

# Department of Water Resources Electric Power Fund Financial Statements

For the year ended June 30, 2021  
(with comparative amounts for 2020)



# Department of Water Resources Electric Power Fund

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## Independent Auditor's Report

To the Director of the State of California Department of Water Resources  
Department of Water Resources Electric Power Fund  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Resources Electric Power Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter***Individual Fund Financial Statements*

As disclosed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2021, and the changes in its financial position or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Report on Summarized Comparative Information*

We have previously audited the Fund's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the Fund's proportionate share of the net pension liability, schedule of the Fund's pension contributions, schedule of the Fund's proportionate share of the net other-post employment benefits (OPEB) liability, and schedule of the Fund's OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2022, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sacramento, California

October 5, 2022

# Department of Water Resources Electric Power Fund

## Management's Discussion and Analysis

### June 30, 2021

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#### USING THIS REPORT

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Electric Power Fund (the Fund), which is administered by the California Department of Water Resources (DWR or Department). Readers are encouraged to consider the information presented in the *Management's Discussion and Analysis* (MD&A) in conjunction with the financial statements that follow. This discussion and analysis and the financial statements do not relate to DWR's other governmental and proprietary funds.

The financial statements include three required statements, which provide different views of the Fund. The three required statements are:

- The Statement of Net Position: include all assets, liabilities and deferred outflows and inflows of resources as of the period ending date.
- The Statement of Revenues, Expenses and Changes in Net Position: present all of the current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: report cash receipts, payments and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing.

These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. In order for the financial statements to be complete, they must be accompanied by a complete set of notes. The notes to financial statements provide disclosures which are required to conform to generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board.

#### PURPOSE OF FUND

The Fund was established in January 2001 through legislation to assist in mitigation of the effects of a statewide energy supply emergency.

The legislations granted the Fund the authority to secure and retain title to power for resale to end use customers in the State's investor-owned utilities (IOU s) service areas under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts were performed by the IOUs as agents for the Fund. However, the Fund retained the legal and financial responsibility for each contract for the life of the contract or until such time as there was a complete assignment of the contract to an IOU and release of the Fund. The last remaining contract terminated during the 2015 fiscal year, releasing the Fund from substantially all future power supply obligations. The Fund does not have any significant legal or financial responsibility for any power supply contracts entered into pursuant to the legislation establishing its authority.

The Fund is entitled to recover revenue requirements for authorized activities, including, but not limited to, debt service, the costs of power purchases, administrative expenses and reserves. Revenue requirements are determined at least annually and transmitted to the California Public Utilities Commission (CPUC) for implementation. Under the terms of the rate agreement between the CPUC and the Department, the CPUC is required to allocate the Department's costs to customers in the IOUs service areas and "departing load" (such as direct access, Community Choice Aggregation (CCAs), and Electric Service Providers (ESPs)) such that the Fund will always have monies to meet its revenue requirement.

**Department of Water Resources Electric Power Fund**  
**Management's Discussion and Analysis**  
**June 30, 2021**

**CONDENSED STATEMENT OF NET POSITION**

The Fund's assets, deferred outflows / inflows of resources, liabilities and net position as of June 30 are summarized as follows (amounts in millions):

	2021	2020	2019
<b>Assets:</b>			
Long-term restricted cash, equivalents and investments	\$ 793	\$ 782	\$ 884
Recoverable costs	-	16	837
Restricted cash and equivalents:			
Administrative cost account	5	8	12
Operating account	15	21	32
Bond charge collection and bond charge payment accounts	180	573	644
Recoverable costs receivable	-	102	88
Interest receivable	-	7	10
<b>Total assets</b>	<b>993</b>	<b>1,509</b>	<b>2,507</b>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources related to pensions	-	1	1
Deferred outflows of resources related to OPEB	5	7	8
Deferral of loss on defeasance	12	35	61
<b>Total deferred outflows of resources</b>	<b>17</b>	<b>43</b>	<b>70</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,010</b>	<b>\$ 1,552</b>	<b>\$ 2,577</b>
<b>Liabilities:</b>			
Long-term debt, including current portion	\$ 777	\$ 1,528	\$ 2,543
Net pension liability	3	3	4
Net OPEB liability	4	5	5
Net OPEB obligation	-	-	-
Interloan payable	-	-	1
Other liabilities	5	12	19
<b>Total liabilities</b>	<b>789</b>	<b>1,548</b>	<b>2,572</b>
<b>Deferred Inflows of Resources:</b>			
Deferred inflows of recoverable cost	217	-	-
Deferred inflows of resources related to pensions	1	1	2
Deferred inflows of resources related to OPEB	3	3	3
<b>Total deferred inflows of resources</b>	<b>221</b>	<b>4</b>	<b>5</b>
<b>Total liabilities and deferred inflow of resources</b>	<b>\$ 1,010</b>	<b>\$ 1,552</b>	<b>\$ 2,577</b>

**Long-Term Restricted Cash, Equivalents and Investments**

The Debt Service Reserve Account was \$793 million as of June 30, 2021. The increase from June 30, 2020 was due to transfer money from bond collection and payment account, pursuant to an escrow agreement between the State Treasurer's Office (STO), as Trustee, and DWR.

The Debt Service Reserve Account was \$782 million as of June 30, 2020. The decrease from June 30, 2019 was due to early redemption of Bond Series L in May 2020.

# Department of Water Resources Electric Power Fund

## Management's Discussion and Analysis

### June 30, 2021

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#### Recoverable Costs

Recoverable costs consist of costs that are recoverable through future billings. Recoverable costs decreased from \$16 million in fiscal year 2020 to (\$217) million in fiscal year 2021 and are classified as a deferred inflow as of June 30, 2021. The total \$233 million decrease of recoverable costs, during fiscal year 2021, is due to: the recovery of operating costs of \$9 million; income exceeding interest and investment expense by \$242 million. The Fund's defeasance of Bond Series 2011 N in September 2020 resulted in an \$8 million loss.

The \$820 million decrease during fiscal year 2020 is due to: recovery of operating costs of \$16 million; bond charges plus interest income exceeding interest and investment expense by \$836 million. The early redemption of Bond Series L in May 2020 resulted in a \$5 million gain. The surplus of Bond Charge Collections over interest costs is primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

#### Restricted Cash and Equivalents

The Administrative Cost Account decreased \$3 million in fiscal year 2021 due to the Fund's bond defeasance of Series 2011 N and the Fund stopped collecting money from IOUs.

The Administrative Cost Account decreased \$4 million in fiscal year 2020 due to lower expenses as the Electric Power Fund's operation continues to experience reduced workload.

The Operating Account decreased by \$6 million in fiscal year 2021 due to the return of excess amounts to IOU customers.

The Operating Account decreased by \$11 million in fiscal year 2020 due to the return of excess amounts to IOU customers.

The Bond Charge Collection and Bond Charge Payment Accounts decreased by \$393 million in fiscal year 2021 primarily due to the funds being used for Bond's defeasance Series 2011N and the Fund stopped collecting money from the IOU's customers.

#### Recoverable Costs Receivable

Recoverable costs receivable reflects power and bond charges to customer in the IOU service areas that have not yet been collected and amounts receivable. The \$0 million of recoverable costs receivable at June 30, 2021 is \$102 million lower than at June 30, 2020. The decrease was due to the defeasance of Series 2011 N bond and pursuant to Public Utilities Code Section 3289 (a)(2), the Fund's Bond Charge ceased to be imposed on participating customers of IOUs on October 1, 2020. Thus, the Fund's receivables and accrued revenues have decreased to \$0 towards the end of the fiscal year ending June 30, 2021.

The \$102 million of recoverable costs receivable at June 30, 2020 is \$14 million higher than at June 30, 2019. The increase was primarily due to a higher bond charge rate during fiscal year 2020.

#### Deferred Outflows of Resources

Deferred outflows of resources related to pensions decreased by \$1 million in 2021.

Deferred outflows of resources related to pensions was \$1 million in 2020.

Deferred outflows of resources related to OPEB decreased by \$2 million in 2021.

Deferred outflows of resources related to OPEB was \$7 million in 2020.

Deferral of loss on defeasance decreased by \$23 million during the fiscal year ending June 30, 2021 due to the defeasance of bond Series 2011 N and amortization of deferred loss on defeasance during the fiscal year.

Deferral of loss on defeasance decreased by \$26 million during fiscal year ending June 30, 2020, due the amortization of deferred loss on defeasance during the fiscal year.



# Department of Water Resources Electric Power Fund

## Management's Discussion and Analysis

### June 30, 2021

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#### Long-Term Debt

Long-term debt, including the current portion, decreased by \$751 million during fiscal year June 30, 2021, from \$1,528 million at June 30, 2020. Revenue bond principal outstanding was \$765 million at June 30, 2021 and the unamortized bond premium was \$12 million at June 30, 2021. Bond principal payments were \$503 million in fiscal year 2021 and the defeasance of bond Series 2011 N was \$221 million.

Long-term debt, including the current portion, decreased to \$1,528 million, as of June 30, 2020, from \$2,543 million, as of June 30, 2019. Revenue bond principal outstanding was \$1,489 million in fiscal year 2020. Unamortized bond premium was \$39 million in fiscal year 2020. The bond principal payment was \$970 million in fiscal year 2020.

#### Net Pension Liability

The net pension liability was \$3 million during fiscal year ended June 30, 2021.

The net pension liability was \$3 million during fiscal year ended June 30, 2020.

#### Net OPEB Liability

The net OPEB liability was \$4 million during fiscal year ended June 30, 2021.

The net OPEB liability was \$5 million during fiscal year ended June 30, 2020.

#### Interfund Loans Payable

Interfund loans payable was \$0 as of June 30, 2021 and June 30, 2020.

#### Other Liabilities

Other liabilities consist of accounts payable and accrued interest payable. Accounts payable reflects one month's accrual for employees and consultants, as payments are normally made in the latter half of the month following purchase.

Accounts payable decreased to \$0 at June 30, 2021 and was \$2 million during fiscal year 2020.

Accrued interest payable at June 30, 2021 was \$5 million lower than at June 30, 2020 due to fewer bonds outstanding resulting from the maturity of \$765 million in bonds in fiscal year 2021.

Accrued interest payable, at June 30, 2020, was \$7 million lower than at June 30, 2019 due to fewer bonds outstanding resulting from the maturity of \$970 million in bonds in fiscal year 2020.

#### Deferred Inflows of Resources

Recoverable costs decreased from \$16 million in fiscal year 2020 to (\$217) million in fiscal year 2021 and are classified as a deferred inflow as of June 30, 2021. The total \$233 million decrease of recoverable costs, during fiscal year 2021, is due to: the recovery of operating costs of \$9 million; income exceeding interest and investment expense by \$242 million. The Fund's defeasance of Bond Series N on September 24, 2020 resulted in an \$8 million loss.

Deferred inflows of resources related to pensions remained unchanged at \$1 million for fiscal year ended June 30, 2021.

Deferred inflows of resources related to OPEB remained unchanged at \$3 million for fiscal year ended June 30, 2021.

**Department of Water Resources Electric Power Fund  
Management's Discussion and Analysis  
June 30, 2021**

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The Fund's activities for the year ended June 30 are summarized as follows (amounts in millions):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues:			
Power charges, net of refunds	\$ (7)	\$ (11)	\$ (5)
Bond charges	265	872	872
Interest income	27	42	46
Total revenues	<u>285</u>	<u>903</u>	<u>913</u>
Expenses:			
Power purchases	(1)	-	-
Interest expense	42	83	108
Administrative expenses	3	5	11
Gain or loss on extinguishment of debt	8	(5)	-
Recovery of recoverable costs	233	820	794
Total expenses	<u>285</u>	<u>903</u>	<u>913</u>
Changes in net position	-	-	-
Net position, beginning of year	-	-	-
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Power Charges**

The cost of providing energy was recoverable primarily through Power Charges to IOU customers, non-exempt customers of ESPs, and CCAs. Charges are determined by applying a CPUC adopted rate to the megawatt-hours of power delivered by the Fundeach IOU service area to the megawatt hours of power delivered by the Fund to customers in each IOU service area.

Power Charges increased by \$4 million to (\$7) million during fiscal year ending June 30, 2021 compared to (\$11) million for fiscal year ended June 30, 2020. The increase was primarily due to a lower return of excess remittances to ratepayers.

Power Charges were decreased by \$6 million during fiscal year ending June 30, 2020 compared to \$5 million for fiscal year ended June 30, 2019. The decrease was primarily due to returning excess amounts of previously received remittances to ratepayers in fiscal year 2020. The return is implemented through separate monthly payments to the ratepayers through the IOUs.

**Bond Charges**

Bond Charges provide revenue for the payment of debt service on the revenue bonds and are determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to all non-exempt bundled customers, certain ESP customers, and CCA customers in the IOU service areas. Bond Charges for the years ended June 30, 2021, 2020 and 2019 were \$265 million, \$872 million and \$872 million, respectively. The decrease in Bond Charges during the year ending June 30, 2021 was due to the Fund ceasing the imposition of Bond Charges from participating customers of the IOUs service area on October 1, 2020. This was implemented pursuant to Public Utilities Code Section 3289(a)(2).

Bond Charges for the years ended June 30, 2020, 2019, and 2018 were \$872 million, \$872 million and \$918 million, respectively, and were adequate to meet all debt service requirements and maintain Trust Indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt Service Reserve Accounts.

# Department of Water Resources Electric Power Fund

## Management's Discussion and Analysis

### June 30, 2021

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#### **Interest Income**

Interest income for fiscal year 2021 was \$15 million lower than in fiscal year 2020 due to lower interest rates earned on investments in the State of California Surplus Money Investment Fund (SMIF) and the Fund terminating all investments under Forward Purchase Agreement (FPA) and Guaranteed Investment Contracts to defease outstanding bonds on September 24, 2020. The average yield earned on SMIF, for the year ended June 30, 2021, was 0.3% compared to 1.24% for the year ended June 30, 2020.

Interest income for 2020 was \$4 million lower than in 2019 due to lower interest rates earned on investments in the State of California Surplus Money Investment Fund (SMIF) and Forward Purchase Agreement (FPA) and the unrealized gain from the FPA. The average yield earned on SMIF, for the year ended June 30, 2020, was 1.24% compared to 2.15% for the year ended June 30, 2019.

#### **Energy and Financial Settlements**

Energy settlements, including those related to complex regulatory proceedings before the Federal Energy Regulatory Commission (FERC), arising from events in California energy markets in 2001, are recorded as a decrease in operating expenses.

Additionally, the Fund has begun to be involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates and their impact on the Fund's bond offerings and interest rate swap agreements previously held by the fund.

The Fund did not receive any energy settlement money during the fiscal year ended June 30, 2021. The Fund received \$6,000 for additional financial market manipulation settlements during the fiscal year ended June 30, 2020.

#### **Interest Expense**

Interest expense was \$41 million lower in fiscal year 2021 when compared to fiscal year 2020. The decrease was due to the defeasance of the Fund's outstanding bonds Series 2011 N that occurred on September 24, 2020.

Interest expense was \$25 million lower in 2020 when compared to 2019. The decrease was due to lower total interest paid on outstanding debt along with higher amortization of loss on defeasance offset by higher amortization of bond premium.

#### **Administrative Expenses**

Administrative expenses decreased \$2 million in fiscal year 2021 from fiscal year 2020. The decrease was related to the bond defeasance that occurred during fiscal year 2021.

Administrative expenses decreased \$6 million in 2020 from 2019. The decrease was related to reduced pro-rata expense, pension expense and OPEB expense.

#### **Gain or loss for early redemption**

There was an \$8 million loss due to the bond defeasance of Series 2011 N recorded during fiscal year 2021.

\$5 million was reported in 2019 about the gain for early redemption. Bond Series L was redeemed early in May 2020.

**Department of Water Resources Electric Power Fund  
Management’s Discussion and Analysis  
June 30, 2021**

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**Recovery of Recoverable Costs**

The individual components of the recovery of recoverable costs are as follows (amounts in millions):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operations	\$ (9)	\$ (16)	\$ (16)
Debt service and related costs	<u>242</u>	<u>836</u>	<u>810</u>
	<u>\$ 233</u>	<u>\$ 820</u>	<u>\$ 794</u>

Operations

The negative \$9 million operations recovery, in the year ended June 30, 2021, is primarily due to lower return of excess remittances to ratepayers in fiscal year 2021 and lower administrative expenses.

The negative \$16 million operations recovery, in the year ended June 30, 2020, is primarily due to returning excess amounts of remittances to ratepayers in fiscal year 2020 and lower administrative expenses.

Debt Service and Related Costs

The recovery of debt service and related costs in all three years are a result of bond charges and interest income providing funds to pay interest expense and retire debt. The recoveries in fiscal year 2021 is lower than in fiscal year 2020 which were higher pursuant to Public Utilities Code Section 3289 (a)(2), the Fund’s Bond Charge ceased to be imposed on participating customers of IOUs on October 1, 2020.

**Requests for Information**

This financial report is designed to provide a general overview of the Fund’s finances for those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, Enterprise Accounting Branch, 715 P Street, 6<sup>th</sup> Floor, Sacramento, California 95814.

**Department of Water Resources Electric Power Fund**  
**Statement of Net Position**  
**June 30, 2021 (with comparative amounts for 2020)**  
**(amounts in millions)**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Long-term assets:		
Restricted cash, equivalents and investments:		
Debt service reserve account held with Fiscal Agent	\$ 793	\$ 782
Debt service reserve account	-	16
Total long-term assets	<u>793</u>	<u>798</u>
Current assets:		
Restricted cash and equivalents:		
Administrative cost account	5	8
Operating account	15	21
Bond charge collection and bond charge payment accounts	180	573
Recoverable costs receivable	-	102
Interest receivable	-	7
Total current assets	<u>200</u>	<u>711</u>
Total assets	<u>993</u>	<u>1,509</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	-	1
Deferred outflows of resources related to OPEB	5	7
Deferral of loss on defeasance	12	35
Total assets and deferred outflows of resources	<u>\$ 1,010</u>	<u>\$ 1,552</u>
<b>Liabilities</b>		
Non-Current liabilities:		
Long-term debt, net of current portion	\$ -	\$ 765
Net pension liability	3	3
Net OPEB liability	4	5
Total non-current liabilities	<u>7</u>	<u>773</u>
Current liabilities:		
Current portion of long-term debt	777	763
Accounts payable	-	2
Accrued interest payable	5	10
Total current liabilities	<u>782</u>	<u>775</u>
Total liabilities	<u>789</u>	<u>1,548</u>
<b>Deferred inflows of resources</b>		
Deferred inflows of recoverable costs	217	-
Deferred inflows of resources related to pensions	1	1
Deferred inflows of resources related to OPEB	3	3
Total liabilities and deferred inflows of resources	<u>\$ 1,010</u>	<u>\$ 1,552</u>

**Department of Water Resources Electric Power Fund**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the year ended June 30, 2021 (with comparative amounts for 2020)**  
**(amounts in millions)**

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Power charges, net of refunds	\$ (7)	\$ (11)
Operating expenses:		
Power purchases	(1)	-
Administrative expenses	3	5
Recovery of recoverable operating costs	(9)	(16)
Total operating expenses	<u>7</u>	<u>11</u>
Income from operations	<u>-</u>	<u>-</u>
Nonoperating revenues and expenses:		
Bond charges	265	872
Interest income	27	42
Interest expense	(42)	(83)
Recovery of recoverable debt service and related costs	(242)	(836)
Gain (loss) on extinguishment of debt	(8)	5
Total nonoperating revenues and expenses	<u>-</u>	<u>-</u>
Changes in net position	-	-
Net position, beginning of year	<u>-</u>	<u>-</u>
Net position, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**Department of Water Resources Electric Power Fund**  
**Statement of Cash Flows**  
**For the year ended June 30, 2021 (with comparative amounts for 2020)**  
**(amounts in millions)**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	\$ (7)	\$ (13)
Payments to employees for services	1	(2)
Payments for power purchases and other expenses	(3)	3
Net cash flows (used for) operating activities	<u>(9)</u>	<u>(12)</u>
Cash flows from non-capital financing activities:		
Receipt of bond charges	367	858
Bond payments	(735)	(970)
Interest payments	(48)	(109)
Net cash flows (used for) non-capital financing activities	<u>(416)</u>	<u>(221)</u>
Cash flows from investing activities:		
Purchase of investment securities	(491)	-
Interest received on investments	34	45
Net cash flows (used for) investing activities	<u>(457)</u>	<u>45</u>
Changes in restricted cash and equivalents,	(882)	(188)
Restricted cash and equivalents, beginning of period	<u>1,082</u>	<u>1,270</u>
Restricted cash and equivalents, end of period	<u>\$ 200</u>	<u>\$ 1,082</u>
Restricted cash and equivalents included in:		
Debt service reserve account held with Fiscal Agent (a component of the total of \$793 at June 30, 2021 and \$782 at June 30, 2020)	\$ -	\$ 480
Administrative cost account	5	8
Operating account	15	21
Bond charge collection and bond charge payment accounts	180	573
Restricted cash and equivalents, end of year	<u>\$ 200</u>	<u>\$ 1,082</u>

**Department of Water Resources Electric Power Fund**  
**Statement of Cash Flows (Continued)**  
**For the year ended June 30, 2021 (with comparative amounts for 2020)**  
**(amounts in millions)**

	<u>2021</u>	<u>2020</u>
Reconciliation of income from operations to net cash used in operating activities:		
Income from operations	\$ -	\$ -
Adjustments to reconcile income from operations to net cash used in operating activities:		
Recovery of recoverable operating costs	<u>(9)</u>	<u>(11)</u>
	<u>(9)</u>	<u>(11)</u>
Changes in net assets and liabilities to reconcile income from operations to net cash used in operations:		
Net OPEB liability and related deferred inflows/outflows	1	1
Net pension liability and related deferred inflows/outflows	1	(1)
Other postemployment benefits and accrued vacation	(2)	-
Interfund loans payable	<u>-</u>	<u>(1)</u>
Net change in assets & liabilities:	<u>-</u>	<u>(1)</u>
Net cash (used for) operating activities	<u>\$ (9)</u>	<u>\$ (12)</u>
Noncash financing and investing activities:		
Amortization of revenue bond premiums	\$ 19	\$ 40
Gain/loss from defeasing bonds	8	5
Amortization of deferral of loss on defeasance	17	25



# Department of Water Resources Electric Power Fund

## Notes to Financial Statements

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#### 1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the DWR to enter into contracts and arrangements for the purchase and sale of electric power to assist in mitigating the effect of a statewide energy supply emergency.

The Fund, administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchases power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to customers in the service areas of the State's IOU's: Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E). The Code prohibits the Fund from entering into new power purchase agreements after December 31, 2002 but allowed the Fund to enter into gas purchase contracts to provide fuel for power generation.

The Fund's power is delivered to customers through the transmission and distribution systems of the IOUs and payments from customers are collected for the Fund by the IOUs pursuant to servicing arrangements approved and/or ordered by the CPUC.

Under the Code, the Fund has the authority to establish a revenue requirement to recover all Fund costs, including debt service. At least annually, management for the Fund establishes a determination of the revenue requirement, which then is submitted to the CPUC. Under the terms of a rate agreement between the two parties, the CPUC implements the Fund's determination of its revenue requirements by establishing end use customer rates that meet the Fund's revenue needs to assure the payment of debt service, power purchases, administrative expenses and maintenance of operating and debt service reserves.

#### 2. Summary of Significant Accounting Policies

##### Basis of Presentation

The Fund is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flow, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not, present the financial position of the State of California and the changes in its financial position and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

Comparative data for prior years have been presented for certain section of the accompanying financial statements in order to provide an understanding of changes in the Fund's financial position and operations.

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#### Current Year GASB Implementation

##### **GASB Statement No. 84**

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for reporting periods beginning after December 15, 2019. The Fund determined that this statement had no impact on the Fund's financial statements.

##### **GASB Statement No. 90**

In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. An Amendment of GASB Statements No. 14 and No. 61. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2019. The Fund determined that this statement had no impact on the Fund's financial statements.

#### **Restricted Cash, Equivalents and Investments**

Under the terms of the Trust Indenture among the State of California, DWR, STO, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) separate restricted cash and investment accounts were established. The accounts and their purpose follow:

##### Administrative Account:

- Administrative Cost Account: Salaries, consultant fees and other administrative expenses were previously funded by Power Charges transferred from Operating Account. Since there are no longer power charge remittances, funds are now transferred from the Bond Charge Payment Account as of January 1, 2016.

##### Power Charge Account:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the operating account. Monies are available for payment of residual contract obligations and return of excess amounts to ratepayers.

##### Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges (see Revenues and Recoverable Costs) are deposited into the Bond Charge Collection Account. Monthly, funds needed for debt service payments and administrative costs are transferred to the Bond Charge Payment Account.
- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service and related fees for the revenue bonds and administrative costs. After receipt of the monthly transfer from the Bond Charge Collection Account, the balance in the Bond Charge Payment Account must at least equal debt service and fees estimated to accrue or be payable for the next succeeding three months.
- Debt Service Reserve Account: The Debt Service Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Debt Service Reserve Account is to be funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt. If the Debt Service Reserve Account needed to be replenished, the funds would be transferred from the Bond Charge Collection Account.

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Restricted cash and equivalents, for purposes of the Statement of Cash Flows, include cash on hand and deposits in the Surplus Money Investment Fund. The Debt Service Reserve Account (net of investments) is classified as long-term restricted cash due to requirements under the Trust Indenture to hold amounts more than anticipated current payments for bond related expenses. Amounts required to be held in reserve are determined annually by the Fund's revenue requirement.

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, the investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 3.

Long-term investments are held solely in the Debt Service Reserve Account by the bond co-trustee and consist of Federal Home Loan Banks and US Treasury Notes. Both investments are carried at fair value.

#### **Net Position**

The Fund does not record the difference between assets and liabilities as net position. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Statement of Net Position is presented as recoverable costs such that there is no net position. The Fund anticipates that amounts in the recoverable costs will be recovered in subsequent years prior to program expiration.

#### **Revenues and Recoverable Costs**

The Fund is required, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then sets end use customer remittance rates. The Fund's financial statements are prepared in accordance with GASB Statement No. 62, which requires that the effects of the revenue requirement process be recorded in the financial statements. Accordingly, all expenses and credits, normally reflected in the change in net position as incurred, are recognized as recoverable costs in the Statement of Net Position and are recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

Customer charges are separated into two primary components, power charges and bond charges. Power charge revenues recover the cost of power purchases, other expenses and operating reserves and are recognized when energy provided by the Fund is delivered to IOU customers. Bond charge revenues recover debt service, debt service reserves and other bond related costs and are recognized when energy provided by the IOU, or an ESP, is delivered to customers in the IOU service areas. Costs are recovered over the life of the bonds as determined by the Fund's revenue requirement process.

#### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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**OPEB**

The State of California provides medical and prescription drug benefits to retired state employee and dependents through CalPERS under the Public Employee's Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to refund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System's portion of the CalPERS OPEB plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**3. Restricted Cash and Investments**

As of June 30, 2021 and 2020, the Fund had the following cash, equivalents and investments (amounts in millions):

<u>Investment</u>	<u>Maturity</u>		<u>2021</u>	<u>2020</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>		
State of California Pooled Money				
Investment account - Surplus Money				
Investment fund	9.6 months avg.	6.3 months avg.	\$ 200	\$ 1,080
Cash			-	2
Total cash and equivalents			200	1,082
Guaranteed Investment Contracts		May 1, 2022	-	200
Forward Purchase Agreements		November 1, 2020	-	102
Federal Home Loan Bank	April 29, 2022		779	-
US Treasury Notes	October 31, 2021		14	-
			<u>\$ 993</u>	<u>\$ 1,384</u>
Reconciliation to Statement of Net Position:				
Debt service reserve account held with Fiscal Agent			\$ 793	\$ 782
Administrative cost account			5	8
Operating account			15	21
Bond charge collection and				
Bond charge payment accounts			180	573
			<u>\$ 993</u>	<u>\$ 1,384</u>

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*Custodial Credit Risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name.

*Interest Rate Risk:* Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State Treasurers Investment Policy, PMIA, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The STO's Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; banker's acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, banker's acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to limits of no more than 10% of the PMIA and commercial paper to limits not to exceed 30% of the PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated.

*Concentration of Credit Risk:* The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio. The ratings of the investments and their relative percentages of total investments is shown in the following table (amounts in millions):

	Amount		S&P Credit Rating	Percent of Total Investments	
	2021	2020		2021	2020
Federal Home Loan Bank	\$ 779	\$ -	AA+	78.45%	0.00%
US Treasury Notes	14	-	N/A	1.41%	0.00%
FPA Provider					
Bank of America Merrill Lynch Discounted	-	102	A+	0.00%	7.38%
GIC Providers					
MassMutual	-	100	AA+	0.00%	7.22%
Royal Bank of Canada	-	100	AAA	0.00%	7.22%
	<u>\$ 793</u>	<u>\$ 302</u>			

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Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 0.28% and 1.24% at June 30, 2021 and 2020, respectively. For the years ended June 30, 2020 and 2019, interest earned on the deposit in the SMIF was \$24 million and \$31 million, respectively.

Interest on the GICs is paid semi-annually at interest rates ranging from 5.3% to 5.5%. Interest earned on the GICs was \$18 million and \$11 million for the years ended June 30, 2021 and 2020, respectively.

The FPA allows the Fund to continuously reinvest funds in U.S. government or U.S. government agency securities through May 2022 to earn a minimum rate of return of 4.7%, as specified in the Reserve Fund FPA, dated May 1, 2004. The reinvested securities are to mature every six months. Interest earned on the FPA was \$8 million and \$5 million for the years ended June 30, 2021 and 2020.

*Fair Market Value Measurement:* The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Guaranteed Investment Contracts are reported as cost.

The Fund has the following recurring fair value measurements at June 30, 2021:

- The FHLB of \$779 million is valued using market approach (Level 2)
- The U.S. Treasury Notes of \$14 is valued using market approach (Level 1)

On September 18, 2020, the Fund terminated the Guarantee Investment Contracts and Forward Purchase Agreement pursuant to an escrow agreement between the State Treasurer (as the Trustee and Escrow Agent) and the Department of Water Resources (Department). The funds were transferred to the escrow agent to legally defease Series 2011 N, Series 2015 O and Series 106 P Bonds on September 24, 2020.

#### 4. Long-Term Debt

The following activity occurred in the long-term debt accounts during the years ended June 30, 2021 and 2020 (amounts in millions):

	<u>Revenue Bonds</u>	<u>Unamortized Premium</u>	<u>Total</u>
Balance, June 30, 2019	\$ 2,459	\$ 84	\$ 2,543
Payments	(970)	-	(970)
Amortization	-	(45)	(45)
Balance, June 30, 2020	1,489	39	1,528
Defeasance of debt	(221)	-	(221)
Payments	(503)	-	(503)
Amortization	-	(19)	(19)
Loss on defeasance	-	(8)	(8)
Balance, June 30, 2021	<u>\$ 765</u>	<u>\$ 12</u>	<u>\$ 777</u>

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Long-term debt consists of the following at June 30, 2021 and 2020, respectively (amounts in millions):

<u>Series</u>	<u>Rates</u>	<u>Fiscal Year of Final Maturity</u>	<u>Fiscal Year of First Call Date</u>	<u>Amount Outstanding 2021</u>	<u>Amount Outstanding 2020</u>	<u>2021 Current Portion</u>
N	Fixed (3.00-5.00%)	2021	Non-callable	\$ -	\$ 221	\$ -
O	Fixed (2.00-5.00%)	2022	Non-callable	315	766	315
P	Fixed (1.71-2.00%)	2022	Non-callable	450	502	450
				765	1,489	765
				12	39	12
				<u>\$ 777</u>	<u>\$ 1,528</u>	<u>\$ 777</u>

**Bond Debt Defeasance**

**Series 2011 N Bonds**

On September 24, 2020, pursuant to an escrow agreement between the State Treasurer (as the Trustee and Escrow Agent) and DWR, the Department legally defeased Power Supply Revenue Bonds in the amount of \$221 million related to the Series 2011 N Bonds. The Department deposited cash and certain investment securities in the aggregate sum of \$232 million to an irrevocable Escrow Fund established by the Trustee for purposes of defeasing the Series 2011N Bonds. The aggregate amount was comprised of amounts from certain investment agreement termination payments, accrued interest, outstanding amounts, liquidated securities, and cash equivalents previously held by the Co-Trustee in connection with the Debt Service Reserve Account for the Power Supply Revenue Bonds, along with amounts released from the Department Bond Charge Payment Account and Bond Charge Collection Account, which were established with respect to the previously issued Power Supply Revenue Bonds. As a result, the Series 2011 N Bonds are considered defeased and has been removed from the Statement of Net Position. The Fund's defeasance of Bond Series 2011 N resulted in an \$8 million loss.

The maturing principal and interest on the investment securities together with the cash amount held in the Escrow Fund are designed to be sufficient to provide for the payment of the principal and interest on the defeased bonds when due. As of June 30, 2021, the outstanding balance of the defeased Series 2011 N bonds is \$0 with the final debt service principal payment of \$221 million made on May 1, 2021.

**Series 2015 O and 2016 P Bonds**

On September 24, 2020, pursuant to an escrow agreement between the State Treasurer (as the Trustee and Escrow Agent) and the Department of Water Resources (Department), the Department legally defeased all the Series 2015O Bonds and Series 2016P Bonds. The Department deposited cash and certain investment securities in the aggregate sum of \$1,348 million to the Escrow Fund established by the Trustee for purposes of legally defeasing the outstanding bonds. This aggregate amount was comprised of amounts from certain investment agreement termination payments, accrued interest, outstanding amounts, liquidated securities, and cash equivalents previously held by the Co-Trustee in connection with the Debt Service Reserve Account for the Power Supply Revenue Bonds, along with amounts released from the Department's Bond Charge Payment Account and Bond Charge Collection Account, which were established with respect to the previously issued Power Supply Revenue Bonds.

The maturing principal and interest on the investment securities together with the cash amount held in the Escrow Fund are sufficient to provide for the payment of the principal and interest on the defeased Series 2015O and 2016P Bonds when due. As of June 30, 2021, the outstanding balance of the legally defeased Series 2015O and 2016P Bonds is \$765 million with the final debt service principal payment of \$724 million due on May 1, 2022.

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However, the Federal Home Loan Bank securities placed in the irrevocable trust do not meet the definition of essentially risk free in accordance with Governmental Accounting Board Statement No. 86, and thus the Series 2015O and 2016P Bonds are not considered defeased for accounting purposes.

**Key Terms**

Principal and interest payments are payable from bond charges. The Fund is subject to certain bond covenants, including establishing funding and expenditure requirements for several restricted cash and investment accounts. The bonds are limited special obligations of the Fund. Neither the principal nor any interest thereon constitutes a debt of the State of California.

The Series O and P are non-callable.

**Maturities**

Future payment requirements on the Series 2015 O and 2016 P Bonds revenue bonds are as follows at June 30, 2021 (amounts in millions):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 765	\$ 29	\$ 794
	\$ -	\$ 29	\$ 794

**5. Commitments and Contingencies**

**Litigation and Regulatory Proceedings**

Certain pending legal and administrative proceedings involving the Fund or affecting the Fund's power supply program are summarized below.

*California Refund Proceedings:* During 2001 and 2002, the Fund purchased power in bilateral transactions (both short-term and long-term), sold power to the California Independent System Operator (CAISO), paid for power purchased by the CAISO and purchased power from the CAISO for sale to customers of the IOUs. In July 2001, the FERC initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (CalPX) markets during 2000 and 2001. FERC ruled that the Fund would not be entitled in that proceeding to approximately \$3,500 million in refunds associated with the Fund's approximately \$5,000 million of short-term purchases because the Fund made those purchases bilaterally, not in the PX or CAISO markets. The Ninth Circuit Court of Appeals affirmed FERC but left open the possibility of refunds on the Fund's bilateral purchases in other FERC proceedings. In contrast, FERC ruled that the Fund is entitled to refunds on purchases made by the CAISO where the Fund actually paid the bill.

Of the Fund's \$5,000 million in short-term bilateral purchases, \$2,900 million was imbalance energy which the Fund sold to the CAISO at the Fund's cost in order to meet the CAISO's emergency needs during 2001. The Fund is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring the Fund to pay refunds on the sales to the CAISO. In September 2005, the Ninth Circuit Court of Appeals held that FERC does not have authority to order refunds from governmental entities such as the Fund. In November 2008, FERC found that although FERC cannot order a governmental entity, such as the Fund, to pay refunds, it can enforce the terms of the CAISO's tariff, which requires that all purchases and sales in a given hourly settlement period are netted. But for the more than 60 refund settlements the Fund has entered into to date, this order would have resulted in a substantial reduction to the refunds payable to the Fund. Through the Fund's settlements, however, the Fund has been able to resolve all but one of its short-term refund claims, and has been able to reduce to a de minimus amount, the amount by which its refunds have been reduced on account of the Fund's sales to the CAISO. On April 22, 2020 the California Parties filed a



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petition at FERC seeking approval of 1) Settlement Overlay Calculations; 2) Final payment of amounts owed and owing, 3) termination of the activities of the CalPX and related relief. On May 20, 2021, FERC approved the Settlement Overlay Filing and the 15-step market clearing process and wind-down of CalPX proposed by the parties. There were no timely appeals filed and the parties are proceeding with the market clearing. On November 1, 2021, the Fund received \$140,155,133 in settlement monies as part of the wind-up. There is a possibility that DWR will receive additional monies as escrow accounts are closed or the CalPX received additional wind-up cash. The Fund's alone remaining short-term refund claim, a bilateral claim, remains subject to litigation.

*Direct Access Proceeding:* On February 28, 2008, the CPUC approved a decision concluding that the suspension of direct access cannot be lifted at the present time because the Fund is still supplying power under the Act. However, the decision continued the proceeding to consider possible approaches to expediting the Fund's exit from its role of supplying power under the Act. On November 21, 2008, the CPUC adopted a plan with the goal of the early exit of the Fund from its role as supplier of power to retail electric customers. Under this plan, the Fund's power purchase contracts would be replaced by agreement between the IOU s and the Fund's power supplier counterparties that are not detrimental to ratepayers, through novation and/or negotiation.

*Financial Class Action Lawsuits:* The Department entered into several long-term swap transactions for Power Supply Revenue Bond debt management purposes during the period of March 2003 through July 2006. The swaps were terminated before the original termination date. All the Department's swap agreements were terminated by October 2010. Several class action lawsuits have been brought by public sector entities on behalf of themselves and any other entities who transacted in certain derivative instruments based on (1) fixed interest rate swaps commonly referred to as International Swaps and Derivatives Association (ISDA) Instruments and (2) London Interbank Offered Rate Instruments. The Department has submitted claims within the framework described in the class actions and it is expected to be deemed valid by the courts.

*PG&E Bankruptcy:* On January 29, 2019, PG&E filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On June 20, 2020, the US Bankruptcy Court for Northern District of California approved PG&E's Chapter 11 Plan and on July 1, 2020 PG&E emerged from bankruptcy. PG&E provides (and provided during the course of its Chapter 11 case), under servicing arrangement billing and collection services on behalf of DWR bond charges. The Fund's rights with respects to DWR bond charges, and the performance by PG&E of its billing and collection services, were unaffected by PG&E Chapter 11 case.

#### **Other Contingencies**

The Fund is self-insured for most risks, including general liability and workers' compensation. Management believes the Fund's exposure to loss is immaterial and that any costs associated with such potential losses are recoverable from customers as part of the Fund's revenue requirement.

## **6. Energy and Financial Settlements**

The Fund and other parties have entered into settlement agreements with various energy suppliers which resolve potential and alleged causes of action against suppliers for their part in alleged manipulation of natural gas and electricity commodity, transportation markets during the 2000 - 2001 California energy crisis, and also received settlements from other FERC actions.

Additionally, the Fund has begun to be involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates, their impact on the Fund's bond offerings and interest rate swap agreements.

The Fund received \$0 in energy settlements and \$6,000 for financial market manipulation settlements during the fiscal year ended June 30, 2021 and 2020, respectively.

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#### 7. Subsequent Event

The Long-term debt reported for the Fund as of June 30, 2021, includes Series 2015 O and 2016 P Bonds Power Supply Revenue Bonds that were legally defeased on September 24, 2020. Subsequent to June 30, 2021, all of the remaining outstanding Series 2015 O and 2016 P Bonds were fully redeemed on May 1, 2022 and the outstanding balance of the Series 2015 O and 2016 P Bonds as of May 1, 2022 is \$0.

#### 8. Pension Plan

Department of Water Resources adopted GASB No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that the report is connected with the liability and asset information within certain defined timeframes. For this FY19-20 report, the following timeframes are applied:

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

##### Plan Description

As of the measurement date, all employees of the Fund participate in the CalPERS Miscellaneous Defined Benefit Pension Plan (Plan), which is included in the State of California's State Comprehensive Annual Financial Report (CAFR) as a fiduciary component unit. CalPERS administers the Plan within the Public Employees' Retirement Fund (PERF). PERF is an Agent Multiple-Employer Defined Benefit Pension Plan. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The California Legislature passed, and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a several provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

##### Benefits Provided

The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

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The Plan's provisions and benefits in effect at June 30, 2021 and 2020, are summarized as follows:

*First Tier:*

	<u>Prior to January 15, 2011</u>	<u>January 15, 2011 to December 31, 2012</u>	<u>On or after January 1, 2013</u>
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.1 to 2.5%	1.092 to 2.418%	1.0 to 2.5%

*Second Tier:*

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	10 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	0.5 to 1.25%	0.65 to 1.25%

**Contributions**

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement periods ended June 30, 2020 and 2019 (the measurement dates) the employer's contribution rates are approximately 31.5% and 29.3%, respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer-Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan for the fiscal years ended June 30, 2021 and 2020, were \$0.3 million and \$0.4 million for each year.

**Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources related to Pensions**

As of June 30, 2021 and 2020, the Fund reported a net pension liability for the proportionate share of the net pension liability of \$3 million and \$3 million, respectively.

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The Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The Funds' proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the fund. The SCO identified a total of 29 entities that are reported in the State's CAFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by plan. The Fund's proportionate share of the net pension liability for the Plan measured as of June 30, 2020 was 0.0078%, and measured as of June 30, 2019 was 0.0100%.

For the years ended June 30, 2021 and 2020, the Fund recognized pension expense of \$0.3 million and \$0.1 million, respectively. At June 30, 2020 and 2019, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources (amounts in millions):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
Contributions subsequent to the measurement date	\$ 0.30	\$ 0.40	\$ -	\$ -
Changes in proportion	-	-	1.10	1.20
Changes in assumption	-	0.14	0.03	0.07
Differences between expected and actual experience	0.13	0.18	-	0.01
Net differences between projected and actual earnings on pension plan investments	0.07	-	-	0.03
Total	<u>\$ 0.50</u>	<u>\$ 0.72</u>	<u>\$ 1.13</u>	<u>\$ 1.31</u>

The \$0.3 million reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2020 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in millions):

Year Ended June 30	Pension Expense
2022	\$ (0.60)
2023	(0.20)
2024	(0.16)
2025	0.03
Total	<u>\$ (0.93)</u>

# Department of Water Resources Electric Power Fund

## Notes to Financial Statements

### June 30, 2021

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#### Actuarial Methods and Assumptions

The June 30, 2019 valuation was rolled forward to determine the June 30, 2020 (measurement date). Total pension liabilities, based on the following actuarial method and assumptions:

Valuation Date:	June 30, 2019
Actuarial Cost Method:	Entry age Normal
Discount Rate:	7.15%
Inflation:	2.50%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.25% Net of Pension Plan Investment expense includes Inflation.
Mortality Rate Table:	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.
Retirement Age	The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Payroll Growth	2.75%

#### Discount Rate

To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB 67 & 68 Crossover Testing Report" that can be obtained at CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

**Department of Water Resources Electric Power Fund**  
**Notes to Financial Statements**  
**June 30, 2021**

The following table reflects long-term expected real rate of return by asset class:

<b>Assets Class</b>	<b>Target Asset Allocation</b>	<b>Real Return Years 1-10</b>	<b>Real Return Years 11+</b>
Global Equity	59.00%	4.80%	5.98%
Fixed Income	25.00%	1.10%	2.62%
Treasury Inflation-Protected Securities	5.00%	0.25%	1.46%
Real Estate Investment Trusts	8.00%	3.50%	5.00%
Commodities	3.00%	1.50%	2.87%
Total	100.00%		

- (1) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investment; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (2) An expected inflation of 2.00% used for this period
- (3) An expected inflation of 2.92% used for this period

**Sensitivity of the Fund's Proportionate Share Net Pension Liability to Changes in the Discount Rate**

The following table presents the Fund's proportionate share of Plan's net pension liability as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (amounts in millions):

	<b>Discount Rate -1%</b>	<b>Current Discount Rate</b>	<b>Discount Rate +1%</b>
	<b>6.15%</b>	<b>7.15%</b>	<b>8.15%</b>
The Fund's Proportionate Share of Plan's Net Pension Liability	\$ 4	\$ 3	\$ 2

**Other Post-Employment Health Care Benefits (OPEB)**

**Plan Description** – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California under the Public Employees' Medical and Hospital Care Act. Dental benefits are provided under the State Employees' Dental Care Act. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined.

**Benefits Provided** - A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment, was eligible for health benefits upon separation and receives a monthly retirement allowance. CalPERS provides healthcare benefits for retirees and their dependents through payment of insurance premiums up to the maximum State Contribution amount.

The State of California provides medical, prescription drug, and dental benefits (healthcare benefits) to retired statewide employees through a single-employer defined benefit plan. The State participates in the CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans.

**Department of Water Resources Electric Power Fund**  
**Notes to Financial Statements**  
**June 30, 2021**

The State also offers life insurance, long-term care and vision benefits to retirees; however, because these benefits are completely paid for by retirees, there is no GASB Statements No. 74 or 75 liability to the State on behalf of such benefits.

**Contribution** – The State and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers’ Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation retirees and dependents associated with that valuation group. Contributions are based on a percentage compensation with the ultimate goal of contributions 100 percent of the actuarially determined normal cost shared equality between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial liabilities are fully funded. The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not prefunded. For the fiscal year June 30, 2020, the Fund’s total contributions was \$0.2 million.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB**

At June 30, 2021 and 2020, the Fund reported a liability of \$4 million and \$5 million for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the same date. The Fund’s proportion of the net OPEB liability was based on the SCO projection for the Fund. The proportion is based on the Fund’s pensionable compensation relative to the pensionable compensation of all valuation groups which include the Fund’s employee. The pensionable compensation amounts are used to calculate each state entity’s proportionate share of OPEB amounts for each valuation group. At June 30, 2021, the Fund’s total proportionate share of the net OPEB liability for all applicable valuation groups was 0.04%. At June 30, 2020, the Fund’s total proportionate share of the net OPEB liability for all applicable valuation groups was 0.01%.

For the year ended June 30, 2021, the Fund recognized OPEB expense of \$1 million. On June 30 2021, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (amounts in millions):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
Contributions subsequent to the measurement date	\$ 0.1	\$ 0.4	\$ -	\$ -
Difference between actual and expected contributions	4.6	6.2	-	-
Change in assumptions	0.1	0.1	0.2	0.4
Proportion share and allocation basis change	-	-	3.0	2.4
<b>Total</b>	<b>\$ 4.8</b>	<b>\$ 6.7</b>	<b>\$ 3.2</b>	<b>\$ 2.8</b>

**Department of Water Resources Electric Power Fund**  
**Notes to Financial Statements**  
**June 30, 2021**

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\$0.1 million reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts in millions):

<u>Year Ended June 30</u>	<u>Amount</u>
2022	\$ 0.7
2023	0.8
2024	0.5
2025	(0.1)
2026	(0.3)
Thereafter	(0.1)
	<u>\$ 1.5</u>

**Actuarial Methods and Assumptions**

An actuarial valuation measures the program’s funded status and annual funding or accounting costs based on the actuarial assumptions and methods selected. The funded status compares assets to actuarial accrued liabilities, and the annual cost represents the normal cost plus an amortization of the unfunded actuarial accrued liability.

In the actuarial valuation process, certain economic and demographic assumptions are made relating to the projection of benefits and the timing and duration of benefits. The stream of expected projected benefits is discounted to a present value as of the actuarial valuation date. The present value is then spread over past service (actuarial accrued liability), and service for the current year (normal cost) based on the chosen actuarial cost method.

The Actuarial Valuation of the State’s OPEB is similar to the Actuarial Valuations performed for the State’s pension plans. The demographic assumptions (rates of retirement, termination, disability and mortality, etc.) used in this OPEB Actuarial Valuation were identical to those used in the most recent CalPERS Actuarial Valuations. The demographic assumptions – Age of Spouse: It is assumed that female are three years younger than male spouses.

In addition, the actuarial cost method (entry-age normal) is identical to the one used in the most recent CalPERS Actuarial Valuation for the State Plan of the California Public Employees’ Retirement System.

The discount rate selected was 6.75 percent for the actuarial valuation of the fully funded policy. A discount rate of 6.75 percent can be supported for the actuarial valuation as of June 30, 2020, provided the sponsor makes pre-funding contributions as defined by statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1.

**Discount Rate**

The discount rate assumption depends on the purposes of the measurement.

The sponsor’s pre-funding policy provides for a 50 percent cost sharing of the normal cost, between active members and the plan sponsor, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into the CERBT and are expected to earn 6.75 percent per year. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046 or the year that the total actuarial liability is fully funded. The sponsor finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For purposes of developing the full-funding normal cost, actuarial liability and actuarially determined contribution, a discount rate of 6.75 percent was used.



**Department of Water Resources Electric Power Fund**  
**Notes to Financial Statements**  
**June 30, 2021**

Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 3.13 percent if pre-funding assets are not available to pay benefits and 6.75 percent if pre-funding assets are available to pay benefits.

**Blended Discount Rate**

For purposes of GASB No. 75 financial reporting, liabilities are discounted using a blended discount rate. The blended discount rate is based on a (1) 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis and (2) the expected return on trust assets if pre-funding assets are available to pay benefits. The following table shows the blended discount rates at June 30, 2019, and June 30, 2020, for each respective actuarial valuation group.

<b>BLENDED DISCOUNT RATES</b>		
<b>Actuarial Valuation Group</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Attorneys and Hearing Officers (BU2)	4.072%	3.711%
Highway Patrol (BU5)	4.282%	3.851%
Corrections (BU6)	4.133%	3.726%
Protective Services and Public Safety (BU7)	4.066%	3.654%
Firefighters (BU8)	4.152%	3.776%
Professional Engineers (BU9)	3.953%	3.586%
Professional Scientific (BU10)	4.084%	3.690%
Craft and Maintenance (BU12)	4.010%	3.604%
Stationary Engineers (BU13)	3.906%	3.516%
Physicians, Dentists, and Podiatrists (BU16)	4.112%	3.772%
Psychiatric Technicians (BU18)	4.080%	3.705%
Health and Social Services/Professional (BU19)	4.159%	3.757%
California State University	3.620%	3.130%
Judicial Branch	4.118%	3.724%
Exempt/Excluded/Executive	3.620%	3.568%
Other	3.620%	3.310%
Service Employees International Union (SEIU)	3.987%	3.604%

Other assumptions and methods unique to OPEB valuations are consistent with CalPERS OPEB assumption parameters, with the exception of the dental trend rates, as follows:

- Healthcare trend – Select and ultimate healthcare trend rates were developed separately for the PPO, prescription drug, HMO, and dental plans. For the Pre-Medicare and Post-Medicare medical and drug plans, the select and ultimate trend rates were set at actual increases for 2020 and 7.50 percent in 2021 graded down over a six-year period until to a trend rate of 4.50 percent in 2027, remains at 4.50 percent for ten years until the ultimate rate of 4.25 percent is reached in 2037. Based on a review of supporting documentation provided by CalPERS and a review of various publicly available trend studies, the 2020 trend rate for the PPO per capita claims costs is assumed to be 4.00 percent for Pre-Medicare medical and Pre-Medicare prescription drug, and 4.00 percent for Post-Medicare medical and Post-Medicare prescription drug. Beginning in the year 2023 for Future Retirees, the ultimate trend rate on the Employer's explicit contribution includes an additional 0.18 percent to account for the Excise Tax under Federal Healthcare Reform. For the dental plans, select and ultimate trend rates were set at 0.01 percent for 2020 and 4.50 percent for 2021 and beyond. The trend rates are net of any increases due to the potential wear-away of the EGWP-Wrap design savings in 2026. Effective trend for the Post-Medicare plans affected by the EGWP-Wrap design would be higher until the year 2026. These higher effective trend rates gradually eliminate the

# Department of Water Resources Electric Power Fund

## Notes to Financial Statements

### June 30, 2021

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approximately 20 percent savings for PERSCare, 24 percent savings for PERS Choice and 15 percent savings for the HMO plans remaining as of June 30, 2019, due to the EGWP-Wrap plan design. After seven years, the ultimate savings are assumed to equal 14 percent for PERSCare, 17 percent for PERS Choice, and 10 percent for HMO plans.

- Per capita claim costs – Claims costs were developed separately for the PPO, prescription drug, HMO, and dental plans. Costs were developed for pre-Medicare and post-Medicare coverage at each respective age and gender, using overall average costs adjusted for morbidity.
- Other healthcare assumptions – The proportion of members selecting a particular plan and coverage at retirement was based on the most current census and enrollment data.

**Percent of Disabilities Treated as Post-Medicare:** Four percent of Public Safety disabilities and 33 percent of all other disabilities are assumed to be eligible for Medicare.

**Coverage and Continuance Assumptions:** It is assumed that 40 percent of participating members will elect one-party coverage, while 60 percent will elect two-party coverage. Of the members electing two-party coverage, we assumed that 100 percent of surviving spouses would continue coverage after the death of the retiree.

**Price Inflation:** Price inflation is assumed to be 2.25 percent.

**Wage inflation:** Wage inflation is assumed to be 2.50 percent.

**Aging Factors:** In any given year, the cost of medical and prescription drug benefits vary by age. As the ages of employees and retirees in the covered population increase so does the cost of benefits. Morbidity tables are employed to develop Per Capita Costs at every relevant age. The following table represents the percent by which the cost of benefits for non-disabled lives at one age is higher than the cost for the previous age. For example, according to the following table, the cost of benefits for a male in the PPO plan age 55 is 2.58 percent higher than for one age 54. These percentages below are separate from the annual Medical Trend, which operates to increase costs independent of and in addition to the Aging Factors shown below. These factors, with the exception of the Pre-Medicare HMO rates, were developed using actual experience.

Aging factors for the PPO and prescription drug plans were based on gross claim and enrollment experience data broken out by five-year age bands, for calendar years 2014 through 2018. Average gross costs were developed by gender at each age interval for each respective calendar year. These costs were weighted, smoothed, and the average increase at each age was estimated using interpolation formulas. Aging factors for the HMO were calculated by adjusting the PPO medical factors to account for relative differences between HMO and PPO plans.

**Postretirement Mortality Assumption:** Rates vary by age and gender for healthy benefit recipients, for non-industrially disabled (disability not job-related) retirees and for retirees who are industrially disabled (disability is job-related).

**Department of Water Resources Electric Power Fund**  
**Notes to Financial Statements**  
**June 30, 2021**

Age	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
	Male	Female	Male	Female	Male	Female
50	0.00372	0.00346	0.01183	0.01083	0.00372	0.00346
55	0.00437	0.00410	0.01613	0.01178	0.00437	0.00410
60	0.00671	0.00476	0.02166	0.01404	0.00671	0.00476
65	0.00928	0.00637	0.02733	0.01757	0.01113	0.00765
70	0.01339	0.00926	0.03358	0.02183	0.01607	0.01111
75	0.02316	0.01635	0.04277	0.02969	0.02779	0.01962
80	0.03977	0.03007	0.06272	0.04641	0.04773	0.03609
85	0.07122	0.05418	0.09793	0.07847	0.08547	0.06501
90	0.13044	0.10089	0.14616	0.13220	0.14348	0.11098
95	0.21658	0.17698	0.21658	0.21015	0.21658	0.17698
100	0.32222	0.25151	0.32222	0.32226	0.32222	0.28151
105	0.46691	0.43491	0.46691	0.43491	0.46691	0.43491
110	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000

The postretirement mortality rates above include 15 years of projected ongoing mortality improvement using 90 percent scale MP-2016 published by the Society of Actuaries.

Long-Term Expected Rate of Return: The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.

**Sensitivity of the Fund's Proportionate Share of the Net OPEB liability to Changes in the Discount Rate**

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the blended discount rate, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate (amounts in millions):

	1% Decrease	Blended Discount Rate	1% Increase
Net OPEB Liability	\$ 6	\$ 5	\$ 5

**Sensitivity of the Fund's Proportionate Share of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates**

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Actuarial Methods and Assumptions Section, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using healthcare cost trend rate that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates presented in Actuarial Methods and Assumptions Section (amounts in millions):

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 5	\$ 5	\$ 6

**REQUIRED SUPPLEMENTARY INFORMATION**

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE FUND'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
Last 10 Years\*  
(amounts in millions)**

	2021	2020	2019	2018	2017	2016	2015
Measurement Period	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
The Fund's proportion of the net pension liability	0.00777%	0.01001%	0.0117%	0.01475%	0.01741%	0.01921%	0.01777%
The Fund's proportionate share of the net pension liability	\$ 3	\$ 3	\$ 4	\$ 5	\$ 6	\$ 5	\$ 5
The Fund's covered-employer payroll	\$ 1.3	\$ 1.5	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0	\$ 2.0
The Fund's proportionate share of the net pension liability as a percentage of their covered-employee payroll	230.77%	200%	222.22%	263.16%	315.79%	250.00%	250.00%
Plan fiduciary net position as a percentage of the	71.51%	71.34%	71.83%	66.42%	66.81%	70.68%	73.05%

**Notes to Schedule:**

**Change of benefit terms:** For all years presented, there were no changes to the benefit terms.

**Change in assumptions:** GASB 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses, but without reduction for pension plan administrative expenses. The discount rate changed from 7.65% (net of administrative expenses in 2016) to 7.15% as of the June 30, 2017 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expenses.

\*Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE FUND'S CONTRIBUTIONS FOR PENSIONS  
Last 10 Years\*  
(amounts in millions)**

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 0.3	\$ 0.4	\$ 0.5	\$ 1.0	\$ 0.5	\$ 0.5	\$ 0.5
Contribution in relation to the contractually required contribution	(0.3)	(0.4)	(0.5)	(1.0)	(0.5)	(0.5)	(0.5)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered payroll	\$ 1.1	\$ 1.3	\$ 1.5	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0
Contributions as a percentage of covered payroll	26.60%	30.77%	33.33%	55.56%	26.32%	26.32%	25.00%

\*Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last 10 Years\*  
(amounts in millions)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
The fund's proportion of the net OPEB liability	0.04%	0.010%	0.013%
The fund's proportionate share of the net OPEB liability	\$ 4.0	\$ 5.0	\$ 5.4
The fund's covered payroll	\$ 1.0	\$ 1.0	\$ 1.0
The fund's proportionate share of the net OPEB liability as a percentage of its covered payroll	585.651%	644.082%	622.554%
Plan fiduciary net position as a percentage of the total OPEB liability	2.825%	1.722%	0.597%
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018

\* Fiscal year 2019 is the first year of implementation, therefore only three years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE FUND'S CONTRIBUTION FOR OPEB  
Last 10 Years\*  
(amounts in millions)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 0.1	\$ 0.2	\$ 0.2
Contribution in relation to the contractually required contribution	<u>(0.1)</u>	<u>(0.2)</u>	<u>(0.2)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered payroll	1.0	1.0	1.0
Contributions as a percentage of covered payroll	25.6%	21.8%	19.3%

\* Fiscal year 2019 is the first year of implementation, therefore only three years are shown.





**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Director of the State of California Department of Water Resources  
Department of Water Resources Electric Power Fund  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Water Resources Electric Power Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 5, 2022. Our report contained an emphasis of matter paragraph regarding that the financial statements present only the Fund and do not purport to and do not present fairly the financial position of the State of California as of June 30, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

**Compliance and Other Matters**

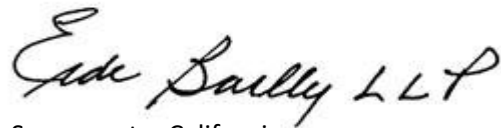
As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

**The Fund's Responses to Findings**

The Fund's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The Funds's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Sacramento, California

October 5, 2022

**Finding 2021-001**

**Material Adjustments**

**Criteria:**

Management is responsible for preparing financial statements in accordance with generally accepted accounting principles and for establishing internal controls to ensure complete and accurate financial reporting. Timely and accurate financial reporting is an important cornerstone of an organization's control environment and provides the foundation for financial analysis, a critical component needed to be able to respond timely to financial related issues.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

**Condition:**

*Material Weakness* – During the course of our engagement, we proposed material audit adjustments to the Electric Power Fund's recorded account balances in the areas of cash and investments, long-term debt, receivables, interest payable, interest expense and loss on extinguishment of debt, which if not recorded, would have resulted in a material misstatement of the Electric Fund's financial statements.

**Context:**

The above condition was identified during our audit procedures over the Electric Power Fund's year-end account balances.

**Cause:**

On September 24, 2020, the Electric Power Fund arranged for the aggregate sum of \$1,580,235,170 to be deposited to an irrevocable Escrow Fund established by the Trustee for purposes of defeasing the outstanding Power Supply Revenue Bonds. The State Treasurer's Office, acting as Trustee, purchased defeasance securities, as directed in the Escrow Agreement dated as of September 1, 2020.

Per Exhibit B of the Escrow Agreement, Federal Home Loan Bank agency securities were purchased in the amount of \$1,304,570,000 and were assigned to the defeased Power Supply Revenue Bonds with final maturity dates of May 1, 2021 and May 1, 2022. In accordance with Government Accounting Board Standard (GASB) No. 86, for the extinguishment of debt to qualify as in-substance defeasance (i.e. removed from balance sheet), the trust is restricted to owning only monetary assets that are essentially

# Department of Water Resources Electric System Fund

## Schedule of Findings and Recommendations

For the Year Ended June 30, 2021

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risk-free as to the amount, timing, and collection of interest and principal. The monetary assets should be denominated in the currency in which the debt is payable. For debt denominated in U.S. dollars, essentially risk-free monetary assets are limited to:

- a. Direct obligations of the U.S. government (i.e. Treasury bills, Treasury bonds, and U.S. savings bonds)
- b. Obligations guaranteed by the U.S. government
- c. Securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder.

We noted the Federal Home Loan Bank agency securities investments do not qualify as defeasance securities per the Escrow Agreement and do not qualify as essentially risk-free monetary assets per GASB 86.

### **Effect:**

The condition described above resulted in material adjustments being posted to the financial and a delay in the issuance of the statements.

### **Recommendation:**

We recommend the Electric Power Fund to take steps to evaluate the current accounting policies and procedures over the defeasance of revenue bonds to ensure the investments placed into the trust are classified as essentially risk-free monetary assets in accordance with GASB 86.

### **Views of Responsible Officials and Planned Corrective Actions:**

The Department relies upon its Bond Counsel, Trustee and advisors to assure that any escrow containing defeasance securities are consistent with the Bond Indenture. In this case, the Department's Bond Counsel and the Trustee deemed that the Federal Home Loan Securities do qualify as defeasance securities pursuant to the Indenture. The Electric Power Fund Bonds have been legally defeased. In the future the Department will, if applicable (the Department no longer has authority to issue additional Power bonds), institute an additional review process to assure not only compliance with the Indenture but also with any reasonable interpretation of GASB 86.

Department of Water Resources Electric System Fund  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2021

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None noted.