity and energy (non-Hetch Hetchy generated)                              | 245                       | 845                       | 400                       | 0                         | 5,250                     |
| <b>Maintain the City's power assets in a state of good repair</b>   |                           |                           |                           |                           |                           |
| Percent of customer-funded projects (work orders for other departments) performed within cost estimates                   | 88%                       | 83%                       | 100%                      | 50%                       | 100%                      |
| <b>Respond to streetlight and pole needs promptly</b>   |                           |                           |                           |                           |                           |
| Percent of SFPUC streetlight malfunctions (as reported by customers) repaired within two business days                    | 82%                       | 70%                       | 85%                       | 65%                       | 40%                       |
| Percent of SFPUC pole knockdown/replacements (with concrete foundation repairs) completed within twenty-one business days | 86%                       | 39%                       | 70%                       | 85%                       | 70%                       |
| Percent of SFPUC pole knockdown/replacements (without concrete foundation repairs) completed within three business days   | 100%                      | 19%                       | 85%                       | 65%                       | 75%                       |
| <b>Manage utilities on Yerba Buena Island / Treasure Island effectively and efficiently</b>                               |                           |                           |                           |                           |                           |
| Percent of Treasure Island / Yerba Buena Island service (electric, natural gas) requests responded to within 48 hours     | 100%                      | 100%                      | 100%                      | 100%                      | 100%                      |
| Percent of technical and engineering services for TIDA operation activities provided on schedule                          | 100%                      | 100%                      | 100%                      | 100%                      | 100%                      |
| Percent of technical and engineering services for TIDA design activities provided on schedule                             | 100%                      | 100%                      | 100%                      | 100%                      | 100%                      |
| <b>Generate power to help meet the needs of the City and County of San Francisco</b>                                      |                           |                           |                           |                           |                           |
| Power generated to meet San Francisco's needs, in gigawatt hours (annual target set assuming average annual hydrology)    | 1,388                     | 2,046                     | 1,600                     | 1,527                     | 3,200                     |

## **Glossary of Terms**

### **Accreted Value**

Accreted value is the theoretical price of a bond if market interest rates were to remain at current levels.

### **Accrual Basis of Accounting**

The financial activities of the Water, Wastewater and Hetch Hetchy Water & Power are accounted for using the accrual basis of accounting. It is a method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

### **Annual Required Contribution (ARC)**

Term used in connection with defined benefit pension and other postemployment benefit plans to describe the amount an employer must contribute in a given year.

### **Arbitrage**

The reinvestment of the proceeds of tax-exempt securities in materially higher yielding taxable securities.

### **Arbitrage Rebate**

A payment made by an issuer to the federal government in connection with an issue of tax-exempt bonds. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code.

### **Assurance and Internal Controls (AIC)**

A bureau in Business Services. AIC provides and facilitates quality assurance oversight, risk management, internal controls, policies and procedures review and business process improvement programs for operational and financial transactions/processes, with the objective to minimize process inefficiencies and control deficiencies to mitigate financial risks.

### **Attrition Savings**

Attrition Savings is the anticipated amount of salaries that will not be expanded due to normal attrition.

### **Automated Water Meter Reading System**

The SFPUC will implement this System over the next three years, which will collect various water meter data. The System will largely eliminate meter reading field visits, improve customers' access to water usage information, facilitate the timely detection of tampering, theft, and leaks, and enhance usage or flow profiling.

### **Auxiliary Water Supply System (AWSS)**

The Auxiliary Water Supply System (AWSS) is a system of mains and 1,889 High Pressure Fire Hydrants, independent of the domestic water supply built solely for the purpose of firefighting. The system is supplied with fresh water, by gravity, from a reservoir and two tanks located at high elevation in the City. The transition of AWSS to the SFPUC would be implemented in a phased approach over a period of time and would include both the high and low pressure distribution systems, one reservoir, two tanks, and two pump stations.

### **Average Cost**

A costing method by which the value of a pool of assets or expenses is assumed to be equal to the average cost of the assets or expenses in the pool.

### **Average Daily Rate (ADR)**

A statistical unit that is often used in the lodging industry. The number represents the average rental income per occupied room in a given time period. The ADR can be calculated by dividing the room revenue by the number of rooms sold. ADR along with the property's occupancy are the foundations for the property's financial performance. It is one of the commonly used financial indicators in hotel industry to measure how well a hotel performs compared to its competitors and itself (year over year).

### **Bay Area Water Supply and Conservation Agency (BAWSCA)**

BAWSCA represents the interests of 27 suburban wholesale that purchase water wholesale from the San Francisco regional water system. These entities provide water to 1.7 million people, businesses and community organizations in Alameda, Santa Clara and San Mateo counties.

### **Board of Supervisors (BOS)**

The Board of Supervisors is the legislative branch of the City and County of San Francisco. The Board consists of 11 members. Each member is elected on a non-partisan basis from a district where he or she lives. The Board is responsible for amending an approving the SFPUC's proposed budget. The Board's Budget Analyst also participates in reviews of city spending and financial projections.

### **Bond Discount**

A contra liability account that reports the amount of unamortized discount associated with bonds that are outstanding. The discount on bonds payable originates when bonds are issued for less than the bond's face or maturity amount. The debit balance in this account will be amortized to bond interest expense over the life of the bonds and results in more interest expense than interest paid.

### **Bond Issuance Cost**

A long-term asset which includes professional fees and registration fees associated with the issuance of bonds. The amount in the account will be amortized to expense on the income statement over the life of the bonds.

### **Bond Premium**

A liability account with a credit balance associated with bonds payable that were issued at more than the face value or maturity value of the bonds. The premium on bonds payable is amortized to interest expense over the life of the bonds and results in a reduction of interest expense.

### **Budget and Finance Committee**

The Budget and Finance Committee of the Board of Supervisors is referred appropriation ordinances, and measures concerning bond issues, taxes, fees and other revenue measures, redevelopment, and real estate. The Committee is also referred the annual appropriation and annual salary ordinances, and holds a public hearing on the Mayor's budget instructions to City departments for each annual City budget after the instructions are released.

### **California Employment Development Department (EDD)**

EDD was established in 1936 to provide an economic line of defense against the effects of unemployment, assisting not only the individual but also the community. It is one of the largest state departments with service locations throughout the state. EDD offers a wide variety of services to millions of Californians under the Job Service, Unemployment Insurance (UI), State Disability Insurance (SDI), Workforce Investment, and Labor Market Information programs. As California's largest tax collection agency, EDD also handles the audit and collection of payroll taxes and maintains employment records for more than 17 million California workers.

### **California Energy Commission (CEC)**

The California Energy Commission is the state's primary energy policy and planning agency. Created by the Legislature in 1974 and located in Sacramento, the commission has responsibility for activities that include forecasting future energy needs, promoting energy efficiency through appliance and building standards, and supporting renewable energy technologies.

### **California Environmental Quality Act (CEQA)**

A state law passed in 1970 which requires state and local agencies to make decisions with environmental consequences in mind by mandating that they: disclose the potential environmental effects of a proposed project to decision makers and the public; identify methods to minimize those effects to the environment; identify feasible mitigation measures and/or alternatives to the project; and solicit and respond to comments from the public and from other agencies concerned with the project.

### **California Independent Systems Operator (ISO)**

The California ISO is a non-profit public benefit corporation charged with operating the majority of California's high-voltage wholesale power grid.

### **California Public Utilities Commission (CPUC)**

An administrative agency of the State of California that exercises both legislative and judicial powers. The major duties of the CPUC are to regulate privately-owned utilities, securing adequate service to the public at rates that are just and reasonable both to customers and shareholders of the utilities. The CPUC also provides electricity and natural gas forecasting, and analysis and planning of energy supply and resources.

### **California Regional Water Quality Control Board (CRWQCB)**

CRWQCB consists of nine Regional Boards. Their mission is to develop and enforce water quality objectives and implementation plans that will best protect the state's waters, recognizing local differences in climate, topography, geology and hydrology. Each Regional Board has nine part-time members appointed by the Governor and confirmed by the Senate. Regional Boards develop "basin plans" for their hydrologic areas, issue waste discharge requirements, take enforcement action against violators, and monitor water quality.

### **Capital Asset**

Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets for Water are stated at cost. Capital assets for Wastewater and Hetch Hetchy Water and Power 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.

### **Capital Improvement Advisory Committee (CIAC)**

The CIAC consists of the Mayor's Finance (or Budget) Director as Chair, President of the Board of Supervisors, City Administrator, City Controller, Director of Public Works, Director of Planning and two individuals chosen by the Chair of the CIAC to serve two-year terms. Pursuant to the City's Administrative Code, Section 3.22, all long-term financing proposed transactions for capital improvements shall be reviewed and approved by the CIAC.

### **Capital Improvement Program (CIP)**

The Capital Improvement Program is supported by the Ten-Year Capital Improvement Program and Long-Term Financial Plan (LTFP). The SFPUC's CIP includes projects for repair and replacement (R&R) to the three Enterprises' various facilities, and also includes upgrades to improve water efficiency, power infrastructure, and sewage treatment facilities. The issuance of revenue bonds, other forms of indebtedness, and the execution of governmental loans are provided for under the San Francisco City Charter to finance the SFPUC's capital programs. The repayment of this indebtedness is provided for under the annual rates and revenues of the particular Enterprise that incurs the debt, categorized as debt service in the budget.

### **Capital Planning Committee (CPC)**

Legislation certified in Administrative Code Sections 3.20 and 3.21 created the Ten-Year Capital Plan and the Capital Planning Committee (CPC). This body is chaired by the City Administrator and consists of the President of the Board of Supervisors, the Mayor's Finance Director, the Controller, the City Planning Director, the Director of Public Works, the Airport Director, the Executive Director of the Municipal Transportation Agency, the General Manager of the Public Utilities System, the General Manager of the Recreation and Parks Department, and the Executive Director of the Port of San Francisco. Through a series of meetings, the Capital Planning Committee reviews proposals, staff recommendations, and documents toward the development of a City-wide capital plan and capital budget. Furthermore, the Committee establishes prioritization and assessment criteria to assist the City Administrator and staff in developing the capital plan.

### **Capital Planning Program (CPP)**

The Capital Planning Program is responsible for the development and implementation of the City and County of San Francisco's ten-year capital plan and its capital budget. The program reviews and analyzes infrastructure needs and facility conditions, evaluates capital project requests, reports on existing capital projects, and establishes financing strategies to meet the City's long- and short-term capital needs. The mission of the Capital Planning Program is to develop and implement a sustainable plan for the long-term safety, accessibility and modernization of San Francisco's public infrastructure and facilities.

### **Capital Projects**

Capital projects must result in the addition of new capital assets and/or improvements to existing assets. Capital projects may include associated costs of acquisition or construction of new assets and/or expenditures for activities that enhance the function, improve the performance and/or extend the service lives of existing assets. In general, capital projects must meet one of the following requirements: new construction, including additions to an existing facility or facilities (or other assets) and with a useful life of at least 5 years; or renewal and replacement includes replacement, major rehabilitation and betterments that enhance the function, improves the performance or extends the service lives of existing facilities (or other assets).

### **Ccf**

Ccf (100 cubic feet) is the billing unit for water and wastewater bills, where 1 Ccf=748 gallons. The average single family residence in San Francisco uses 7 Ccf per month, or 5,236 gallons. This, by way of comparison, is about 57 gallons per person per day versus the California State-wide average of 155 gallons per day.

### **Citizens' Advisory Committee**

Established by Ordinance Number 58-04 to provide recommendations to the San Francisco Public Utilities Commission General Manager, the Commission and the Board of Supervisors regarding the agency's long-term strategic, financial and capital improvement plans.

### **City and County of San Francisco (CCSF)**

The City and County of which the SFPUC is an Enterprise Department, governed by the Mayor and Board of Supervisors.

### **City Distribution Division (CDD)**

The City Distribution Division is a division of the Water Enterprise. It distributes high-quality, treated water to San Francisco customers. The Division maintains the water distribution system within the City, which consists of 13 reservoirs, 20 pumping stations, a network of approximately 1,300 miles of pipeline and 12,000 water valves.

### **Clean Renewable Energy Bonds (CREBs)**

Bonds used to fund the solar photovoltaic projects, included in the Power Enterprise. CREBs are a form of tax credit bond in which interest on the bonds is paid in the form of federal tax credits by the United States government in lieu of interest paid by the issuer. Created under the Energy Tax Incentives Act of 2005, CREBs can be used, among other entities, by local governments, to finance certain renewable energy and clean coal facilities.

### **Combustion Turbine Project**

Contracting and financial structure proposed by SFPUC to the Board of Supervisors for the development of four natural gas-fired combustion turbine generating units (each, a "CT unit") owned by the City and County of San Francisco. The purpose of pursuing the development of the CT units is to improve environmental quality while maintaining electric system reliability. This proposal leverages the City's tax-exempt borrowing capacity and the favorable power purchase agreement with the California Department of Water Resources to allow the project to pay for itself within 18 years of commencing operations under conservative financing assumptions.

### **Commercial Paper (CP)**

Used as a financing strategy that utilizes short-term financing to calibrate financing needs with project spending. The CP program facilitates short-term financing typically at lower interest rates than longer term debt, which minimizes costs.

### **Community Based Organizations (CBOs)**

CBOs are civil society non-profits that operate within a single local community and are essentially a subset of the wider group of nonprofits. They are often run on a voluntary basis and are self funding. CBOs focus on improving the general physical characteristics of a community. Although particular programs may be quite specific, these organizations tend to view their programs not merely as ends in themselves, but rather to see such programs within a broader community perspective.

### **Community Choice Aggregation (CCA)**

As defined by California Assembly Bill 117, CCA permits any city, county or city and county to aggregate the electric loads of residents, businesses and municipal facilities to facilitate the purchase and sale of electrical energy.

### **Competitive Sale**

A method of bond sale by wherein the bonds are advertised for sale. Any broker dealer or dealer bank may bid on the bonds at the designated date and time, and the bonds are awarded to the bidder offering the lowest interest cost. New money and refunding fixed-rate revenue bonds should be issued by competitive sale unless (i) there is significant deterioration in the SFPUC's overall credit rating or outlook, (ii) there are issues specific to a transaction that are outside of the SFPUC's customary credit profile including market issues such as threat of war or changes in taxation or sector risks, (iii) or other factors which militate against the use of the competitive sale process. The bonds shall be awarded to the bidder whose conforming bid represents the lowest true interest cost (TIC) to the SFPUC.

### **Comprehensive Annual Financial Report (CAFR)**

The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

### **Construction in Progress (CIP)**

This is a long term asset account that accumulates the cost of acquisition and construction of major plant and equipment. When the project is finished and placed into the service, the cost is removed from this account and is recorded in a plant asset account. Costs of discontinued construction projects are recorded as an expense in the year in which the decision is made to discontinue such projects.

### **County-wide Cost Allocation Plan (COWCAP)**

The SFPUC is responsible for paying for a share of City-wide overhead, calculated as part of the COWCAP. COWCAP is developed annually by the City Controller's Office and calculates the overhead rate charged to each department for its share of City-wide overhead costs, such as payroll, accounting, and centralized operations support services.

### **Craigslist**

A centralized network of online communities, featuring free online classified advertisements with sections devoted to jobs, housing, personals, for sale, services, community, gigs, résumés, and discussion forums. Craig Newmark began the service in 1995 as an email distribution list of friends, featuring local events in the San Francisco Bay Area, before becoming a web-based service in 1996. After incorporation as a private for-profit company in 1999, Craigslist expanded into nine more U.S. cities in 2000, four each in 2001 and 2002, and 14 in 2003. As of November 2009, Craigslist has established itself in approximately 700 cities in 70 countries.

### **Customer Information System (CIS)**

The CIS replacement project replaced the mainframe customer billing system with state-of-the-art, web-based software for which skilled support professionals are readily available. Implementation of more fully featured customer care software that is integrated with other SFPUC systems and enables features such as mobile computing, automated meter reading, and web self service.

### **Debt Service**

Principal and interest payments on revenue bonds, State Revolving Fund loans used to finance system improvements, repayments on loans, and financings related to Clean Renewable Energy Bonds.

### **Derivatives**

Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

### **Economic Barometer**

A selective compilation of economic data designed to represent larger trends. Consumer spending, housing starts, and interest rates are barometers used in economic forecasting.

### **Energy Tax Incentives Act of 2005**

The act contains \$14.5 billion in tax cuts to promote domestic energy production and conservation. It also encourages the use of alternative energy sources and provides significant energy infrastructure incentives to ensure development of more robust and reliable power grids.

### **Enterprise Fund**

Enterprise Funds account for operations that are financed and operated in a manner similar to private businesses. Enterprise costs of providing goods or services to the general public are recovered primarily through user charges.

### **Equipment**

Equipment that has a value greater than \$5,000, and a useful life of three years or more, such as vehicles and software, or other heavy equipment.

### **Fats, Oils, and Grease (FOG)**

The SFPUC Water Pollution Prevention Program has materials that can assist businesses in properly managing their fats, oils and grease wastes. FOG can be a major problem for San Francisco's sewers and for the bay and ocean that surround San Francisco, because when not disposed of properly, FOG forms thick layers inside sewers and constricts flow.

### **Federal Deposit Insurance Corporation**

An independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for up to \$250,000 through December 31, 2013.

### **Federal Energy Regulatory Commission (FERC)**

The United States federal agency that regulates the interstate transmission of electricity, natural gas, and oil. FERC also reviews proposals to build liquefied natural gas (LNG) terminals and interstate natural gas pipelines as well as licensing hydropower projects.

### **Federal Investment Company Act of 1940**

This Act regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities, and whose own securities are offered to the investing public. The Act requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold

and, subsequently, on a regular basis. However, the act does not permit the SEC to directly supervise the investment decisions or activities of these companies or judge the merits of their investments.

### **Federal Securities Act of 1933**

Often referred to as the "Truth in Securities Act", the Federal Securities Act was enacted by Congress in the aftermath of the stock market crash of 1929 and during the ensuing Great Depression. The Act requires investors to receive financial and other significant information concerning securities being offered for public sale, and prohibit deceit, misrepresentations, and other fraud in the sale of securities.

### **Financial Accounting Standards Board (FASB)**

The FASB is the designated organization in the private sector for establishing standards of financial accounting. Those standards govern the preparation of financial statements. They are officially recognized as authoritative by the Securities and Exchange Commission (SEC) (Financial Reporting Release No. 1, Section 101, and reaffirmed in its April 2003 Policy Statement) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979).

### **Financial Accounting Standards Board (FASB) Statement 34**

FASB Statement 34, *Capitalization of Interest Costs*, requires that interest expense incurred during construction of assets be capitalized. The interest on debt used to finance the asset's construction is added to the cost of the project, instead of being expensed on the current period. FASB Statement 34 was amended by FASB Statement 62, which requires offsetting of interest income against interest cost in circumstances involving acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to financed acquisition of specified qualifying assets or to service the related debt.

### **Fiscal Year (FY)**

The twelve-month budget cycle. San Francisco's fiscal year is from July 1st to June 30th.

### **Fixed Rate Bonds**

Long-term securities with serial and term maturities. Interest rates are determined when the bonds are sold and are fixed to maturity.

### **Fleet Management Operations (FMO)**

FMO is a bureau in Business Services. FMO provides transportation and commute-related services SFPUC-wide with a focus on the needs of employees. FMO is responsible for the establishment, implementation, and maintenance of policies and procedures governing SFPUC-owned mobile equipment.

### **Flow of Economic Resources Measurement Focus**

The financial activities of the Water, Wastewater and Hetch Hetchy Water & Power are accounted for on a flow of economic resources measurement focus. Under this focus, all assets and liabilities, both current and long-term, associated with operations are included on the statements of net assets, and depreciation is recorded as a charge to operations. The fund equity represents the net assets (total assets minus total liabilities) available to the fund rather than the fund balance.

### **Full-Time Equivalent (FTEs)**

One or more employees who cumulatively work 40 hours per week.

### **Fund Balance**

Amount used to balance total annual sources and uses. It is budgeted as a source when expenditures exceed revenues. When expenditures are less than total sources, a General Reserve is budgeted, which then closes to fund balance at the end of the fiscal year.

## **General Fund**

The General Fund is a source of discretionary spending and funds many of the basic municipal services in the City and County of San Francisco such as public safety, health and human services and public works. Primary revenue sources include local taxes such as property, sales, payroll and other taxes.

## **Generally Accepted Accounting Principles (GAAP)**

Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements.

## **General Obligation Bonds**

A common type of municipal bond in the United States that is secured by a state or local government's pledge to use legally available resources, including tax revenues, to repay bond holders.

## **General Reserves**

Amount budgeted to balance total annual sources and uses. Budgeted when total sources exceed expenditures. At fiscal year end, the General Reserves closes to Fund balance.

## **GoSolarSF Incentive Program**

The GoSolarSF Program was developed by the San Francisco Solar Task Force to encourage the installation of photovoltaic systems on residents and businesses within the City. The GoSolarSF solar incentive program was approved by the San Francisco Public Utilities Commission in January 2008. The Board of Supervisors passed ordinances establishing a long-term Solar Energy Incentive Program and a Solar Energy Incentive Pilot Program in June 2008. The program was launched on July 1, 2008.

## **Governmental Accounting Standards Board (GASB)**

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

## **Governmental Accounting Standards Board (GASB) Statement No. 45**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, requires state and local governmental employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The provisions of Statement 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods.

## **Governmental Accounting Standards Board (GASB) Statement No. 49**

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, provides guidance—and sets standards—for the accounting and reporting of obligations and costs related to pollution remediation. Once an obligating event occurs, governments must estimate the components of expected remediation outlays, and determine whether the outlays are accrued as a liability or capitalized when goods and services are acquired.

## **Government Auditing Standards**

Government Auditing Standards, also referred to as the "Yellow Book," contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. These standards are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

## **Government Finance Officers Association (GFOA)**

Association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development and promotion of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since

1946. It also publishes Governmental Accounting, Auditing, and Financial Reporting, commonly known as the “Blue Book.”

### **Grants**

Contributions of cash or other assets from a government or other entity that are used or expended for a specific purpose, activity, or facility. Grants that enterprises receive 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.

### **Hetch Hetchy Water and Power**

Established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. Hetch Hetchy Water and Power is engaged in the collection and conveyance of approximately 85% of the City’s water supply and in the generation and transmission of electricity from that resource. Approximately 79% of the electricity generated by Hetch Hetchy is used by the City’s municipal customers (including the San Francisco Municipal Railway, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport Commission, San Francisco General Hospital, City street lights, Moscone Center, and SFPUC’s Water and Wastewater enterprises). The majority of remaining 21% of electricity generated is sold to other publicly owned utilities, such as the Turlock and Modesto Irrigation Districts. Hetch Hetchy includes a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines, carrying water and power more than 165 miles from the Sierra Nevada to customers in the City and portions of the surrounding San Francisco Bay Area.

### **Human Resource Services (HRS)**

HRS is a bureau in Business Services. HRS recruits, administers timekeeping and payroll, supports and retains a diverse and highly qualified workforce, serving the SFPUC Enterprises and Bureaus in an efficient, responsive and professional manner.

### **Hydro Electric Generation**

Hydro electricity, a form of renewable energy which is non-polluting, is generated by hydropower, i.e., the production of power through use of the gravitational force of falling or flowing water. Most hydro electric power comes from the potential energy of dammed water driving a water turbine and generator. The quantity of electricity generated is determined by the volume of water flow and the amount of "head" or the difference in height between the source and the water's outflow created by the dam. The greater the flow and head, the more electricity produced. The water rotates the turbines, which drive generators that produce electricity. The electricity is then transmitted to a substation where transformers increase voltage to allow transmission to homes, businesses and factories.

### **Indenture**

Legal document that specifically states the conditions under which a bond has been issued, the rights of the bond holders, and the duties of the issuer.

### **Information Technology Services (ITS)**

ITS is a bureau in Business Services. ITS provides high quality, proficient and reliable Information Technology Services to all SFPUC Enterprises and Bureaus.

### **Interim Capital Improvement Program (Interim CIP)**

The SFPUC launched the Wastewater Enterprise Interim Capital Improvement Program (Interim CIP) to address the immediate needs of San Francisco’s wastewater system prior to the adoption of a system-wide Master Plan. These special projects are aimed at reducing flood risk, reducing wastewater odors, and improving treatment facilities. Interim CIP projects are funded through your wastewater service charges.

### **Internal Control**

Plan of organization and all the methods and measures designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for

preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets.

### **Joint Powers Agreement**

A contract between a city, a county, and/or a special district in which the city or county agrees to perform services, cooperate with, or lend its powers to, the special district.

### **Learning Management System (LMS)**

LMS is a software application for the administration, documentation, tracking, and reporting of training programs, classroom and online events, e-learning programs, and training content.

### **Letter of Credit**

Financial instrument usually issued by a commercial bank or private corporation which provides the primary or secondary security for the bond issue.

### **Long-Term Financial Plan – See Ten-Year Financial Plan**

### **Management’s Discussion and Analysis (MD&A)**

Information provided in the Financial section of the CAFR, presented after the independent auditor’s report, and provides a narrative introduction, overview, and analysis to accompany the basic financial statements.

### **Materials and Supplies**

A part of the operating budget that includes maintenance, safety, fuel, office supplies, and other miscellaneous materials and supplies for the maintenance and operations of an Enterprise.

### **Maximo**

Asset management software that provides information on Enterprise assets.

### **Mayor’s Office of Public Finance**

The Mayor’s Office of Public Finance is responsible for providing and managing low-cost debt financing of large-scale, long-term capital projects and improvements that produce social and economic benefit to the City and its citizens while balancing market and credit risk with appropriate benefits, mitigations and controls.

### **Megawatt Hour (MWh)**

The term “megawatt” is used as a standard measure of electric power plant generating capacity equal to 1,000 kilowatts, or 1 million watts. It is most commonly used for large systems like wind turbines, biomass plants, and coal, natural gas, and nuclear plants. Megawatt hour measures the actual amount of electricity it produces over a certain period of time. One MWh is equal to 1,000 kilowatt hours or 1 million watt hours.

### **Memorandum of Understanding (MOU)**

A binding agreement between two parties. CCSF labor agreements are adopted as MOUs.

### **Metropolitan Statistical Area (MSA)**

MSA is one or more adjacent counties or county equivalents that have at least one urban core area of at least 50,000 population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. MSAs are used for official purposes, but they are not the only estimates of metro area populations available. The City and County of San Francisco belongs to the San Francisco-Oakland-Fremont, CA MSA, which encompasses a large portion of the San Francisco Bay Area. It is made up of two metropolitan divisions: the San Francisco-San Mateo-Redwood City division, and the Oakland-Fremont, Hayward division. Together these cover Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties.

**Million Gallons per Day (MGD)**

Unit of measurement for gas or liquid flow rates. One MGD is equal to 1,121 acre feet per year or 1.55 cubic feet per second.

**Modesto Irrigation District (MID)**

One of four irrigation districts in California. MID's electric service area includes Modesto, Salida, Empire, Waterford, Mountain House and parts of LaGrange, Riverbank, Ripon, Escalon and Oakdale.

**Moody's and Standard & Poor's (S&P)**

Two of the major independent credit rating agencies. Moody's Corporation is the holding company for Moody's Investors Service which performs financial research and analysis on commercial and government entities. S&P is a division of McGraw-Hill that publishes financial research and analysis on stocks and bonds. These two agencies research the financial health of each bond issuer, including issuers of municipal bonds, and assign ratings to the bonds being offered. They append their ratings with an indicator to show a bond's ranking within a category. Moody's uses a numerical indicator. For example, A1 is better than A2 but still not as good as Aa. Standard & Poor's use a plus or minus indicator. For example, A+ is better than A, and A is better than A-.

**Moscone Convention Center**

The largest convention and exhibition complex in San Francisco, California. It comprises three main halls: two underground halls underneath Yerba Buena Gardens, known as Moscone North and Moscone South, and a three-level Moscone West exhibition hall across 4th Street. It was initially built in 1981 as one single hall, Moscone South, and named after George Moscone, a former mayor of San Francisco who was assassinated in 1978. Since its completion, the City and the Redevelopment Agency have implemented a number of other projects which enhance the vicinity of the Moscone Center for convention activity.

**National Pollutant Discharge Elimination System (NPDES)**

A permit program, authorized by the Clean Water Act, that controls water pollution by regulating point sources that discharge pollutants into waters of the United States.

**Negotiated Sale**

A method of bond sale in which the issuing entity and a selected underwriter negotiate the terms of the issue, as opposed to having multiple underwriting groups competitively bidding on the issue to establish its terms. The SFPUC may retain more than one dealer or remarketing agent for each issuance of variable rate indebtedness. The SFPUC also shall reserve the right to replace a dealer or remarketing agent with notice at any time for any reason in its sole discretion. Variable rate bonds, including variable rate demand notes, auction rate securities, commercial paper, etc. may be issued by negotiated sale.

**Non-Personnel Services**

Services including maintenance of equipment and facilities, travel, training, memberships, professional services, rent, and other expenses that support maintenance for the operation of an Enterprise.

**Non-Residential Sewer Service Charges**

For non-residential customers, the sewer service charge is calculated based on the volume wastewater discharged and the pounds of pollutants contained in that discharge (i.e. a strength loading charge). The charges for customers with sampled discharges are billed on the basis of their specific waste characteristics. Other customers are billed on the basis of the standard waste characteristics for their respective business activity. In addition to the costs shared with residential customers, all non-residential customers are responsible for the costs of the Wastewater Enterprise's pre-treatment program.

**Notes to Basic Financial Statements**

Additional information and details not displayed on the face of the financial statements that are essential to the full understanding of the financial statements.

**Oils and Grease (O/G)**

One of the strength charge determinants of wastewater rates for non-residential customers.

**Operating Transfers Out (OTO)**

Operating payments between Enterprise funds or other City departments.

**Operations and Maintenance (O&M)**

Includes budgets for Personnel, Overhead (or COWCAP), Non-Personnel Services, Materials and Supplies, Equipment, Services of Other Departments, and Operating Transfers Out.

**Other Nonoperating Revenues**

Revenues from other income, including rent, permit fees, sale of property, custom work, and reimbursements.

**Other Postemployment Benefits (OPEB)**

These are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. It may also include some types of life insurance, legal services, and other benefits.

**Pacific Gas & Electric (PG&E)**

Incorporated in California in 1905, is an investor-owned natural gas and electric utilities company, with a California service area from Eureka in the north to Bakersfield in the south, and from the Pacific Ocean in the west to the Sierra Nevada in the east. It is based in San Francisco.

**Permitted Investments**

The instruments in which moneys held in various funds and accounts may be invested pursuant to the provisions of the bond contract.

**Personnel Costs**

Labor for SFPUC's full-time, temporary, and project-funded employees, and related benefits.

**Photovoltaic (PV) Projects/Systems**

Projects that involve the conversion of solar energy into electricity through the use of photovoltaic technologies. Design-build photovoltaic projects underway in the Power Enterprise include Ways and Structures, Woods Coach, Chinatown Public Health Center, City Hall (part of the Sustainable Energy District), and Davies Symphony Hall.

**PKF Consulting**

A firm headquartered in Atlanta, Georgia which provides advisory services and industry expertise which include real estate valuations; resort and recreation studies; conference center and public assembly studies; asset advisory services; market positioning; financial feasibility studies; litigation support; market research; and tourism and recreational studies.

**Power Revenue Fund**

Designated funds in which all revenues of Hetch Hetchy Water and Power shall be deposited and maintained in the City Treasury. These funds are recorded in the statements of net assets of Hetch Hetchy Water and Power as deposits and investments with the City Treasury. Deposits, including earnings thereon, shall be appropriated, transferred, expended, or used for the financing, maintenance, and operation of Hetch Hetchy Water and Power. Pursuant to the Master Lease/Purchase Agreement (Agreement), net power revenues of Hetch Hetchy Water and Power are irrevocably pledged to the punctual payment of debt service on the Clean Renewable Energy Bonds (CREBs). Accordingly, net power revenue shall not be used for any other purpose while any of its CREBs are outstanding, except as expressly permitted by the Agreement.

## **Pre-treatment and Pollution Prevention (P2)**

Programs to ensure regulatory compliance in wastewater collection systems. They focus on contaminant reduction activities for residential, commercial, and industrial dischargers. The major P2 programs include: Street Sweeping, Fats, Oils & Grease (FOG), Mercury Reduction Program, Pesticides/Integrated Pest Management (IPM), and Storm Water P2 Program/Construction Runoff Control.

## **Proposition A - 2002**

Approved by voters in November 2002, authorizes the SFPUC, subject to BOS approval, to issue up to \$1.628 billion in revenue bonds or other forms of indebtedness to finance the acquisition and construction of improvements to the City's water system.

## **Proposition E - 2002**

Approved by voters in November 2002, authorizes the SFPUC to issue revenue bonds or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities when authorized by ordinance approved by a two-thirds vote of the BOS.

## **Proposition E - 2008**

Approved by voters in June 2008, terminated the terms of all five existing members of the Commission who were appointed by the Mayor under the 2002 Charter, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four year terms for members.

## **Proprietary Fund**

Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

## **Raker Act of 1913**

The Paul Raker Act was an act of the United States Congress that permitted building of the O'Shaughnessy Dam and flooding of Hetch Hetchy Valley in Yosemite National Park, California. Hetch Hetchy Water and Power was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping and municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E.

## **Rate Fairness Board**

Proposition E, approved by San Francisco voters on November 5, 2002, directed the establishment of a Rate Fairness Board to advise the Public Utilities Commission on water and sewer rate matters. The board consists of seven members: the City Administrator or his or her designee; the Controller or his or her designee; the Director of the Mayor's Office of Public Finance or his or her designee; two residential City retail customers, consisting of one appointed by the Mayor and one by the Board of Supervisors; and two City retail business customers, consisting of a large business customer appointed by the Mayor and a small business customer appointed by the Board of Supervisors. Specific duties for the RFB include: (1) annual review of a five-year rate forecast; (2) hold one or more public hearings on annual rate recommendations before the Public Utilities Commission adopts rates; (3) provide a report and recommendations to the Public Utilities Commission on the rate proposal; and, (4) in connection with periodic rate studies, submit to the Public Utilities Commission rate policy recommendations for the Commission's consideration, including recommendations to reallocate costs among various retail utility customer classifications, subject to any outstanding bond requirements.

## **Refunding Bond**

A type of debt that is issued for the purpose of retiring an outstanding bond. Issuers refund bond issues to realize debt service savings, or for other debt restructuring purposes. Absent significant non-economic factors, PUC's policy is that refunding transactions should produce net debt service savings of at least 3% of the par value of the refunded bonds, calculated using the refunding issue's true interest cost (TIC) as the discount rate.

## **Request for Proposal (RFP)**

A solicitation document used when award will be made after negotiation with the offeror. Quotations received must be discussed and confirmed to determine which one offers the best value to the organization before a contract can be awarded. A bidding process is one of the best methods for leveraging a company's negotiating ability and purchasing power with suppliers. The RFP process brings structure to the procurement decision and allows the risks and benefits to be identified clearly upfront.

## **Residential Sewer Service Charges**

Includes single-family residential and multiple-family residential customers, allowing rates to be designed to reflect the particular usage characteristic of each group of residential customers. The sewer service charge applicable to residential service is an inclining block rate structure. The first block is applied to first three units of monthly discharge per dwelling unit. All remaining units are billed at a higher rate. For multiple family residential accounts, the billable use in each block is calculated by multiplying the allowed use by the number of dwelling units.

## **Retail Water Sales**

Consists of rate schedules that include City and Suburban Retail rates. City Retail Rates include general rates - single-family residential, multiple-family residential, and commercial (industrial). These rates consist of a monthly service charge based on meter size and a two-step commodity charge for single and multiple family residential customers, and meter size and a uniform commodity charge for commercial (industrial) customers. Suburban retail rates include rate schedules for use outside of San Francisco.

## **Restricted Assets**

Assets whose use is subject to constraints that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

## **Revenue Bond**

Bonds issued by governments, authorities, or public benefit corporations that are guaranteed by the revenue flow of the issuing agency. Unlike general obligation bonds, only the revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the bonds.

## **Revenue Bond Law of 1941**

The Revenue Bond Law of 1941 is commonly used for the issuance of revenue bonds. It requires approval by a majority of voters for the issuance of revenue bonds.

## **Revenue Bond Oversight Committee (RBOC)**

Pursuant to the City's Administrative Code Chapter 5A (Proposition P, passed by the voters in November 2002), the RBOC provides oversight to ensure that the proceeds from revenue bonds authorized by the BOS and/or the voters after November 2002 are expended in accordance with the authorizing bond resolution and applicable law. If, after conducting all appropriate reviews and independent audit of actual expenditures of revenue bond proceeds, the RBOC, after consultation with the City Attorney, determines that proceeds are being or have been expended for purposes not authorized by the authorizing bond resolution or otherwise amount to an illegal expenditure of such proceeds, the RBOC may, by majority vote of all its members, prohibit the further issuance or sale of authorized revenue bonds which have yet to be issued or sold. Any such determination by the RBOC may be appealed to the BOS within 30 days of the RBOC's decision. The BOS may overturn the decision of the RBOC by resolution approved by two-thirds vote of all its members.

### **Revenue-Funded Capital Project/Repair & Replacement (R&R)**

Projects in the Enterprises, including both minor and major construction projects, maintenance and rehabilitation projects, planning studies, and preliminary engineering analysis for major capital improvements.

### **Sale of Electricity**

Revenues from power sales to City departments for municipal use, wholesale customers, and other retail customers.

### **Sale of Gas and Steam**

Revenues from gas and steam provided to City departments by Hetch Hetchy Power. These revenues are a pass-through and have no impact on Hetchy Hetchy's fund balance levels.

### **Sale of Water**

The budget category for revenues from sales of water to retail customers in San Francisco and suburban areas and to wholesale customers under the terms of a long-term Water Supply Agreement (WSA).

### **San Francisco Convention & Visitors Bureau**

The bureau is an outgrowth of the San Francisco Convention and Tourist League, a non-profit, local business association founded in 1909 to reclaim the City's position as a world-class destination in the wake of the devastating 1906 earthquake and fire. It is a membership organization headed by a board of directors made up of 45 business leaders from various companies, elected by the membership. Its mission is to enhance the local economy by marketing San Francisco and the Bay Area as the premier destination for conventions, meetings, events and leisure travel.

### **San Francisco Employees' Retirement System (SFERS)**

Originally established as a fund to assist families and orphans of firefighters and police, the Retirement System currently serves more than 53,000 active and retired employees of the City and County of San Francisco and their survivors. SFERS members include employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as Superior Courts. The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and one designated by the President of the Board of Supervisors or his/her designee from among the other members of the Board of Supervisors. The board oversees plan administration, pension fund investment, member benefits, and actuarial funding.

### **San Francisco Public Utilities Commission (SFPUC)**

An Enterprise Department of the City and County of San Francisco. The SFPUC provides regional water, local water, wastewater (collection, treatment, and disposal), and power.

### **San Francisco Wastewater Enterprise**

The San Francisco Wastewater Enterprise (Wastewater), formerly known as, the San Francisco Clean Water Program (the Program) was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City and County of San Francisco (the City) to the Program. In 1976, the electorate of the City approved a proposition authorizing the City to issue \$240,000 in revenue bonds pursuant to the Revenue Bond Law of 1941 of the State of California for the purpose of acquiring, constructing, improving, and financing improvements to the City's municipal sewage treatment and disposal system. Since then, the City's Board of Supervisors has adopted resolutions (Wastewater Resolutions) providing for the issuance of various sewer revenue and refunding bond series. The Wastewater Resolutions require the City to keep separate books of records and accounts of Wastewater.

### **San Francisco Water Enterprise**

The San Francisco Water Enterprise (Water) was established in 1930 under the provisions of the Charter of the City and County of San Francisco. Water acquired the fully developed, mature water works for San Francisco on March 3, 1930. Since then, the City and County of San Francisco (the City) has operated and maintained the water works as Water. 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. Water, 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 2009, Water delivered approximately 86,986 million gallons of water to nearly 2.5 million people within San Francisco and certain suburban areas.

### **Services of Other Departments**

Services performed for the SFPUC by other City Departments.

### **Sewer Service Charges**

The budget category for residential and non residential sewer service charges to the SFPUC's customers.

### **Sewer System Improvement Program (SSIP)**

A major focus of the Wastewater Enterprise, the SSIP is a long-term capital plan that provides strategies and policies for the future. The San Francisco Sewer System Improvement Program objectives are to: develop a long-term vision and strategy for the management of the City's wastewater and stormwater; provide a detailed capital planning roadmap for improvements needed; estimate the funds to implement these improvements; address specific challenges facing the system; and maximize system reliability and flexibility. The Commission will review the SSIP in late 2010.

### **SFPUC Commission**

The five Commissioners of the San Francisco Public Utilities Commission are appointed by the Mayor and confirmed by the Board of Supervisors and serve 4-year terms as mandated by voters through the passage of Proposition E in June 2008. The Commission is responsible for determining such matters as the rates and charges for services, approval of contract, and organizational policy.

### **Solar Power Purchase Agreement (PPA)**

An agreement between the SFPUC and Recurrent Energy in which Recurrent will finance, design, build and operate the solar energy project and provide all the energy generated to the SFPUC for a period of 25 years. The five megawatts generated at the Sunset Reservoir facility will be used to help power other San Francisco public services and buildings, including streetlights, San Francisco General Hospital, Muni light rail and city schools.

### **State Revolving Fund Loan Program (SRF)**

Loan program managed by the State Water Resources Control Board which provides alternative capital financing for certain facilities of the Wastewater Enterprise. Existing loans are deemed to be senior in priority of payment and future loans may be deemed to be on parity with or senior to outstanding revenue bond indebtedness.

### **Statements of Cash Flows**

One of the basic financial statements for proprietary funds that present changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

### **Statements of Net Assets**

Financial statement that presents information on the organization's assets and liabilities as of year-end, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

### **Statements of Revenue, Expenses and Changes in Net Assets**

Financial statement that presents the results of the organization's operations over the course of the fiscal year and information as to how the net assets changed during the year. These statements can be used as an indicator of the extent to which the organization has successfully recovered its costs through user fees and other charges. All changes in net assets 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.

### **Straight-Line Depreciation Method**

A method of computing amortization (depreciation) by dividing the difference between an asset's cost and its expected salvage value by the number of years it is expected to be used. In SFPUC, depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 3 to 75 years for equipment and 3 to 175 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and a full year's depreciation is recorded in the year of disposal.

### **Suburban Water Rate Agreement**

During 1984, the City entered into a Settlement Agreement and Master Water Sales Contract (the Suburban Water Rate Agreement) with certain suburban customers, which establishes the basis for water rates to be charged to those customers (the Suburban Purchasers). Pursuant to the terms of the Suburban Water Rate Agreement, the City is required to establish water rates applicable to the Suburban Purchasers at the beginning of each fiscal year. The suburban water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Suburban Purchasers in accordance with the methodology outlined in Article IV of the Suburban Water Rate Agreement (the Suburban Revenue Requirement).

### **Supervisory Control and Data Acquisition (SCADA)**

A system that collects data from various sensors at a factory, plant or in other remote locations and then sends this data to a central computer which then manages and controls the data.

### **Sustainability Plan**

Consistent with the requirements of San Francisco City Charter, Article VIII B, section 8B.123 (A) (3), the SFPUC has completed a comprehensive Sustainability Plan. The Plan was published in December 2008 and is available on the SFPUC website. Plan creation was the result of a three-year effort undertaken through a collaborative process involving the leadership, staff and stakeholders of the SFPUC. The Plan provides a baseline assessment that scores the SFPUC's performance and sets out specific strategies and initiatives, with targets to begin improving sustainability performance in priority areas. The Plan sets in motion this integrated, systematic and long-term approach to sustainability at the SFPUC, whereby the SFPUC will continue to track and monitor performance, assess results, implement a useful reporting protocol, and take needed actions to improve strategic management and decision-making.

### **Ten-Year Capital Improvement Program (CIP)**

The City and County of San Francisco requires, through the City's Administrative Code, the annual creation of a Ten-Year Capital Plan for City-owned facilities and infrastructure. Under the authority of the City Administrator, the Capital Planning Program prepares the plan and presents it to the Capital Planning Committee (CPC) for their review. The CPC completes its review of the capital plan by March 1 and presents it to the Board of Supervisors (BOS). The BOS must adopt the capital plan by May 1.

### **Ten-Year Financial Plan**

The Long-Term Financial Plan (LTFP) is a planning document as required by the Charter of the SFPUC, that includes a ten-year financial summary for each Enterprise, describing projected sources and uses, resulting fund balances and associated financial reserve ratios.

### **Total Suspended Solids (TSS)**

A water quality measurement that serves as one of the determinants of wastewater rates for nonresidential customers.

### **Transbay Cable Project**

An energy transmission infrastructure project approved by San Francisco Mayor Gavin Newsom and the Board of Supervisors on August 7, 2007 that will provide additional energy to the City of San Francisco without having to install a power generation plant. The project consists of approximately 53 miles of high voltage direct current (HVDC) plus transmission cable bundle of approximately 10 inches in diameter running from the City of Pittsburg to the City and County of San Francisco (the "City"). Approximately 9.4 miles of the cable are in submerged lands, a small portion of shoreline, and on a portion of a street that are under Port Commission jurisdiction.

### **Treasure Island (TI)**

The Board of Supervisors adopted on November 1998 Resolution No. 938-98 authorizing Treasure Island Development (TIDA) to enter into a Cooperative Agreement with the US Navy. SFPUC performs the duties of utility provider under “Function Annex 6 – Utilities Services” which describes the operation and maintenance of the utility systems and the delivery of utilities to the occupants and users at Treasure Island and Yerba Buena Island (TI/YBI). The Water Enterprise, Wastewater Enterprise, and Hetch Hetchy Water and Power operate and maintain the water, wastewater, and power distribution systems, and the purchase and delivery of electricity, natural gas, and water to customers at TI/YBI, on behalf of the Treasure Island Development Authority (TIDA) and in accordance with a water supply and quality permit issued by the California Department of Health Services, and the National Pollutant Discharge Elimination System (NPDES) permit issued by the California Regional Water Quality Control Board.

### **Treasure Island Development Authority (TIDA)**

The Treasure Island Development Authority (TIDA) is a non-profit, public benefit agency dedicated to the economic redevelopment of former Naval Station Treasure Island. The Authority is vested with the powers of a California Redevelopment Agency as well as the rights to administer Tidelands Trust property. TIDA also performs and administers vital municipal services for the residential and daytime population during the interim reuse of the former military base.

### **Turlock Irrigation District (TID)**

One of four irrigation districts in California that provides irrigation water as well as electric retail energy directly to homes, farms and businesses.

### **Unrestricted Net Assets**

The portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

### **Variable Rate Bonds**

Long-term securities that bear interest at variable rates adjusted at agreed upon intervals, such as daily, weekly or monthly. The holder of the variable rate security may be allowed to “put” the security to a liquidity provider retained by the SFPUC.

### **Water Quality Division (WQD)**

The Water Quality Division is a division of the Water Enterprise. The mission of the Water Quality Division is to ensure that the SFPUC complies with all current and future water quality regulations and customer expectations through sampling and laboratory analyses, process engineering, applied research, inspections, field service oversight, regulatory reporting and support to treatment plant operations.

### **Water Saving Hero Campaign**

The Water Saving Hero consists of a partnership of Bay Area water agencies and organizations committed to water conservation. The Campaign highlights steps Bay Area residents can take to conserve water now and for the future.

### **Water Supply Agreement (WSA)**

The City and County of San Francisco and the 27 suburban wholesale customers that purchase water from San Francisco on a wholesale basis and distribute it to residents, businesses, and community organizations in and thousands of community organizations in Alameda, Santa Clara and San Mateo Counties. The WSA was approved by the Commission in April 2009 and has a term of 25 years. The Agreement changes the cost basis by which the wholesale rate is determined from a “utility cost basis” to a “cash basis”. Beginning in FY 2009-10, wholesale customers will pay a proportionate share of regional system operating expenses, debt service on bonds sold to finance regional improvements, and other regional system improvements funded from current revenues. The WSA requires the rate be calculated and set annually and include a “true-up” to recover any differences between actual costs and revenues collected.

### **Water Supply & Treatment (WS&T)**

A division of the Water Enterprise, WS&T maintains watershed lands and reservoirs, water treatment procedures and facilities, and water transmission facilities.

### **Water System Improvement Program (WSIP)**

The SFPUC, together with its 27 wholesale customers, launched a \$4.6 billion Water System Improvement Program (WSIP) to repair, replace, and seismically upgrade the San Francisco Regional Water System's aging facilities. Built in the early to mid-1900s, many parts of the San Francisco Regional Water System, often referred to as the Hetch Hetchy System, are nearing the end of their working life, with crucial portions crossing over or near to three of the nation's most active earthquake faults. The WSIP will reinforce vulnerable portions of the system to withstand an earthquake and enhance water treatment processes to ensure a reliable supply of water for SFPUC customers.

### **Wellness Incentive Program**

Established effective July 1, 2002 to promote workforce attendance. Under the program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave earned but unused at the time of separation.

### **Western Systems Power Pool (WSPP)**

An agreement and an organization that creates power trading opportunities and allows WSPP members to manage power delivery and price risk.

### **Wholesale Water Sales**

The Water Enterprise provides wholesale water service to 27 wholesale customers, which consist of 24 municipalities and water districts, one private utility, one private non-profit university and one mutual water association. Wholesale customers are located in Alameda, Santa Clara and San Mateo counties. The SFPUC and the wholesale customers have negotiated a new Water Supply Agreement (WSA) that changes the cost basis by which the wholesale rate is determined from a "utility cost basis" to a "cash basis". Beginning in FY 2009-10, wholesale customers will pay a proportionate share of regional system operating expenses, debt service on bonds sold to finance regional improvements, and other regional system improvements funded from current revenues.

### **Workers' Compensation**

A state-mandated benefit for workers injured on the job. Benefits include medical treatment reasonably required to help recover from the effects of the injury, temporary disability payments if an injured worker loses time from work, permanent disability payments if an injured worker has a permanent disability as the result of a work injury, supplemental job displacement vouchers are available if the injured worker cannot return to the job held at the time of injury, and death benefits given to a spouse or dependent upon a work related injury or illness which results in death. San Francisco is self-insured for workers' compensation which means that the City does not pay an insurance company to cover the costs. The cost of workers' compensation claims are charged back to the annual budget of the department where the employee worked at the time of the injury.







SFPUC Finance Department  
1155 Market Street, 5th Floor  
San Francisco, CA 94103

# The San Francisco Public Utilities Commission

A Department of the City And County of San Francisco, California

