

Annual Report For Fiscal Year Ended June 30, 2019



Port Commission of the City and County of San Francisco

Issued: February 21, 2020

Table of Contents

I.	Introduction	1
II.	Port Revenue Bonds	1
III.	Other Non-Reportable Obligations	3
IV.	Port of San Francisco, Debt Service Coverage	4
V.	Major Port Operating Revenues	5
VI.	Port of San Francisco Top Ten Tenants and Customers	6
VII.	Port of San Francisco Real Estate Leases, Remaining Lease Terms	7
VIII.	Port of San Francisco Real Estate Top Ten Tenants and Customers	8
IX.	Port of San Francisco Historical Results of Operations	9
X.	Port of San Francisco Historical Operations and Maintenance Expenses	10
XI.	Audited Financial Statements of the Port Commission, City & County of San Francisco for the Fiscal Year Ended June 30, 2019	11
XII.	Significant Events	11
XIII.	Other Matters	11

I. Introduction

The Port Commission of the City and County of San Francisco ("Port") hereby makes this disclosure filing in connection with the Port's Revenue Bonds, Series 2010A, Series 2010B, Series 2014A and Series 2014B, and identified by the CUSIP numbers shown below.

The Port hereby provides its annual disclosure report for the fiscal year ended June 30, 2019 prepared in accordance with the Continuing Disclosure Certificates dated February 3, 2010 and May 29, 2014.

II. Port Revenue Bonds

The Port Commission has outstanding the following reportable obligations (collectively, the "Bonds").

<i>Continuing Disclosure Certificate</i>	<i>Issue Name</i>	<i>Original Par Amount</i>	<i>Outstanding Par Amount</i> [†]
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	\$14,220,000	\$14,220,000
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Taxable)	\$22,430,000	\$15,645,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt)	\$19,880,000	\$19,880,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Taxable)	\$2,795,000	\$400,000

[†] As of the report issuance date.

Series 2010A Bonds (Non-AMT Tax-Exempt)

<i>CUSIP Number</i>		
<i>Maturity Date</i>	<i>Principal Amount</i>	<i>CUSIP No.</i>
3/1/2040	\$14,220,000	797679 AJ6

Series 2010B Bonds (Taxable)

<i>CUSIP Numbers</i>		
<i>Maturity Date</i>	<i>Principal Amount</i>	<i>CUSIP No.</i>
3/1/2020	995,000	797679 AU1
3/1/2025	6,070,000	797679 AV9

Series 2010B Bonds (Taxable)
Continued

<u>CUSIP Numbers</u>		
<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2030	<u>8,580,000</u>	797679 AW7
	\$15,645,000	

Series 2014A Bonds (AMT Tax-Exempt)

<u>CUSIP Number</u>		
<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2020	\$60,000	797679 BD8
3/1/2021	475,000	797679 AX5
3/1/2022	495,000	797679 AY3
3/1/2024	1,055,000	797679 BE6
3/1/2026	1,160,000	797679 BF3
3/1/2028	1,280,000	797679 AZ0
3/1/2030	1,415,000	797679 BA4
3/1/2035	4,115,000	797679 BB2
3/1/2044	<u>9,825,000</u>	797679 BC0
	\$19,880,000	

Series 2014B Bonds (Federally Taxable)

<u>CUSIP Numbers</u>		
<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2020	400,000	797679 BM8

Contacts

Issuer: Nate Cruz
Financial Director
Finance Department
Port of San Francisco
Pier 1
San Francisco, CA 94111
Telephone: (415) 274-0442
Fax: (415) 274-0630
e-mail: nate.cruz@sfport.com

Contacts (cont.)

Trustee:

Andrew Fung
Vice President
Corporate Trust Services
U.S. Bank National Association
One California Street, Suite 1000
San Francisco, CA 94111
Telephone: (415) 677-3593
Fax: (415) 677-3769
e-mail: andrew.fung@usbank.com

III. Other Non-Reportable Obligations

<u>Issue Name</u>	<u>Original Par Amount</u>	<u>Balance as of Report Issuance Date</u>	<u>Final Maturity</u>
Certificates of Participation*	\$37,700,000	\$30,010,000	2043
California Division of Boating & Waterways Loan	\$3,500,000	\$1,684,592	2028

- * A Certificates of Participation (COPs) financing was completed on October 31, 2013 by the City and County of San Francisco (City) on behalf of the Port. Under terms of a Memorandum of Understanding with the City, the Port has agreed during the term of the COPs to budget sufficient funding to service the obligation.

IV. Port of San Francisco, Debt Service Coverage

PORT OF SAN FRANCISCO
Historic Debt Service Coverage
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	2015	2016	2017	2018	2019
Revenues ¹					
Maritime	\$18,398	\$21,247	\$25,975	\$23,349	\$23,186
Real Estate & Asset Management	74,731	75,790	83,124	79,668	92,217
Interest Income ²	786	803	1,348	3,107	4,153
Other Revenue ³	2,166	2,695	5,254	6,752	5,807
Total Revenues	\$96,081	\$100,535	\$115,701	\$112,876	\$125,363
Operating Expenses ¹					
Operations & Maintenance ⁴	\$63,418	\$66,964	\$76,502	\$84,992	\$86,449
Total Operating Expenses	\$63,418	\$66,964	\$76,502	\$84,992	\$86,449
Net Revenues	\$32,663	\$33,571	\$39,199	\$27,884	\$38,914
Debt Service on Bonds ⁵	\$4,171	\$4,176	\$4,169	\$4,174	\$4,177
Net Revenue Coverage on Bonds ⁵ (times)	7.83	8.04	9.40	6.68	9.32
Debt Service on Subordinate Obligations ⁶	\$3,179	\$3,076	\$3,028	\$2,966	\$2,965
Net Revenue Coverage on Bonds and Subordinate Obligations ⁶ (times)	4.44	4.63	5.45	3.91	5.45

¹ Revenues and expenses were determined in accordance with the Master Bond Indenture dated February 1, 2010. For all years, the amounts were derived from financial reports which have been audited and adjusted for the elements discussed in footnotes 2 and 4. The reported amounts for FY 2018-19 exclude the operations of the Port's South Beach Harbor special facility. On April 30, 2019 the SBH improvements were acquired by the Port, and the operation became a special facility of the Port, as designated by the the Port Commission.

² Represents interest income earned on funds on deposit with the City Treasurer plus late charges from tenants.

³ The revenues reported for the fiscal year ended 2017 include a \$1.2 million payment from the Pier 70 waterfront site developer to reimburse the Port for expenses incurred to advance the project and \$1.0 million in contributions from City agencies to the Port's Flood Resiliency Study to support required technical studies, engineering feasibility analysis, and public outreach. Revenues reported for fiscal year ended 2018 include \$0.75 million from City agencies for the Port's Flood Resiliency Study, as previously discussed, and a \$3.5 million contribution from the City for design and entitlement of the Mission Bay Ferry Terminal project.

⁴ Operations & Maintenance Expenses excludes non-cash expenses and credits associated with OPEB and pension obligations pursuant to the Bond Indenture. Also excludes non-cash charges and credits against operating expenses resulting from changes in estimated future costs for environmental remediation of the Pier 70 area. A summary breakdown of these adjustments is provided in the table titled "Historical Operations & Maintenance Expenses."

⁵ Represents debt service and Net Revenue coverage on the 2010 and 2014 Port revenue bonds. Net revenue coverage for fiscal years ended 2015 - 2017 have been revised from previously published amounts, due to the exclusion from operating expenses of non-cash charges associated with changes in estimated future cost of environmental remediation of the Pier 70 area.

⁶ Includes the following subordinated obligations: (i) a loan from the California Department of Boating and Waterways for Hyde Street Harbor, and (ii) a Certificates of Participation obligation issued by the City on behalf of the Port. The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinated Bonds or other subordinate obligations. Subordinated net revenue coverage for fiscal years ended 2015 - 2017 have been revised from previously published amounts due to the effect of the changes in environmental remediation cost estimates for the Pier 70 area.

Source: Port of San Francisco

V. Major Port Operating Revenues

Major Port Operating Revenues¹ June 30, 2019 (Amounts in Thousands)

	<u>Annualized Revenue²</u>		<u>Square Footage³</u>	
Real Estate				
Industrial	\$24,854 ⁴	26.7 %	6,812	35.0 %
Ground Lease	14,552	15.6	4,311	22.1
Restaurant & Retail	10,447	11.2	363	1.9
Parking	11,670	12.5	524	2.7
Office	7,653	8.2	281	1.4
Subtotal Real Estate	\$69,176	74.2 %	12,291	63.1 %
Maritime ⁵				
Cargo	\$8,322	8.9 %	4,689	24.0 %
Commercial Fishing	2,745	2.9	229	1.2
Passenger Cruise	8,403	9.0	521	2.7
Various Maritime	2,666 ⁶	2.9	738	3.8
Harbor Services	1,929	2.1	374	1.9
Ship Repair ⁷	0	0.0	645	3.3
Subtotal Maritime	\$24,065	25.8 %	7,196	36.9 %
Total	\$93,241	100.0 %	19,487	100.0 %

¹ Table only includes revenues derived from tenancy and operating agreements. Not included are revenues from miscellaneous sources. Total operating revenue for the fiscal year ending June 30, 2019 was \$121.2 million.

² Based on annualized monthly base rents as of June 30, 2019 and Fiscal Year 2019 percentage rents in excess of base rent amounts. Revenue amounts are net of certain rent credits.

³ Excludes portion of areas in water.

⁴ Includes \$6.0 million in lease revenues generated from the Port's ferry excursion operators. These participation rent-based leases are managed by Real Estate, and the revenues from them are reported as Real Estate-related revenues on the Port's financial statements. The square footage amounts associated with these leases were also classified in the Real Estate totals.

⁵ Including traditional user fees within the maritime industry, such as wharfage, dockage and demurrage.

⁶ Excludes \$6.0 million in lease revenues generated from ferry excursion operators along with the associated areas leased as discussed in footnote 4 above.

⁷ On December 30, 2016 BAE System, Inc., the Port's long time ship yard operator, sold all of the assets of and its interest in the shipyard at Pier 70, including the Port's lease, to Puglia Engineering. At the end of May 2017, Puglia abandoned the leasehold due to legal disputes with the former operator concerning the condition of the shipyard's facilities and equipment. Currently there are no ship repair operations occurring at the Pier 70 facility.

Source: Port of San Francisco

VI. Port of San Francisco Top Ten Tenants and Customers

PORT OF SAN FRANCISCO
Top Ten Port Tenants and Customers By Revenue
Fiscal Year Ending June 30, 2019
(Amounts in Thousands)

Tenant/Customer Name	Revenue¹	Percent of Operating Revenue²	Use	Expiration³
SP Plus Corporation ⁴	5,538	4.6 %	Parking	5/31/2022
Recology San Francisco	4,627	3.8	Recycling	7/31/2023 ⁵
China Basin Ball Park Co.	4,618	3.8	Ballpark and Related Parking	12/31/2063 ⁶
Princess Cruises	4,599	3.8	Passenger Cruises	n/a ⁷
Pier 39 Limited Partnership	3,855	3.2	Retail/Entertainment	12/31/2042 ⁸
AMB Pier One, LLC	2,713	2.2	Office/Retail	1/31/2051
Alcatraz Cruises, LLC	2,482	2.0	Ferry Excursions	6/30/2049 ⁹
Imperial Parking (U.S.), Inc.	2,472	2.0	Parking	11/30/2021 ¹⁰
Transbay Cable, LLC	2,392	2.0	Utility (Electric Power Transmission)	11/21/2045
Pacific Cruise Ship Terminals, LLC	2,137	1.8	Cruise Terminal Operations/Special Events	9/16/2029 ¹¹
Total	\$35,433	29.2 %		

¹ Amounts represent tenant billings net of certain revenue credits and allowances.

² Operating revenue for the fiscal year ending June 30, 2019 was \$121.2 million. Revenues generated from the operation of the Port's South Beach Harbor special facility are excluded from this total.

³ Expirations reflect the maximum term of the lease, with the exercise by the tenant of all extension options.

⁴ Includes the operations of Port tenants Central Parking System, a wholly-owned subsidiary of SP Plus, and SP Plus-Hyde Parking Joint Venture, a California general partnership of which SP Plus is the controlling partner. SP Plus-Hyde Parking leases expire 5/31/2020 and 5/31/2022. The Central Park System leases have expired, but have continued under holdover provisions.

⁵ Tenant has two leases. Expiration date shown is for the primary lease. The tenant's other lease has expired, but has continued under holdover provisions.

⁶ Tenant has multiple leases. Expiration date shown is for the primary lease. One of the tenant's other leases has expired, but has continued under holdover provisions. The other leases expire 12/31/2022.

⁷ Princess Cruises does not lease property. Pacific Cruise Ship Terminals is the Port's stevedoring operator for its cruise facilities, and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port based on cruise ship call duration and cruise passenger volume generated by Princess Cruises. As many as 12 other cruise lines also pay fees to Pacific Cruise Ship Terminals and the Port for passenger cruises calling at the Port.

⁸ Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire 8/31/2021.

⁹ Expiration date shown is for a new lease that was recently signed with the tenant.

¹⁰ Tenant has multiple leases. One of the tenant's leases expires 11/30/2021. The tenant's other leases, including its primary lease, have all expired, but have continued under holdover provisions.

¹¹ The tenant is the Port's stevedoring operator for its cruise facilities. The tenant also rents these facilities for special events when they are not needed for passenger cruise ship operations. The expiration date shown is for the company's operating agreement with the Port.

Source: Port of San Francisco

VII. Real Estate Leases, Remaining Lease Terms

PORT OF SAN FRANCISCO Real Estate Leases Remaining Lease Terms, as of June 2019 (Revenues in Thousands)				
	<u>Number of Leases¹</u>		<u>Annualized Revenue²</u>	
Month-to-Month	230	52.5 %	\$21,427	31.0 %
<i>Remaining Term:</i>				
Less than One Year	57	13.0	5,949	8.6
One to Five Years	82	18.7	15,676	22.7
Five to Ten Years	9	2.1	2,370	3.4
Ten to Twenty Years	28	6.4	11,332	16.4
Twenty to Thirty Years	11	2.5	7,677	11.1
Over Thirty Years	<u>21</u>	<u>4.8</u>	<u>4,745</u>	<u>6.8</u>
Total	438	100.0 %	\$69,176	100.0 %
¹ This table includes Real Estate leases only. The Port currently has 120 Maritime leases that are not reflected in this table. ² Based on current minimum rents as of June 30, 2019 and Fiscal Year 2019 percentage rents in excess of base rent amounts. Amounts are net of certain rent credits.				
<i>Source: Port of San Francisco</i>				

VIII. Real Estate Top Ten Tenants and Customers

PORT OF SAN FRANCISCO **Top Ten Real Estate Tenants by Revenue** **Fiscal Year ending June 30, 2019** **(Revenues in Thousands)**

Tenant Name	Revenue^{1,2}	Percent of Adjusted Real Estate Revenue³	Percent of Operating Revenue⁴	Remaining Lease Term Years⁵	Use
SP Plus Corporation ⁶	\$5,538	6.0 %	4.7 %	3	Parking
Recology San Francisco	4,627	5.0	3.8	4	Recycling
China Basin Ballpark Company LLC	4,618	5.0	3.8	45	Ballpark and Related Parking Lots
Pier 39 Limited Partnership	3,855	4.2	3.2	24	Retail/Entertainment
AMB Pier One, LLC	2,713	2.9	2.2	32	Office/Retail
Imperial Parking (U.S.), Inc.	2,472	2.7	2.0	2	Parking
Transbay Cable LLC	2,392	2.6	2.0	26	Utility (Power Transmission)
Seawall Lot 337 Associates, LLC ⁷	1,966	2.1	1.6	29	Mixed Use Development
FC Pier 70, LLC ⁸	1,796	2.0	1.5	24	Mixed Use Development
Boudin Properties, Inc.	1,711	1.9	1.4	27	Restaurants/Retail/Bakery
Total	\$31,688	34.4 %	26.2 %		

¹ Includes tenants with leases that generate primarily real estate division revenues. Minor maritime or other revenues may be included in a tenant's revenue total.

² Amounts represent tenant billings net of certain revenue credits and allowances.

³ Real Estate revenues were \$92.2 million for the fiscal year ending June 30, 2019, exclusive of (i) revenues generated from the operation of the Port's South Beach Harbor special facility; and (ii) \$6.0 million in lease revenues generated by the Port's ferry excursion operators. These participation rent-based leases are managed by Real Estate and the revenues from them are reported as Real Estate-related revenues on the Port's financial statements.

⁴ Total Port Operating Revenues for the fiscal year ending June 30, 2019 were \$121.2 million. Revenues generated from the operation of the Port's South Beach Harbor special facility are excluded from this total.

⁵ Reflects the maximum remaining term of the lease, with the exercise by the tenant of all extension options.

⁶ Includes the operations of Port tenants Central Parking System, a wholly-owned subsidiary of SP Plus, and SP Plus-Hyde Parking Joint Venture, a California general partnership of which SP Plus is the controlling partner.

⁷ Effective September 11, 2019 the operations of this tenant became part of the Mission Rock Project Site special facility, as designated by the Port Commission; and beginning on that date revenues generated by the special facility are excluded from the net revenues pledged as security to the Port's revenue bond holders.

⁸ Effective September 11, 2019 the operations of this tenant became part of the Pier 70 SUD special facility, as designated by the Port Commission; and beginning on that date revenues generated by the special facility are excluded from the net revenues pledged as security to the Port's revenue bond holders.

Source: Port of San Francisco

IX. Port of San Francisco Historical Results of Operations

PORT OF SAN FRANCISCO Historical Results of Operations For Fiscal Year Ended June 30, (Amounts in Thousands)					
	Audited 2015	Audited 2016	Audited 2017	Audited 2018	Unaudited¹ 2019
Operating Revenues:					
Maritime					
Cargo	\$4,931	\$5,281	\$6,248	\$8,685	\$7,844
Ship Repair	2,045	2,543	1,398	0	0
Harbor Services	1,996	1,768	1,827	1,847	1,894
Cruise	4,928	7,663	7,406	7,901	7,947
Fishing	2,185	2,062	2,402	2,184	2,273
Other Marine	2,305	1,779	1,739	2,652	2,521
Miscellaneous ²	9	151	4,955	80	707
Total Maritime	\$18,399	\$21,247	\$25,975	\$23,349	\$23,186
Real Estate & Asset Management					
Commercial/Industrial	\$51,328	\$53,519	\$54,510	\$57,336	\$60,015
Parking	22,312	21,504	21,900	22,281	21,770
Filming & Special Event Revenue	717	252	240	49	103
Miscellaneous ²	374	515	6,474	2	10,328
Total Real Estate & Asset Management	\$74,731	\$75,790	\$83,124	\$79,668	\$92,216
Other Operating Revenues	\$2,166	\$2,696	\$4,254	\$6,752	\$5,760
Total Operating Revenues	\$95,296	\$99,733	\$113,353	\$109,769	\$121,162
Operating Expenses					
Operations & Maintenance ³	\$60,896	\$64,896	\$89,884	\$79,026	\$86,890
Depreciation & Amortization	22,787	21,924	24,191	17,778	24,466
Total Operating Expenses	\$83,683	\$86,820	\$114,075	\$96,804	\$111,356
Operating Income/(Loss)	\$11,613	\$12,913	(\$722)	\$12,965	\$9,806
Other Income & (Expenses)					
Interest & Investment Income	\$970	\$884	\$1,502	\$2,231	\$6,189
Interest Expense	(4,220)	(4,656)	(4,262)	(4,461)	(4,288)
Gain/(Loss) on Disposal of Assets	(292)	1,676	(56)	(1,383)	(174)
Other	2,144	177	3,786	4,232	(3,169)
Total Other Income/(Expense) Net	(\$1,398)	(\$1,919)	\$970	\$619	(\$1,442)
Net Income/(Loss) Before Capital Contribution	\$10,215	\$10,994	\$248	\$13,584	\$8,364
Capital Grants and Other Contributions	\$1,560	\$24,081	\$1,822	\$2,626	\$1,909
Change in Net Position	\$11,775	\$35,075	\$2,070	\$16,210	\$10,273
¹ Amounts reported for 2019 exclude the operations of the Port's South Beach Harbor special facility. On April 30, 2019 the City's Office of Community Investment and Infrastructure transferred the South Beach Harbor improvements to the Port. In conjunction with the transfer, SBH was designated by the Port Commission as a special facility, and the associated loans as special facility bonds.					
² Miscellaneous Maritime revenues for 2017 largely represent a \$4.9 million from the settlement with BAE System's Inc., (the parent company of a former operator of the Pier 70 shipyard) of claims regarding the required repair and maintenance of the facility. For 2019 these revenues include \$700 thousand from the Port's share of net proceeds from the sale of San Francisco Bay Railroad to Republic Services.					
Miscellaneous Real Estate revenues for 2017 include \$6.0 million representing the Port's share of net proceeds from the sale by the developer of The Piers, a development project completed in 2006 at Piers 1½-5. For 2019 these revenues principally represent the Port's share of net proceeds from the sale of the Ferry Building leasehold to Hudson Properties.					
³ In 2015 the Port implemented GASB Statement No. 68, a new standard which is intended to improve the accounting and financial reporting of pension obligations. Reported expenses include net non-cash charges and credits associated with the implementation of this standard.					
In 2018 the Port implemented GASB Statement No. 75, a new standard that is intended to improve the accounting and financial reporting of OPEB obligations. GASB 75 supersedes GASB 45, an earlier accounting standard regarding the accounting of OPEB obligations. A summary breakdown of the non-cash adjustments associated with the accounting of pension obligations and OPEB for all years is shown in table titled "Historical Operations & Maintenance Expenses".					
Source: Port of San Francisco					

X. Port of San Francisco Historical Operations and Maintenance Expenses

PORT OF SAN FRANCISCO
Historical Operations & Maintenance Expenses
For Fiscal Year Ended June 30,
(Amounts in Thousands)

	Audited 2015	Audited 2016	Audited 2017	Audited 2018	Unaudited ¹ 2019
Operations & Maintenance					
Personnel Expense ²	\$32,006	\$33,180	\$34,858	\$38,686	\$38,179
City-Wide Overhead	520	571	747	228	379
Other Current Expenses	4,124	3,666	4,364	5,491	4,726
Professional & Specialized Services ³	2,853	4,192	9,810	14,946	16,950
Utility Expenses	2,395	2,146	2,833	2,859	2,908
Materials & Supplies	1,689	1,468	1,853	1,001	1,331
Judgments, Claims & Litigation ⁴	(416)	(306)	154	(663)	30
Office Rent	2,916	2,832	2,723	2,614	2,736
Charges for Use of City Services	17,097	19,124	19,009	19,310	18,666
Other Operating & Maintenance Exp. (net)	234	91	151	520	544
Operations & Maintenance Exp. - Subtotal	\$63,418	\$66,964	\$76,502	\$84,992	\$86,449
Non-cash adjustments for:					
(i) pensions pursuant to GASB 68	(4,600)	(3,887)	10,920	993	(667)
(ii) estimated cost for pollution remediation for the Pier 70 area.	78	266	242	(8,211)	1,105
(iii) Other Post Employment Benefits (OPEB) ⁵	2,000	1,553	2,220	1,252	3
Total Operations & Maintenance Exp.	\$60,896	\$64,896	\$89,884	\$79,026	\$86,890

¹ The reported amounts for FY 2018-19 exclude the operations of the Port's South Beach Harbor special facility. On April 30, 2019 the SBH improvements were acquired by the Port, and the operation became a special facility of the Port, as designated by the the Port Commission.

² The reported expenses excludes charges and credits associated with non-cash adjustments related to accounting and reporting of OPEB and pension obligations.

³ The relatively high professional and specialized services expenses reported for fiscal years 2016-17 and 2017-18 reflect the following:

- For FY 2016-17, one time costs for: (i) consulting services to assist the Port in preparing for the City's transition to new accounting software (the change became effective July 1, 2017), and (ii) for rail improvements to the trackage located in the Port's Southern Waterfront. The rail tracks are used by the Port's short line railroad operator, but are owned by Union Pacific.
- For FY 2017-18, (i) costs associated with the planning and development of design of the first phase of a project to seismically strengthen and implement sea level rise mitigation measures for the Port's Embarcadero Seawall Program and Flood Resiliency Study, and (ii) design and engineering costs related to the Mission Bay Ferry Terminal project. A significant portion of the costs incurred for these projects were not eligible for capitalization.
- For FY 2018-19, (i) costs were not eligible for capitalization associated with: (i) the planning and development of a design for the first phase of the Embarcadero Seawall Program and Flood Resiliency Study, (ii) design and engineering costs related to the Mission Bay Ferry Terminal project, and (iii) project costs related to the Downtown Ferry Terminal expansion project. Also contributing to the increase are consulting costs associated with the planning and entitlement of the Pier 70 Waterfront and Mission Rock development projects.

⁴ The credits for "judgements, claims and litigation" reported for fiscal years ended June 30, 2015, 2016 and 2018 reflect large reductions in the reserve of claims and litigation taken for those years, based on estimates of then current and potential future claims.

⁵ In 2018 the Port implemented GASB Statement No. 75, a new standard that is intended to improve the accounting and financial reporting of post-employment benefits other than pensions (OPEB) obligations by, among other things, requiring a fuller and more timely recognition of such obligations. GASB 75 supersedes GASB 45, an earlier accounting standard regarding the accounting of OPEB obligations.

Source: Port of San Francisco

XI. Audited Financial Statements of the Port Enterprise, City and County of San Francisco for the Fiscal Year Ended June 30, 2019.

For the Port's Audited Financial Statements for Fiscal Year Ended June 30, 2019, please go to the link titled "Port of San Francisco Audited Financial Statements for the year ended 6/30/2019" located on the MSRB's Electronic Municipal Market Access (EMMA) website in the Continuing Disclosure Financial Information section for the Port Commission of the City and County of San Francisco.

XII. Significant Events

From March 10, 2017 (the date of issuance of the June 30, 2016 Annual Report) through the issuance date of this Annual Report, no "Significant Event" or "Listed Event" has occurred as enumerated in Section 5 of the Continuing Disclosure Certificates dated February 3, 2010 and May 29, 2014, respectively.

XIII. Other Matters

Refunding Bonds

The Port anticipates issuing Refunding Revenue Bonds Series 2020A and 2020B in a combined principal amount of \$24,000,000 in February of 2020. The Series 2020 Bonds are being issued to provide funds to: (i) refund all of the outstanding Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A and Series 2010B, which is subject to this disclosure and (ii) pay certain costs of issuing the Series 2020 Bonds.

Transfer of South Beach Harbor

On May 1, 2019, the Port received the South Beach Harbor (SBH) operations from the Office of Community Investment and Infrastructure (OCII), successor agency to the Redevelopment Agency, along with the related assets and liabilities. The receipt of SBH resulted in a Special Item increasing the Port's change in net position in FY 2019 by \$18,340,000. The transfer of South Beach Harbor included three loans funded by the California Division of Boating and Waterways (Cal Boating), which totaled \$6,144,000 and accrues interest at a rate of 4.5% per annum. Under the terms of the Port's loan contract, Cal Boating may take possession of SBH if after ninety days written notice, the Port remains in breach of any of the provisions of Small Craft Harbor Loans and Operation contract. Cal Boating shall operate or maintain the operations for the account of the Port until the loan is repaid in full. For more information, see Notes 8 and Note 13 of the Port's audited financial statements for fiscal year ending June 30, 2019.

Special Facilities

In conjunction with the receipt of SBH, the Port designated SBH as a Special Facility and its Cal Boating Loans as Special Facility Bonds as provided under the Port's Revenue Bond Master Trust Indenture. Pursuant to Section 2.14 of the Revenue Bond Master Trust Indenture, the Commission is authorized to designate an existing or planned facility, structure, equipment or other property, real or personal property that is located within the Port Area as a Special Facility. The Commission may designate revenue earned by the Port from or with respect to a Special Facility as "Special Facility Revenue." Special Facility Revenue is not included in revenue as defined in the Revenue Bond Master Trust Indenture, and consequently, is not included in the Net Revenues that is pledged as security for the Revenue Bonds under the Revenue Bond Master Trust Indenture.

In September 2019, the Port executed documents, pursuant to Section 2.14 of the Port's Revenue Bond Master Indenture ("Master Indenture"), which made effective the Port Commission's earlier designation of the Pier 70 Special Use District (SUD) and Mission Rock Project Site as Special Facilities under Section 2.14 of the Revenue Bond Master Indenture. The revenues from the Pier 70 SUD and Mission Rock Project Site constitute Special Facility Revenues and are not included in the Net Revenues pledged to the Revenue Bonds.

Community Facilities Districts & Infrastructure Financing Districts

Since 2005 the Port has pursued state and local legislative changes to increase the options available to fund the Port's deferred maintenance and other capital requirements, and to expand the range and profitability of uses on Port property.

Through this effort, the Port has acquired the authority to use infrastructure financing districts to capture property tax growth to fund public improvements along the San Francisco waterfront. In 2005 the Governor signed into law Senate Bill No. 1085 which authorized the Board of Supervisors (Board) to form an infrastructure financing district (“IFD”) covering Port property.

In 2012 the Board authorized the formation of Infrastructure Finance District No. 2 consisting of the entire waterfront area under Port jurisdiction and designated an initial eight proposed project areas within this IFD.

The first of these project areas was established by the Board in 2016 for the rehabilitation of several historic properties located along 20th Street in the Pier 70 area known as the “Orton” site. The project, which is being developed by an affiliate of Orton Development, is fully leased. Tenants have moved into those buildings that have been rehabilitated and the project is scheduled to be complete by the fall of 2020.

The Board has also established project areas for the property located within the Pier 70 area known as the “Waterfront” site, and for the Seawall lot 337 and Pier 48 properties known as the “Mission Rock” site. Brookfield Properties (formerly Forest City), developer of the Waterfront site, has begun construction of infrastructure improvements in the first phase of site development. Construction on the first phase began in early 2018.

Seawall Lot 337 Associates (an affiliate of the San Francisco Giants and Tishman Speyer), the developer of the Mission Rock site, is working on finalizing the parcel map for the site. They expect to start construction on infrastructure improvements in early 2020.

Additionally, the Port is in the process of creating Mello-Roos Community Facilities Districts (CFDs) at the Orton, Mission Rock, and Pier 70 Waterfront sites. The Port expects these CFDs, in conjunction with the IFDs discussed above, to support debt issuances beginning in mid-2020. The exact amount of these issues and timing of subsequent debt issuances has not been determined at this time. The debt, when issued, will be an obligation of the relevant CFD, secured by the special tax revenues generated within the district. This debt will not be secured by, or repayable from, Port harbor fund revenues, in accordance with the Port’s Municipal Debt Policy.

Waterfront Resilience

The San Francisco Bay Area is seismically active and faces risk of a significant earthquake within the next 30 years. Such an event would have a major impact on the Port’s facilities and infrastructure, including its Embarcadero Seawall, a three-mile retaining wall that runs from Fisherman’s Wharf in the north to Mission Creek in the south. The Embarcadero Seawall (“Seawall”) was constructed in sections over a period of 40 years beginning in 1878. No section of the Seawall, or the filled land behind the Seawall, was designed to withstand soil liquefaction. In a major seismic event, if liquefaction occurs, specific Seawall sections could move vertically downward and/or laterally outward, causing major damage to the Embarcadero Roadway and Promenade and utilities and regional infrastructure, and cause localized failures of wharves and the bulkhead buildings at the heads of piers.

In 2014 the Port initiated an earthquake vulnerability study to better understand how the Seawall would perform in an earthquake, predict damage, and develop a plan to improve its performance. The study, which was published in July 2016, shows that the Seawall requires significant improvements to withstand a major earthquake and to mitigate flood risk from sea level rise.

In November 2018, the voters of San Francisco passed (with 82.70% of the vote) Proposition A, that authorizes the City to issue up to \$425 million in bonds to fund repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure, three miles from Fisherman’s Wharf to Mission Creek. *Denny v. Arntz*, Case No. CGC-19-575070 (Cal. Super. Ct. S.F. County), now pending on appeal from the Superior Court’s order sustaining the City’s demurrer without leave to amend, No. A158029 (Cal. App. 1st Dist.) generally contests the content of the voter information pamphlet and the form or phrasing of Proposition A. The City does not expect *Denny v. Arntz* to prevent the issuance of bonds under Proposition A.

In September 2018, the U.S. Army Corps of Engineers (USACE) and the Port of San Francisco signed an agreement to advance the USACE/Port of San Francisco Flood Resiliency Study which includes the area from Aquatic Park to Heron's Head Park. In recognition of the need to address both seismic and flood risk, the Port of San Francisco has created the Waterfront Resilience Program and is advancing assessments, policies, plans and projects to reduce these risks as efficiently and effectively as possible. The rough estimated cost to reduce these risks is over \$5 billion in 2017 dollars, with less than \$1 billion of such amount secured to date.

Ten-Year Capital Plan and Five-Year Capital Improvement Plan

Every two years the Port prepares a comprehensive ten-year capital plan, the purpose of which is to identify the major maintenance and capital improvement needs of the Port's facilities, prioritize capital projects, and identify potential funding sources. Capital improvements are classified in the plan as either: (i) needed to maintain the Port's facilities in a state of good repair; (ii) a potential seismic improvement; or (iii) a planned enhancement to Port facilities. Seismic work is only required where a change in use or a major rehabilitation is taking place, consistent with City building code requirements.

The most recent update to the plan, adopted by the Port Commission on February 12, 2019, identifies \$1.68 billion in total capital need and \$0.58 billion in conditional seismic costs for a total of \$2.26 billion. The report also shows \$1.27 billion in planned capital enhancements. Shown below, for comparison purposes, are capital improvement totals from the 2017 update:

	millions of \$	
<u>Type of Improvement</u>	<u>2017 Update</u>	<u>2019 Update</u>
Needed to maintain a state of good repair	\$1,492.2	\$1,677.5
Conditional seismic	561.7	584.2
Subtotal	\$2,053.9	\$2,261.7
Planned enhancements		
Seawall Program	\$493.5	484.1
Other enhancements	733.3	786.4
Enhancements - Subtotal	\$1,226.8	\$1,270.5
Total	\$3,280.7	\$3,532.2

The largest category of capital improvements (\$1.68 billion), consist of deferred maintenance and subsystem renewal projects required to ensure Port facilities are in a state of good repair. Additionally, planned enhancements totaling \$1.27 billion include new parks along the waterfront, new infrastructure, new developments in the Northeast, Central and Southern Waterfronts, and improvements to the Embarcadero Seawall and maritime facilities.

The 2019 capital plan update reflects a \$185 million increase in the investment needed to maintain the Port's facilities in a state of good repair. This increase largely reflects a combination of higher construction costs since the adoption of the 2017 plan, and new subsystem renewal needs that should be completed during the next 10-year period.

The latest update projects that \$1.73 billion in funding will be available over the next ten years to address the Port's capital needs, including enhancements and seismic work. Of this amount, \$372.0 million is expected to be derived from internally generated funds consisting of: (i) Port capital; (ii) Port revenue bonds; and (iii) Port tenant obligations. The remaining \$1.36 billion represents externally generated funding consisting of: (i) development project funding; (ii) City and County of San Francisco general obligation bonds; and (iii) local, state and federal grants. No funding has been identified for the remaining \$1.8 billion in repair and renewal, conditional seismic, and enhancement projects at this time. The Port continues to work to identify additional sources of funds for the unfunded portion of its ten-year capital plan.

In order to assist Port management with project prioritization, and determining future capital funding needs, in May 2018 the Port developed its first ever five-year Capital Improvement Plan (CIP). The CIP covers fiscal years 2018-19

through 2022-23. The CIP serves as a bridge between the Port's ten-year Capital Plan and its two-year Capital Budget, which appropriates funding for specific capital projects. The CIP programs specific projects according to the amount of capital funding that Port staff estimates will be available over the next five years. The CIP allows staff to consider the time frame necessary to conceive, design and deliver capital projects. The CIP also allows staff more time to identify and secure grant and other third-party funding for those projects that may be eligible for such funding. Port staff will update the CIP every two years, with the next update scheduled for spring of 2020.

Although completed prior to the Port's 2019 capital plan update, and thus not completely aligned with the current plan, the CIP proposed \$579 million of work funded through a mix of internal Port revenue (\$126 million) and external sources (\$453 million). The largest component of external funding is the \$425 million general obligation bond issue approved by City voters for upgrades to the Port's Embarcadero Seawall.

More details can be found in the complete 2019 update to the Port's ten-year capital plan and the five-year capital improvement plan, both of which are located on the Finance & Administration page of the Port's website at www.sfport.com.

Miscellaneous

This annual report is provided solely for purposes of conformance with the Continuing Disclosure Agreement and the information contained herein speaks only as of the dates referenced. The filing of this Annual Report does not constitute or imply any representation: (i) that the information provided is material to investors, (ii) regarding any other financial or operating information about the Port or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this Annual Report relates (other than that contained in this Annual Report), or that no other information exists which may have a bearing on the Port's financial condition, the security of the bonds, or an investor's decision to buy, sell, or hold any of the Bonds. An explanation of the significance of the credit ratings assigned to the subject bonds may be obtained from the ratings agencies at the following addresses:

In the Case of Moody's
Moody's Investor Services
7 World Trade Center
250 Greenwich Street
New York, NY 10007

In the Case of Fitch
Fitch Ratings
One State Street Plaza
New York, NY 10004


In the case of Standard & Poor's
Standard & Poor's Ratings Services
55 Water Street
New York, NY 10041

The ratings reflect only the views of the relevant credit rating agency. Generally, the agencies base their ratings on such information and materials, investigations, studies, and assumptions made by the agencies themselves. Any downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the subject bonds.

The information contained in this Annual Report has been obtained from sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about the future financial performance of the Port. The Port has no obligation to update the information provided herein except as provided in the Continuing Disclosure Agreement.

For questions or clarifications with respect to this Annual Report, please contact Nate Cruz at (415) 274-0446.

Port Commission of the
City and County of San Francisco



Katharine E. Petrucione
Deputy Director, Finance and Administration