

VOLUNTARY NOTICE OF EVENT

Port Commission of the City and County of San Francisco

Voluntary Statement Regarding Impacts of COVID-19

August 6, 2020

This voluntary notice (“Notice”) is made by the San Francisco City and County Port Commission (“Port”) with respect to the bond issues listed below (collectively, the “Bonds”).

Bond Issues

Base CUSIP 797679

\$14,220,000.00 Port Commission of the City and
County of San Francisco Revenue Bonds, Series
2010A (Non-AMT Tax Exempt)

\$22,430,000 Port Commission of the City and County
of San Francisco Revenue Bonds, Series 2010B
(Taxable)

\$19,880,000 Port Commission of the City and County
of San Francisco Revenue Bonds, Series 2014A (AMT
Tax Exempt)

\$2,795,000 Port Commission of the City and County of
San Francisco Revenue Bonds, Series 2014B (Taxable)

\$10,885,000 Port Commission of the City and County
of San Francisco Refunding Revenue Bonds Series
2020A (Non-Amt Tax Exempt)

\$12,895,000 Port Commission of the City and County
of San Francisco Refunding Revenue Bonds Series
2020B (Federally Taxable)

EVENT DISCLOSURE

General

On February 11, 2020 the World Health Organization (“WHO”) announced the official name for the outbreak of a new disease, COVID-19, caused by a strain of novel coronavirus, an upper respiratory tract illness which has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City and County of San Francisco (“City”). WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State of California (the “State”) and the President of the United States.

To date there have been over 7,200 confirmed cases of COVID-19 in the City, and health officials expect the number of confirmed cases to grow. The outbreak has resulted in the imposition

of restrictions on mass gatherings and widespread temporary closures of businesses, universities and schools (including the San Francisco Unified School District) throughout the City.

Several counties in the Bay Area (including the City) announced shelter-in-place (“Shelter-in-Place”) emergency orders, which direct individuals to stay home, except for certain limited travel for essential services. Most retail establishments (e.g., restaurants, bars and nightclubs, entertainment venues, gyms, etc.) have been closed in response to the Shelter-in-Place order. The Governor of the State announced a similar Shelter-in-Place emergency order (N-33-20) effective for the entire State.

In February 2020, the Mayor declared a state of emergency, activating the City’s Emergency Operations Center. The response quickly grew into a multi-agency initiative to address issues arising from the health crisis. In addition to Department of Public Health-led efforts to respond to the immediate health emergency, the City initiated multiple programs to assist residents and businesses with the ancillary impacts of COVID-19. The City announced emergency relief measures for local businesses that will defer collection of certain tax revenues and increase City expenditures, with potential offsets from federal and State emergency funds.

Existing and potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the City’s public health system, reductions in tourism and disruption of the regional and local economy, including triggering an economic recession of unknown duration, widespread business closures and significantly higher levels of unemployment, with corresponding decreases in City revenues.

On July 13, 2020, the San Francisco Department of Public Health released the current Health Order (“Order”) in effect for the City. The Order does not have an expiration date and has been updated once thus far to refine the criteria for further implementation of the multi-stage reopening plan released by Mayor Breed on May 28, 2020. The reopening plan, informed by the work of the City’s Economic Recovery Task Force, outlines anticipated stages for businesses and activities to resume operations in San Francisco dependent on key health indicators. An update to the previously issued Health Order on June 11, 2020 provided guidance for additional business operations including outdoor dining, in-store retail, and non-essential office work. Further reopenings proposed for June 29, 2020 and July 13, 2020 were paused due to an increase in local COVID-19 cases. On July 17, 2020, the same day the City was placed on the State’s county watch list, Mayor Breed and the City’s Director of Health Dr. Grant Colfax announced that the City’s schedule for reopening would remain on pause indefinitely to slow the spread of COVID-19. Future updates to the Order are uncertain at this time, and the Port can give no assurance about when the Shelter-in-Place restrictions will be lifted.

Following the widespread shutdown of businesses and supply chain disruption in response to the COVID-19 pandemic, on June 8, 2020 the National Bureau of Economic Research announced that the United States officially entered into a recession in February 2020. According to the California Employment Development Department, the State’s unemployment rate hit a record high of 16.4% in April 2020 before decreasing slightly in May 2020 to 16.3%. The Port can give no assurance about when the employment picture will improve. For context, during the “Great Recession” occurring nationally from December 2007 to June 2009 (according to the U.S.

National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9 percent in the fourth quarter of 2006 to peak at 12.3 percent in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017. More than a third of California jobs are in sectors that are immediately vulnerable to stay-at-home disruptions.

The adverse effects of the COVID-19 outbreak will likely also have an adverse impact on the City's retirement system. While the City's retirement system is structured for long term performance, it is likely that the current market value of the City's retirement fund has been materially adversely affected given the recent volatility and deterioration in global stock market values. These declines in market value could result in future increases in required pension fund contributions by the City, including the Port.

The ongoing emergency response to COVID-19 will have an adverse financial impact on the City, including the Port, and the severity of such impact will depend on the duration and severity of the pandemic. New costs will be partially offset by the re-assignment of City employees, Federal Emergency Management Agency reimbursement for eligible costs, and federal funding from the CARES Act. Closing revenue shortfalls will require a combination of reserve usage and reductions across various City expenditures, including expenditures and services at the Port. For general information regarding the economic forecast of the City, please visit: <https://sfcontroller.org>. No General Fund resources of the City are pledged or available (including any obligation by the City to levy taxes) to pay debt service on any bonds or other obligations of the Port.

Impact of COVID-19 Emergency on the Port

Port revenues depend heavily on the retail, restaurant, and cruise industries. The COVID-19 outbreak has had a material adverse impact on the Port's operations and revenues. The Port anticipates that the adverse impact will continue for the duration of the pandemic.

The Port has adopted a Tenant Rent Deferral Policy ("Policy") that generally waives all late charges, default interest and associated penalties and fees for any delinquent rent payments that were or are due for use of Port property during the period of March 1 through July 31, 2020. For a tenant to extend that relief to December 31, 2020, tenants had to opt into the program by July 15, 2020. As of the date of this Notice, approximately 70 tenants have requested relief under the Policy.

The Port Commission is also considering a program to forgive base rent for specific tenant types, as discussed in the sections below. In addition, many Port tenants, including some not within the sectors targeted for rent forgiveness, are seeking rent relief and/or to renegotiate lease terms. The Port Commission may consider such requests on a case-by-case basis, subject to Board of Supervisors' approval where a lease amendment so requires.

Using tax projections from the City and recent rent collection data, the Port has preliminarily estimated the revenue losses that will occur as a result of COVID-19. The rent deferral described above, as well as the rent forgiveness under consideration are included in the lost revenue forecast below.

	FY20-21	FY21-22
COVID-19 Impact	-53%	-27%

The budgetary information discussed below, including forecasts, projections and estimates are not intended as representations of fact or intended as guarantees of any results. Any such forward-looking statements are inherently subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Below are categories of Port revenues affected due to the COVID-19 pandemic and the resulting economic situation.

Industrial, Warehouse, Office, and Cargo Revenues

Approximately 57% of Port revenue in the fiscal year ending June 30, 2019 (Fiscal Year 2018-19) is derived from tenants who are not directly dependent on retail traffic, or roughly 490 of the Port's 560 leases. These tenants include industrial businesses whose operations continue, warehouse tenants who store equipment or inventory at the Port, office tenants whose workforce is now largely working remotely, and cargo export operations.

Like all businesses, the Port's industrial, warehouse, office, and cargo tenants are susceptible to the larger economic and market impacts from the COVID-19 pandemic and have been adversely affected, but are not directly dependent on retail traffic to maintain economic activity. Based on rents received in April and May, the Port anticipates receiving roughly 50% of revenues due from this category of tenants for the duration of shelter and place. The Port Commission is considering a program to forgive base rent for certain maritime and local small businesses in this sector through a standardized form lease amendment. The Port Commission expects to consider adopting such program in the Fall 2020.

Restaurants, Parking, and Other Retail Tenant Revenues

Port revenues driven by in-person retail transactions (such as restaurants, parking lots, parking meters, and ferry excursions) represented approximately 36% of Port revenues in Fiscal Year 2018-19, or roughly 70 of the Port's 560 tenants. Leases with such business typically pay the Port the greater of base rent or an amount of rent that is a percentage of gross sales. As a consequence of the COVID-19 outbreak and the resulting shelter-in-place orders, customer traffic to these businesses has either stopped entirely or is significantly reduced. Therefore, the Port does not anticipate receiving any meaningful revenues from this category of tenants until the shelter in place orders are lifted. The Port Commission is considering a program to forgive base rent (but not percentage rent) through a standardized form lease amendment with tenants in this sector. The Port Commission expects to consider adopting such a program in the Fall 2020.

Cruise Ship Operation Revenues

Cruise ship operations generated 7% of Port revenue in Fiscal Year 2018-19. All cruise operations have ceased as a result of City public health emergency orders, and no date for resumption has been announced. As of the date hereof, substantially all of the scheduled cruise calls have been cancelled through

the end of 2020. Due to the widespread media coverage of the outbreak aboard cruise ships, including the San Francisco based Grand Princess, the Port anticipates the return of cruise operations will significantly lag resumption of restaurant, parking, and other retail operations.

Financial Condition and Debt Service Coverage

On March 31, 2020, Mayor Breed announced in a press release that due to the current COVID- 19 pandemic, the City's budget adoption timeline will be delayed by two months. The delay is intended to permit the City to focus on responding to the public health emergency and provide sufficient time for City budget staff to develop a plan to bring Fiscal Year 2019- 20 expenditures into alignment with projected lower revenues and to prepare for the upcoming budget cycle. The additional time is intended to ensure the City's response to the significant Fiscal Year 2019- 20 shortfall and upcoming budget deficits is thoughtful and responsible.

Mayor Breed issued budget instructions to departments in May, and departments were instructed to submit new department proposals to assist the Mayor in developing a balanced budget in June and July. On June 1, 2020 the Mayor introduced and on June 30, 2020 the Board of Supervisors approved a balanced interim budget for Fiscal Years 2020- 21 and 2021- 22, which will remain in effect until the final budget is adopted by October 1, 2020.

Pursuant to the Mayor's instructions, the Port Commission has approved a revised revenue and expense budget for the period from July 1, 2020 to June 30, 2022 (Fiscal Years 2000-21 and 2021-22). In response to significantly lower revenues, the Port will stabilize operations by reducing operating and capital expenses, and drawing on the Port's significant fund balance. The budget approved by the Port Commission is subject to change until approved by the Board of Supervisors, and once approved will become effective on October 1. The Port expects to pay all debt service in full and on time in Fiscal Years 2020- 21 and 2021- 22.

The Port has an unappropriated fund balance with approximately \$67 million on hand, or 180 days of cash based on Fiscal Year 2019-20 budgeted operating expenses.

Under the Port's Master Indenture, the Port is required to maintain debt service coverage ratios of (a) at least 1.3 (including contributions from a revenue stabilization fund, and (b) 1.0 when excluding such contributions. As shown in the table below, while the Port expects to meet all future debt service obligations, doing so will require contributions from its fund balance and therefore the Port expects it will not achieve 1.0 coverage when excluding fund balance contributions.

Operating Revenues	Port Revised Budget (\$millions)	
	FY20-21	FY21-22
Maritime	\$12.1	\$19.3
Real Estate	41.8	66.4
Other	2.0	3.1
Subtotal	\$55.9	\$88.8
Revenue Stabilization Fund Draws	38.7	9.4
Total Revenues	\$94.6	\$93.6
<i>Less Operations and Maintenance</i>	77.8	82.0
Net Revenues	\$16.8	\$11.6
Bond Debt Service	3.3	3.3
<i>Coverage (min 1.3)</i>	5.14	3.55
Net Revenues without Fund Draws	-\$21.9	\$6.8
<i>Coverage (min 1.0)</i>	0.00 ¹	2.09

¹ The coverage formula in the Indenture would result in -6.67 (the ratio of Net Revenues without Fund Draws to Bond Debt Service). Due to industry conventions, the table above simply expresses coverage as zero.

Other Matters:

This Notice speaks only of its date. The filing of this notice does not constitute or imply any representation: (i) that the foregoing is material to investors; (ii) regarding any other material financial, operating or other information about the Port; or (iii) that no other material circumstances or material events have occurred or that no other material information exists concerning the financial condition of the Port. This Notice is not, and shall not be understood, as a recommendation by the Port to buy, sell or hold any other bonds or obligations of the Port. The Port does not undertake to update this filing in the future. Any obligation to update this Notice is expressly disclaimed.

Dated: August 6, 2020

SAN FRANCISCO CITY AND COUNTY

PORT COMMISSION

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By: 
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Katharine E. Petrucione

Deputy Director, Finance and Administration

