Port Commission
City and County of San Francisco
Port of San Francisco

Independent Auditor's Report,
Management's Discussion and Analysis, and
Financial Statements

For the Years Ended
June 30, 2018 and 2017

MGO Certified Public Accountants

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

For the Years Ended June 30, 2018 and 2017

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MGO Certified Public Accountants

Independent Auditor's Report

The Port Commission, the Honorable Mayor, and
the Board of Supervisors of the City and County
of San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Port Commission, City and County of San Francisco (City), Port of San Francisco (Port), an enterprise fund of the City, as of and for the years ended June 30, 2018 and 2017, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the Port as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
101 California Street, Suite 1225
San Francisco, CA 94111

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Port enterprise fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective as of July 1, 2017, the Port adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The adoption of this standard resulted in a reduction of the Port's July 1, 2017 net position in the amount of $4.0 million. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019, on our consideration of the Port'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 Port'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 Port's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Francisco, California
February 15, 2019

Introduction

This discussion and analysis is a narrative overview and analysis of the financial activities of the Port of San Francisco (Port). It serves as an introduction to the audited financial statements, which can be found on pages 20 to 25 of this report. This overview should be read in conjunction with the more detailed information contained within the accompanying financial statements.

The Port is a self-supporting enterprise department of the City and County of San Francisco (City) and its financial statements are included in the City's basic financial statements. Only the accounts of the Port are included in the financial statements that follow. The Port Commission is responsible for seven and one-half miles of waterfront property, which was transferred in trust from the State of California to the City in 1969. The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Additional information concerning the Port's organization and the basis of presentation for this financial report is contained in Note 1 and Note 2 to the financial statements (pages 26 to 31).

Financial Statement Overview

The statements of net position present information on all of the Port's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the sum of these elements reported as "net position." Increases and decreases in net position serve as a useful indicator of the changes in financial position of business enterprise entities like the Port.

The statements of revenues, expenses and changes in net position present information that shows how the Port's net position changed during the most recent two years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This statement also reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g. uncollected rents from tenants and earned and unused vacation leave).

The statements of cash flows present information about the cash receipts and cash payments of the Port during the most recent two fiscal years. This statement shows the changes in cash and cash equivalents as a result of operating, investing, capital, and financing transactions. When used with related disclosures and information in the other financial statements, the information in the statements of cash flows helps readers assess the Port's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 26 to 65 of this report.

The following is a presentation of condensed financial information derived from the financial statements.

Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016	2018-2017 Change	2017-2016 Change
Current and other assets	$ 214,424	$ 208,502	$ 191,839	$ 5,922	$ 16,663
Capital assets	434,702	427,742	430,850	6,960	(3,108)
Total assets	649,126	636,244	622,689	12,882	13,555
Deferred outflows of resources	14,672	20,916	6,467	(6,244)	14,449
Current liabilities	32,221	26,505	23,454	5,716	3,051
Noncurrent liabilities	226,424	238,705	210,874	(12,281)	27,831
Total liabilities	258,645	265,210	234,328	(6,565)	30,882
Deferred inflows of resources	3,201	2,210	7,158	991	(4,948)
Net position:					
Net investment in capital assets	305,609	298,928	304,396	6,681	(5,468)
Restricted	20,738	24,365	26,152	(3,627)	(1,787)
Unrestricted	75,605	66,447	57,122	9,158	9,325
Total net position	$ 401,952	$ 389,740	$ 387,670	$ 12,212	$ 2,070

Changes in Net Position (in thousands)

	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	2018-2017 Change	2017-2016 Change
Revenues:					
Operating revenues	$ 109,769	$ 113,353	$ 99,733	$ (3,584)	$ 13,620
Nonoperating revenues	6,463	5,288	2,737	1,175	2,551
Capital contributions	2,626	1,822	24,081	804	(22,259)
Total revenues	118,858	120,463	126,551	(1,605)	(6,088)
Expenses:					
Operating expenses	96,804	114,075	86,820	(17,271)	27,255
Nonoperating expenses	5,844	4,318	4,656	1,526	(338)
Total expenses	102,648	118,393	91,476	(15,745)	26,917
Change in net position	16,210	2,070	35,075	14,140	(33,005)
Net position, beginning of year, as restated	385,742	387,670	352,595	(1,928)	35,075
Net position, end of the year	$ 401,952	$ 389,740	$ 387,670	$ 12,212	$ 2,070

Financial Analysis

Total net position at June 30, 2018 of $401,952,000 was $12,212,000 higher than the net position at June 30, 2017. This follows increases of $2,070,000 at the end of 2017 and $35,075,000 at the end of 2016. Net position is reported after required adjustments to record pension obligations and retiree health obligations and related items. The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB 75), as of July 1, 2017. This GASB statement includes transition provisions that allow the Port to apply the OPEB accounting changes as a restatement of beginning net position as of July 1, 2017 (a $3,998,000 decrease). The OPEB liability, representing the Port's retiree health obligation, increased by $6,886,000 to $30,750,000 as of June 30, 2018 (Note 12). This liability increase is comprised of $5,519,000 for the accounting change as of July 1, 2017 and $1,367,000 for the OPEB changes in 2018. GASB 75 measures the Port's retiree health obligations using methodologies similar to the Port's pension obligations. For retiree health and pension obligations, the accounting rules require the reporting of certain deferred outflows of resources and deferred inflows of resources, separate from assets and liabilities. More information concerning the elements reported as deferred outflows/inflows of resources related to pension and OPEB is presented in Note 10 (page 43) and Note 12 (page 50), respectively.

The largest portion of the Port's net position is represented by the net investment in capital assets: 76% at June 30, 2018, 77% at June 30, 2017, and 79% at June 30, 2016. This component of net position consists of capital assets net of accumulated depreciation/amortization and reduced by the outstanding balances of debt attributable to the acquisition, construction or improvement of those assets. The total net investment in capital assets ($305,609,000 at June 30, 2018) does not represent funds accessible for future spending. The resources needed to pay outstanding debt used to acquire capital assets must be provided from other sources (i.e. other Port assets or operating revenues). Capital assets are not normally sold to liquidate liabilities. The remaining portion of net position at June 30, 2018 consists of $20,738,000 restricted for specific capital project expenditures and $75,605,000 that is unrestricted and available to meet future capital requirements and ongoing obligations. Capitalized project expenditures have fluctuated in recent years. There was a net increase to capital assets in 2018 of $6,960,000, which compares to net decreases to capital assets of $3,108,000 in 2017 and $13,255,000 in 2016. The funding for the acquisition and construction of capital assets (largely facility improvements) is reflected in the sources and uses of working capital and changes to liabilities and other obligations. Grants and other capital contributions also fund certain capital projects.

The net decrease in noncurrent liabilities of $12,281,000 in 2018 reflects decreases in the net pension liability, estimated pollution remediation obligations (Note 17), and scheduled long-term debt payments, offset by an increase in net OPEB liability. The net increase in noncurrent liabilities of $27,831,000 in 2017 is principally due to the increases of $30,317,000 in the net pension liability and $2,220,000 in the net OPEB obligation, offset by scheduled long-term debt payments, amortization of rent credits and other changes. The increased changes in current liabilities as of June 30, 2018 and 2017 are reflective of the volume of in-progress capital project work and related accrued obligations at the end of each year.

Operating revenues in 2018 and 2017 supported current year operation and maintenance expenses before depreciation and amortization. Capital contribution revenues fluctuate with the level of capital grant revenues realized from grant-funded construction activities. In recent years, capital contribution revenues have also included City direct contributions for certain projects and general obligation bond proceeds allocated to fund the Port's open space and park improvement projects. Expenses outside of normal operations are typically reported in the nonoperating revenues and expenses section, including any costs for pier removal, demolition work and other asset disposition costs and any associated gains and losses from those capital events. Information concerning significant variances and nonrecurring items is included in the more detailed discussion that follows.

The statements of revenues, expenses and changes in net position on page 23 present the Port's operating revenues in more detail by industry revenue types. Operating revenues for the year ended June 30, 2018 decreased $3,584,000 or 3.2%, which compares to an increase of $13,620,000 or 13.7% for the year ended June 30, 2017. Property rentals across all revenue types for the year ended June 30, 2018 posted a net increase of $3,110,000 comprised of an increase of $4,018,000 in minimum rentals offset by a decrease of $908,000 in percentage rents. Comparatively, property rentals for the year ended June 30, 2017 posted a net increase of $753,000 comprised of an increase of $1,814,000 in minimum rentals offset by a decrease of $1,061,000 in percentage rents. Parking-related revenues, which include lots leased to parking operators, parking stalls, parking meters on Port streets, and fine revenues collected by the City on Port property, remain a strong source of income. As noted below with other revenues, the Port recorded approximately $10,900,000 in one-time revenues in 2017. As similar levels of these one-time revenues were not realized in 2018, there was a $9,040,000 decrease in other revenues, which more than offset all other increases in operating revenue.

The Port continues to benefit from a good volume of cruise calls and the higher fees and charges assessed since the James R. Herman Cruise Terminal at Pier 27 opened in September 2014. Cruise revenues of $7,901,000 for 2018 are $495,000 higher than 2017 revenues. Comparatively, 2017 was less than 2016 by $257,000. There were 78, 77 and 80 passenger cruise calls in 2018, 2017 and 2016, respectively. Princess Cruises continues a year-round schedule with several vessels sailing from San Francisco. Participation income is also received by the Port for special events, parking and other activities occurring at this facility.

Cargo revenues saw increases in 2018 and 2017, derived from new roll-on/roll-off shipping operations as well as from the activities of existing cargo facility tenants who had new or amended agreements and certain scheduled increases. In 2017, the Port and Pasha Automotive Services (PAS) entered into a 15-year agreement to activate the Pier 80 marine terminal. The agreement allows for the import and export of vehicles by ship at Pier 80, with on-terminal automobile preparation and detailing services. Under the agreement, PAS may also manage vessel lay berthing opportunities. In 2018, PAS handled 41 ships and 34,000 vehicles, compared to 17 ships and 15,000 vehicles handled in 2017. Operations under this agreement contributed approximately $1,400,000 to Cargo revenues in 2018 and $614,000 in 2017. The Federal Maritime Administration also began berthing two Ready Reserve vessels at Pier 80 in August 2017.

The ship repair climate in the San Francisco Bay Area has changed significantly as the result of increased competition and other factors. A new operator purchased the Pier 70 drydock business in 2017, but operated the shipyard for only a short period before initiating litigation to rescind the sale. In May 2017, the new shipyard operator abandoned the leasehold (Note 17). The Port initiated two requests for proposals for a new operator without success and continues to explore options to secure a new tenant for the shipyard. There were no operations at this shipyard in 2018.

Fishing revenue fluctuates with the commercial fish opportunities for area fishermen. The salmon season in 2018 was limited to only 19 days, contributing to the fishing revenue decrease of $218,000. In contrast, fishing revenue in 2017 saw an increase, due to the addition of permanent berth holders and a general rate increase. The other maritime revenue increase in 2018 reflects, in part, lost revenue recovery from the shipyard operator who abandoned the leasehold in 2017. The Port drew on a $769,000 letter of credit provided to secure the lessee/operator's obligations under the Port lease (Note 17).

Other operating revenues include construction and event permit fees, developer or other one-time transaction fees, and expense recoveries realized or realizable from major development projects. These revenues fluctuate from year to year since they are largely derived from construction activities on Port property and the timing of specific project transactions. In 2018, there was a $9,040,000 decrease in other operating revenues as there were significant one-time revenues in 2017. The Port received participation income of approximately $6,000,000 from the sale and transfer of The Piers project (a development project completed in 2006 at Piers 1½-3-5) in 2017. As discussed in Note 17, the Port and the former shipyard operator arrived at a $4,900,000 settlement in 2017 to support maintenance and repairs in the shipyard.

Capital grants and other contributions usually consist of funds from federal, state and local grant agencies, which provide funding for several of the Port's capital projects. This revenue source fluctuates based on available grant funds and the capital work actually in progress at the Port. In 2016, the Port received $13,240,000 of proceeds from the City's issuance of 2012 Clean and Safe Neighborhood Parks General Obligation Bonds and $8,547,000 in final proceeds from the earlier 2008 parks bond. The $21,787,000 in total general obligation bond proceeds represent the majority of the 2017 decrease in capital contribution revenues of $22,259,000 between 2016 and 2017.

Total expenses of $102,648,000 (condensed summary on page 4) for 2018 represent a $15,745,000 decrease from 2017. Comparatively, 2017 was higher than 2016 by $26,917,000. The statements of revenues, expenses and changes in net position on page 23 present the Port's operating and nonoperating expenses in greater detail. Information concerning significant variances and nonrecurring items is presented in the more detailed discussion that follows. Operating expense changes in 2018 and 2017 are highlighted below:

	Increase / (Decrease)	
	2018	**2017**
Personal services	$ (7,068,000)	$17,152,000
Contractual services	6,378,000	5,765,000
Utilities	26,000	687,000
Materials and supplies	(852,000)	385,000
Depreciation and amortization	(6,413,000)	2,267,000
General and administrative	(760,000)	287,000
Services provided by other City departments	301,000	(115,000)
Pollution remediation	(8,453,000)	(24,000)
Other	(430,000)	851,000

Despite rises in salary and mandatory fringe benefit costs, pursuant to collective bargaining agreements, the decrease in personal services is primarily due to a net decrease of $10,174,000 in pension and OPEB expense. In 2018, pension expense decreased by $9,384,000 and OPEB expense decreased by $790,000. The decreased pension expense is primarily due to actual investment returns exceeding projected returns. Comparatively, in 2017 pension expense increased by $14,853,000 and OPEB expense increased by $677,000. The 2017 increase in pension expense was largely due to a one-time assumption change to the Supplemental COLA benefits owed to retirees. Although GASB 75 was implemented in 2018, the year over year impact on personal services was not significant. However, pension and OPEB expenses and their related liabilities can fluctuate significantly as they include regularly updated actuarial assumptions (i.e. discount rate, mortality rates), estimates about future investment return, and future projections regarding benefit payments. Accounting rules have transitioned to require more accurate recognition of the costs of retirement programs. As required by the Governmental Accounting Standards Board, the Port implemented GASB 68, *Accounting and Financial Reporting for Pensions* in 2015 and implemented GASB 75 in 2018. The financial statements for 2018 now reflect both OPEB liabilities using similar actuarial and accounting standards to measure expenses and the related retirement liabilities. More detailed information concerning pension and OPEB are in Note 10 beginning on page 43 and Note 12 beginning on page 50, respectively.

The level of contractual services recorded as operating expense fluctuates with the volume of project-related activities and the work phase of these projects. Preliminary conceptual design work, feasibility analyses, environmental investigations, hazardous material removal and demolition costs are typically expensed when incurred. The Real Estate and Development Division has been actively working with several major development projects that are in various stages of exclusive negotiation, entitlement process or early implementation. Significant preliminary planning work is also in progress with both the Seawall Earthquake Safety Program (Seawall Program) and the Mission Bay Ferry Landing project. Contractual services increased $6,378,000 primarily due to a $2,300,000 increase in spending for the Mission Bay Ferry Terminal, a $2,000,000 increase for the Pier 70 shipyard, a $600,000 increase for the Seawall Program, a $600,000 increase for the Paperless Time-entry Project, and a $500,000 increase for the IS Strategic Plan.

Utility cost variances are derived from rate and utilization changes. Shoreside power usage at Pier 27 has been increasing. In 2018, 48 cruise ships plugged in versus 42 in 2017 and 32 in 2016. Related pass-through recoveries for this power usage are reported among cruise revenues. Tenancy changes at Pier 80 increased power usage and together with rate increases added to 2017 utility costs. Materials and supplies fluctuate with the type and volume of maintenance and repair work that the Port performs during the fiscal year. In 2017, the Port undertook a large maintenance project to deploy a new monitoring system at each of the Port's 42 sewer pump stations. The decrease in depreciation and amortization expense in 2018 is derived from updated calculations using updated estimated useful lives for certain capital assets and an increase to the volume of fully depreciated assets still in use (see Note 6). The decrease in general and administrative expense is principally due to a lower indirect cost allocation from the City and lower spending for rents, training, memberships, and promotional activities. The majority of the increase in general and administrative expense in 2017 is due to a higher indirect cost allocation from the City.

Total service reimbursements to other City departments were $19,310,000 in 2018, a net increase of $301,000 from 2017. This follows a decrease of $115,000 in 2017 from 2016. In 2004, the Port Commission adopted the findings of a nexus study that analyzed the balance of payments between the Port and City. That study established a record of certain past expenditures and provided a systematic means for determining the balance of payments for future periods. The Port and City continue to evaluate and refine the methodologies used for the reimbursement and allocation of direct and indirect costs. The Port is currently conducting a new nexus study. City direct services are generally settled through the City's interdepartmental work order process. The interdepartmental expense line fluctuates greatly with the volume of project-related activities.

Pollution remediation obligations are covered in the environmental matters section of the Contingencies footnote (Note 17). The variances in pollution remediation expense for 2018 and 2017 are derived from current evaluations and the re-estimate of the accrued costs. In 2018, the Port entered into a disposition and development agreement with a developer for the 28-acre Waterfront Site at Pier 70. The developer assumes substantial responsibility for capping contaminated soil in the project area in accordance with the Risk Management Plan for the premises. Consequently, the Port's previously accrued obligation for pollution remediation as of June 30, 2018 has been reduced by $8,211,000. The variances in other expenses reflect the change in estimate related to general liability claim costs and expenses, volume of small equipment purchases and the level of transaction activities that require permits, licenses and sales tax. The 2018 decrease in other expenses is due to a $663,000 decrease in general liability claim expense (Note 18). The 2017 increase in other expenses reflects a $154,000 increase in general liability claim expense in 2017 versus a decrease of $304,000 in 2016 and the purchase of 44 replacement "Big Belly" trash receptacles.

Nonoperating revenues and expenses, other than interest income and expense, tend to fluctuate widely based on largely nonrecurring transaction activities or events. Investments are reported at fair value and the corresponding change in fair value is reported along with interest and investment income. Operating grants consist of financial assistance received from various agencies for noncapital purposes, such as special studies, disaster response training, and environmental investigations. This grant category also includes funding from the Federal Railroad Administration for rebuilding the Quint Street Lead, a freight rail spur track that is jointly owned by the two major railroad companies that serve the Port. The Port incurred reimbursable grant expenditures of $2,721,000 in 2017. In 2018, the City provided $3,500,000 to support planning and design of the Mission Bay Ferry Landing. The City also funded work on the Seawall Program. The San Francisco Municipal Transportation Agency (SFMTA) contributed $500,000 and the City Planning Department contributed $250,000 to support required technical studies, engineering feasibility analysis, and communications for the Seawall Program. In 2017, SFMTA and City Planning each contributed $500,000 to the Seawall Program.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets as of June 30, 2018 and 2017, respectively, were $434,702,000 and $427,742,000, net of accumulated depreciation/amortization. Principal capital assets include land, certain street and road improvements, pier promenades, pier substructure, buildings and related improvements, vehicles, equipment and furniture. More information concerning the Port's capital assets can be found in Note 6 on pages 35-36 of this report.

Significant project appropriations cover capital projects planned and in-progress, including the pending expenditure of the debt issuances discussed below and the general obligation bond proceeds allocated to open space and park projects along the waterfront. As of June 30, 2018, the budget file indicates over $121,600,000 in appropriations for Port capital projects. The Port had firm purchase and contract commitments at June 30, 2018 of approximately $12,800,000 for various capital projects.

Major capital asset related events of 2018 included the following:

- ***Crane Cove Park Surcharge and Site Preparation.*** Crane Cove Park, one of the Port's Blue Greenway projects, will be a major new open space in the Union Iron Works National Historic District located at Pier 70. This site was part of an operating shipyard for more than 100 years and will be transformed into public open space in phases, using multiple construction contracts. The first contract for $4,800,000 prepared the site for upcoming park, roadway and utility work. The initial work scope included: demolition of two buildings and miscellaneous site structures, including concrete slips and pads; utility shutoff and decommissioning; and importing fill and constructing the permanent embankment for the future 19th Street and Slipway Plaza.

- ***Piers 23 and 19½ Roof Replacements.*** In 2017, the Port Commission awarded a contract for a Pier 23 roof repair project. The project scope included the removal and replacement of existing roof materials and flashing and the restoration of historic rooftop monitor windows. A contract modification, requested by Port staff and approved by the Port Commission, added the re-roofing of the Pier 19½ connector building to the contract scope. The total $3,400,000 in roof replacement work facilitates the leasing of a larger collective area, consisting of Piers 19, 19½ and 23. Piers 19 and 23 are a contributing resource listed in the National Register of Historic Places. This completed project rehabilitated an important historic resource in the Embarcadero Historic District and will contribute to the Port's ability to negotiate long-term lease(s), deepening the Port's revenue base.

- ***China Basin Ferry Landing Float and Gangway.*** This $1,400,000 project provided for major maintenance work required for China Basin Ferry Landing's east float and gangway: drydock, sandblast and recoat surfaces and necessary repair to certain structural members. The China Basin Ferry Terminal is located behind Oracle Park. The terminal is primarily activated during baseball season, for ferry passengers travelling to/from Giants games at Oracle Park.

- ***Piers 94-96 Storm Drain and Outfalls***. This $1,300,000 project involved storm drainage system repairs, which included the removal and replacement of approximately four hundred feet of damaged storm drain pipe; backfill and stabilization of four sink holes at Pier 96; and installation of three tidal influence backflow prevention valves at storm drain outfalls along the east seawall of Piers 94-96. This project will facilitate a long-term lease plan for Piers 94-96.

- ***Pier 31 Apron.*** This $1,100,000 project on the Pier 31 apron addressed the deteriorated decking and other repairs necessary to reestablish safe circulation around the Pier 31 shed. The construction of new surface decking provides for fire egress and a walkable area around the pier's perimeter. This completed project was one of several initiated to rehabilitate and restore a red-tagged Port facility to leasable condition. The Port has negotiated long-term lease arrangements for the bulkhead building and shed.

Major capital asset related events of 2017 included the following:

- ***Pier 31 Roof and Structural Repair.*** This $7,200,000 project provided for new roofing and structural improvements to adequately support and protect the new roofing system at Piers 29½ and 31. Piers 29½ and 31 are a contributing resource within the San Francisco Embarcadero Historic District listed in the National Register of Historic Places. The work scope included selective demolition of building elements, hazardous material abatement, shoring, repair of structural framing, roofing and roofing elements, windows, ladders and painting. This completed project facilitates the Port's ability to develop a long-term lease and rehabilitates an important historic resource in the Embarcadero Historic District.

- ***Security improvements.*** In 2017, the Port completed $1,300,000 of security improvements, including the installation and deployment of closed-circuit television (CCTV) and integrated access control/intrusion detection systems, at Piers 23, 45 and 50. The Port also completed $700,000 of lighting and fencing improvements at Piers 31 and 94. The Port Security Grant Program segment of the Department of Homeland Security's Infrastructure Protection Program, which typically requires a 25% match from a nonfederal source, provided the primary funding for these projects. These improvements assist the Port in complying with the security mandates applicable to facilities regulated under the Maritime Transportation Act of 2002.

A federal grant supported Port improvements to the Quint Street Lead, a freight rail spur track connecting the Peninsula corridor mainline with the Port of San Francisco's cargo terminals and rail yard on the south side of Islais Creek. The mainline is owned and operated by the Peninsula Corridor Joint Powers Board primarily for Caltrain commuter rail. The Quint Street Lead is jointly owned by BNSF Railway and Union Pacific Railroad and is not a Port capital asset. The Port charged the cost of the improvements to operations and recorded the associated federal funding as nonoperating revenue ($2,720,000). This project was completed in 2017 for a total cost of $3,890,000.

Debt Administration

Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 37-41 of this report. As of June 30, 2018, the Port had long-term debt obligations of $84,681,000 including $2,693,000 that is due during the next fiscal year. Total debt outstanding consists of $51,535,000 in revenue bonds, $31,170,000 in certificates of participation, and $1,976,000 in a loan that is secured by specified revenue sources.

The Port issued no new debt in 2018 and 2017. The 2014 revenue bonds were issued with long-term credit ratings of "A1", "A-" and "A" from Moody's Investors Services, Standard & Poor's Ratings Services (S&P) and Fitch Ratings, respectively. In November 2015, S&P raised its Port bond credit rating to "A", giving recognition to the Port's continued strong debt service coverage and liquidity position. Ratings from the other two national credit agencies did not change. In 2018 and 2017, S&P and Fitch Ratings affirmed the Port's "A" bond credit rating.

Economic and Other Factors

Economy

The Port takes general economic conditions into consideration when preparing budgets and forecasts. Uncertainties in the domestic and global economic condition continue to impact the Port and its tenants and customers. The Port's overall rental revenue stream remained stable and has seen some growth in recent years. Revenue losses to the Port during economic downturns typically appear as rent payment delinquencies, larger write-offs of uncollectible accounts, and some fluctuation in overage rents (percentage rent obligation based on tenant-reported sales, usually in excess of an agreed minimum). Note 9 (pages 41-43) contains required financial statement disclosure information covering the future rental income stream from minimum rents over the noncancellable term of active operating leases. The Port anticipates that it will be able to maintain revenues at current levels with, at minimum, modest year-to-year growth.

San Francisco's economy continues to exhibit unusual strength in some sectors. Overall, Port revenues continue to reflect a degree of strength and stability. Cautious optimism is warranted. The broader economic climate continues to present some uncertainties and potential challenges in particular to the cost side: fluctuating fuel costs, construction materials costs, supply chain disruptions due to natural or man-made disasters, etc. It is significant that the Federal Reserve has raised, and intends additional increases, to the federal funds target rate. When the federal funds rate rises, interest rates will typically also rise, increasing borrowing and other capital investment costs to the City and Port, for future debt issuances and in public-private partnerships.

Other factors

In the face of challenges from natural disasters and aging infrastructure, the Port and the City have made resiliency a key strategic goal. The Port's three-mile Embarcadero Seawall, constructed over 100 years ago, is the foundation of the City's edge, protecting businesses, utility and transportation infrastructure and critical emergency and disaster response facilities. With the threat of earthquakes and predicted sea level rise, the City must upgrade the Seawall so that it continues to function today and for generations to come. Since 2017, the Port and City have committed significant resources to advance technical studies and engineering feasibility of Seawall repairs, engage stakeholders and the public in decision-making, and seek project funding.

Seawall Earthquake Safety Program. The seawall and adjoining marginal wharf that run along The Embarcadero from Fisherman's Wharf to Mission Bay constitute the City's primary flood control system along the northern and central waterfront. A 2016 earthquake vulnerability study indicated that the waterfront is highly susceptible to earthquake damage associated with seawall movement and localized failure of the bulkheads. The Seawall Earthquake Safety Program is a major City and Port effort to improve seismic performance of the Embarcadero Seawall, provide near-term flood protection improvements, and plan for long-term resilience and sea level rise adaptation. These infrastructure improvements are estimated to cost up to $5 billion over a 20 to 30 year period. Phase I of the Seawall Program is an eight to ten year project that will develop and complete the most immediate life safety and flood risk improvements to the Seawall at key locations at an estimated cost of $500 million. In November 2018, 83 percent of City voters approved a ballot measure to incur bonded debt of $425 million to support Phase I of the Seawall Program. The City and the Port continue to seek other sources of revenue, including state and federal support as well as local special taxes, to fully fund both Phase I and the subsequent phases of the Seawall Program.

Sea Level Rise. The Port currently experiences localized flooding due to higher water levels and settlement in certain areas. The shoreline from Pier 22 to Pier 9 includes some of the lowest elevations in San Francisco and these areas flood during king tides and storm events. The current 100-year flood event would result in the bay overtopping the Embarcadero Seawall and could result in flooding of significant citywide transportation and utility assets. Data from the San Francisco tidal gauge shows that the San Francisco Bay rose over eight inches between 1900 and 2000. Most of the bay shoreline, including San Francisco, consists of filled land that was elevated just high enough to avoid flooding at the time that the fill was placed. As a result, much of the shoreline is low relative to the bay and, as sea levels rise, the bay shoreline will experience more flooding over larger areas of land at longer durations. In May 2018, the Ocean Protection Council updated its sea level rise guidance to recommend that local jurisdictions plan for a range of 17 to 42 inches in 2070 and 28 to 83 inches in 2100. The guidance also included an extreme scenario of 62 inches in 2070 and 122 inches in 2100. Sea level rise of only 16 inches will impact Port facilities. A rise of over 50 inches would cause frequent flooding of the majority of the Port's facilities including The Embarcadero waterfront roadway. To meet this challenge, the Port has initiated or participated in a number of projects and programs, including the Seawall Program, the Army Corps Flood Study, the Citywide Sea Level Risk Vulnerability and Consequences project and the Citywide Hazard and Climate Resilience Plan. Additionally, the upcoming development projects on Port property will test different defenses against sea level rise.

Ten-year capital plan. City Administrative Code Section 3.20 requires the City to produce a Ten-Year Capital Plan (Capital Plan) that is updated every two years, alternating with the City's current biennial budget process. The Capital Plan distinguishes between renewal work and enhancements. Renewal work returns an existing facility to its original state of good repair whereas enhancements improve or increase asset performance. The most recent version of the Capital Plan, adopted by the Port Commission in January 2017 ("2018-2027 Capital Plan"), estimates that it would cost $1.5 billion to fund deferred maintenance and subsystem renewals on Port facilities. This amount represents the anticipated cost over the next ten years to maintain Port facilities in a state-of-good-repair. The Port uses facility condition surveys to identify and prioritize maintenance projects that preserve and extend the economic life of the Port's productive assets. The 2018-2027 Capital Plan identifies an additional $1.8 billion for enhancement projects. The enhancement category includes $493.5 million for the Seawall Program, $561.7 million for conditional seismic work, and $733.3 million for other improvements. Port staff will update the Capital Plan in early 2019.

The Port's need for capital investments has historically outpaced available funding. The Port has risen to this challenge with a multi-pronged approach including dedicating funding to capital; securing new external sources of funding; and targeting available funds to strategic projects. The 2018-2027 Capital Plan identifies $1.7 billion in available funding sources during the ten-year period. The anticipated sources include a mix of Port capital funds, private sector development project funding, City general obligation bond proceeds for parks and open space, tenant contributions pursuant to improvement and maintenance obligations required under existing leases, and federal, state and local grants.

Development projects continue to be a significant driver for certain waterfront improvements. The current capital plan projects $732.7 million in development project funding over the ten-year period supported by a mix of public and private sources. The realization of this funding is highly dependent on approval of the development projects themselves. A significant change in the real estate market or a dramatic change in the political climate vis-à-vis waterfront development might alter, delay, or cancel development projects identified in the plan.

The Port has worked to commit more internal resources to address capital requirements. In 2012, the Port Commission adopted a capital budget expenditure funding policy that both designates a minimum percentage set aside of annual operating revenues to fund capital projects and allocates one-time and surplus revenues to capital expenditures. Pursuant to this, the Port now designates a minimum of 25% of operating revenue each year in its operating budget to fund capital expenditures. The Port's budget has met or exceeded its capital funding target every year since adopting the capital funding policy and the Port anticipates meeting the specified threshold funding level in each of the ten years captured in the Capital Plan.

The plan projects $1.7 billion in capital investments over the next ten years. At the end of that period the Port will face a backlog of $0.9 billion for renewal work. The backlog consists of projects for which the Port (1) does not currently have sufficient funds to cover the estimated costs to repair and renew the facility, and (2) has not issued a request for proposals (RFP) or entered into negotiations with a developer to finance the upgrades. The Port has several funding options available to address unmet needs: new public-private partnership development projects, new Port debt, general obligation bonds, grant opportunities, and infrastructure financing districts. Each new funding option requires substantial staff time to develop and implement, as well as support from policy makers. These financing tools may also require the support of the California State Lands Commission and the San Francisco Bay Conservation and Development Commission.

Legislative efforts. Since 2005, the Port has pursued state and local legislative changes to increase the funding options available to address the Port's future capital requirements and to expand the range and profitability of uses on Port property. The Port's current federal and state legislative program focuses on securing funding for the Seawall Program and shoreline improvements to address sea level rise. The Port has successfully obtained authority to: (1) capture the state and local share of certain property tax increment revenues that would otherwise be paid to the state and local entities, and (2) form Infrastructure Finance Districts (IFD) and issue IFD bonds against incremental property tax revenues to finance the public portion of several public-private development projects. The Port has also received funding from voter approved City general obligation bond measures to fund Port waterfront parks and open space projects and the Seawall Program

IFDs help public agencies finance public infrastructure improvements by capturing and bonding against tax increment revenue generated in a district after it is established. Senate Bill 1085, adopted in 2005, enables the City and Port to apply this code section to the Port area. Among other things, it authorizes the use of an IFD for urban waterfront areas in addition to undeveloped or underdeveloped areas; specifically clarifies that publicly-owned property subject to tidelands trust for commerce, navigation and fisheries (the public trust), including filled tidelands, may be included in such districts; and enumerates additional examples of infrastructure improvements that qualify for IFDs, including seismic upgrades, historic renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers and wharves.

In June 2012, the Board of Supervisors approved an amended Resolution of Intention to establish Infrastructure Financing District No. 2 consisting of the entire waterfront area under Port jurisdiction, called the Port Area, and designated eight initial proposed project areas within this IFD. In June 2013, the Board of Supervisors adopted by resolution the "Guidelines for the Establishment and Use of Infrastructure Financing Districts on Project Areas on Land under Jurisdiction of the San Francisco Port Commission." In November 2015, the Board of Supervisors adopted a second amendment to the Resolution of Intention to Establish IFD under which the City declared its intention to establish Sub-Project Area G-1 (Pier 70 - Historic Core) within the Pier 70 district. Following all the necessary public process and proceedings and by passage of Ordinance No. 27-16 in March 2016, the Board of Supervisors formed and established the IFD and approved the related Infrastructure Financing Plan for the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco). The activation of project or sub-project areas within the contemplated Port IFD will occur as entitled development activities progresses. The following have been activated: Sub-Project Area G-1 (Pier 70 – Historic Core) by Ordinance No. 27-16; Project Area I (Mission Rock) and Sub-Project Areas I-1 through I-13 by Ordinance No. 34-18; and Sub-Project Areas G-2, G-3 and G-4 (Pier 70) by Ordinance No. 220-18.

To afford necessary public infrastructure and make development projects feasible, the Port and its development partners seek to take full advantage of special use district financing tools. In addition to IFDs, the infrastructure financing plans for certain development projects contemplate the formation and implementation of community facility districts (CFDs). A community facility district is an area that the City will establish in accordance with the City's CFD ordinance within which special taxes are levied to fund certain capital improvements and provide allowed services, consistent with the state Mello-Roos Act. Formal legislation by the Board of Supervisors is required to form the contemplated CFDs, which will occur as the approved development activities progress.

Referendum and initiative processes. In the last five years waterfront development has been affected by actions of the City electorate. In November 2013, City voters passed a referendum overturning a June 2012 decision of the Board of Supervisors to allow the construction of a proposed high-rise residential development along the Embarcadero including the Port's Seawall Lot 351. A referendum is a petition protesting an ordinance passed by the Board of Supervisors and asking that the Board of Supervisors reconsider the matter. If the Board does not repeal the ordinance, it is submitted to the voters at the next general municipal election or a special election. The referendum reversed an increase in building height granted to the development by earlier City approvals. Also subsequent to the Port and City approvals of this project, several lawsuits were filed in Superior Court to challenge those approvals, alleging violation of the California Environmental Quality Act (CEQA). The Port continues to operate Seawall Lot 351 under a license agreement to provide automobile parking for the Ferry Building.

City voters may also avail themselves of the initiative process, whereby a proposal for a new ordinance or charter amendment is placed on the ballot by a petition with the required number of signatures. The Port's properties are the subject of Proposition B passed by the San Francisco electorate on June 3, 2014. Proposition B requires voters' approval prior to any development on Port property that exceeds the height limits in effect as of January 1, 2014. Proposition B applies to property currently under the control of the Port Commission, as well as any property that the Port may acquire in the future. Proposition B requires that any future ballot question to increase height limits on Port property must specify both the existing and proposed height limits. Two development projects on Port property have become subject to the requirements of Proposition B. The developer of the Pier 70 Waterfront Site, through ballot measure Proposition F, received voter approval for its project's increase in height limits on November 4, 2014. The developer for a second project, Mission Rock, received voter approval for its project's increase in height limits through Proposition D on November 3, 2015. Both projects have secured initial entitlements and are now approved.

Waterfront Land Use Plan. The Port of San Francisco Waterfront Land Use Plan sets forth land use and urban design policies applicable to the waterfront properties under the Port's jurisdiction. The Port Commission initially adopted the Waterfront Plan in 1997. The plan has enabled the Port Commission, the City and the community to jointly define locations for new public-private partnership projects along the waterfront. The Port commenced a major public process to update the Waterfront Plan in 2015. A Waterfront Plan Working Group, assisted by seven specialty advisory teams, developed 161 Port-wide policy recommendations concerning how the Port should update its policies on land use, open space, maritime, transportation, environmental and waterfront resilience. Many recommendations call for new goals and policies and/or significant revisions to the 1997 Waterfront Plan. With the Port Commission's input and endorsement of the recommendations in August 2018 (Resolution No. 18-45), Port staff is now preparing draft amendments to the Waterfront Plan and coordinating with its public agency partners to ensure consistent and aligned policies and procedures. More information, including the Waterfront Plan Working Group's full report, can be found at https://sfport.com/waterfront-plan-update.

In July 2000, the Port and the San Francisco Bay Conservation and Development Commission (BCDC) agreed to amend the Port's Waterfront Land Use Plan and BCDC's San Francisco Bay Plan to create consistent plans for the waterfront area between the Hyde Street Pier and China Basin ("San Francisco Waterfront Special Area Plan"). Among other things, this amendment commits the Port to expend up to $30 million over a twenty-year period for the removal of certain piers and the construction of major public plazas and other public access improvements. Since the amendment, the Port has expended $46.6 million for projects under the Special Area Plan, including five pier removals (Piers ½, 24, 34, 36 and 64) and construction of the Brannan Street Wharf and the Cruise Terminal Plaza.

The 1997 Waterfront Land Use Plan identified a number of locations where mixed-use developments including maritime, open space and public access uses are encouraged. Such projects are generally undertaken as public-private partnerships, in which the Port enters into a development agreement and a long-term lease with a private developer, usually selected through a Request for Proposals (RFP) process. Active development activities include:

Pier 70 Area

Pier 70 is located on San Francisco's Central Waterfront, an approximately 69-acre site, generally between 18th and 22nd Streets, east of Illinois Street. For over 150 years, some portion of the site has been in use for ship building and repair, steel production, and other supporting heavy industrial uses. As discussed in more detail in Note 17, the Port completed an environmental investigation and risk assessment of the project area. Findings from the completed risk assessment do not indicate any immediate need for soil or groundwater remediation. Following a three-year community planning process, the Port Commission endorsed the Pier 70 Master Plan in May 2010. The plan balances sustained ship repair, historic preservation, new waterfront parks and new development. It identifies over 3 million square feet of new building potential and 700,000 square feet of buildings to be rehabilitated. On April 17, 2014, the National Park Service approved the Port's nomination for the Union Iron Works Historic District at Pier 70 and listed the district in the National Register of Historic Places.

Historic Buildings **–** In February 2012, the Port Commission selected a developer and, in May 2012, entered into an exclusive negotiation agreement (ENA) for the lease, rehabilitation, and development of the 20th Street Historic Buildings. The developer defined a use program of office, light industrial and commercial uses to revitalize the eight buildings in this project. In October 2012, the Port Commission endorsed a non-binding term sheet describing the fundamental deal terms for the project. The Board of Supervisors, in December 2012, added its endorsement of the term sheet and also found the proposed development fiscally feasible under the Administrative Code, Chapter 29. The Port and the developer executed the lease in July 2015. Construction of core and shell improvements commenced in August 2015 and the first completed building became available for occupancy in June 2017. Two buildings remain under construction, with anticipated completion of one in 2019 and one in 2020.

Waterfront Site – This project area requires significant infrastructure investment and land use approvals to redeploy a largely vacant portion of Pier 70 for new uses in new buildings, alongside three historic buildings that will be rehabilitated and adaptively reused. In May 2013, the Port Commission endorsed a non-binding term sheet describing the fundamental deal terms for the project. The Board of Supervisors endorsed the term sheet in June 2013 and determined the proposed development to be fiscally feasible under Chapter 29 of the Administrative Code. The subsequent passage of Proposition F in 2014 allowed a 90 foot height limit for the site. The land use program for the Waterfront Site, as defined within the proposed Pier 70 Special Use District amendments to the Planning Code, allows for the development of approximately 1,100 to 2,150 new residential units, and between one million and two million gross square feet of commercial and office space, as well as small-scale manufacturing, retail, neighborhood services, waterfront parks and public infrastructure. Necessary project entitlements, including certification of the Final Environmental Impact Report, were secured in Fall 2017. Following the close of the master lease, the developer commenced site preparation in May 2018 for Phase 1 of the project. Phase 1, expected to take four to five years to complete, includes the construction of infrastructure, extension of the street grid, new parks and open space, and preparation of development pads that will result in the development of up to 720 residential units, 356,000 square feet of office, and 115,000 square feet of retail, arts, and light industrial space.

Crane Cove Park – Crane Cove Park will be a major new Blue Greenway waterfront park located in the Central Waterfront generally between 19th and Mariposa Streets east of Illinois Street, in the Union Iron Works National Historic District at Pier 70. Park features include interpretation of the historic slipway and gantry cranes, a grand entrance plaza, a large green, a public beach with access for human powered boats, landscaping, historic artifacts, and renovations to Building 49 including restrooms and space for park uses. The Port has phased project construction to expedite delivery. The first stage of park construction commenced in late 2016 and was substantially completed at June 30, 2018. On November 13, 2018, the Port Commission awarded a contract to complete the majority of park construction including hardscape, irrigation and landscaping, site furnishings and construction of a beach. The project's remaining work will be completed through three additional contracts.

Seawall Lot 337 and Pier 48 ("Mission Rock")
In 2010, the Port entered into an ENA with Seawall Lot 337 Associates, LLC for the mixed-use development of Seawall Lot No. 337 (SWL 337) and the adjacent Pier 48. Pursuant to the ENA, the developer submitted its revised proposal in 2012 which contemplates a flexible mixed-use development at the site, balancing residential, office, retail, exhibition and parking uses. The Port and the developer expect the combination of uses to evolve to meet market demands, reflect community and regulatory concerns, and be responsive to certain requirements to ensure mixed-use diversity. The Port Commission and the Board of Supervisors endorsed a non-binding term sheet describing the fundamental negotiated elements and proposed financial terms for the lease and development of the project site in 2013. The Board of Supervisors also found the proposed development fiscally feasible under Chapter 29 of the Administrative Code. In 2014, the Port Commission approved an Amended and Restated ENA affording the developer additional time to accomplish the additional steps required as a result of Proposition B (June 2014). With the passage of Proposition D in 2015, the developer obtained voter approval of the project's proposed maximum building heights. The project secured necessary approvals in 2018 from the Port Commission, the Board of Supervisors and the State Lands Commission and received Bay Conservation and Development Commission permit approval in June 2018. Transaction documents for the fully entitled project were executed in August 2018. The Port anticipates that initial site grading work will begin in October 2019, with construction of Phase 1 horizontal infrastructure anticipated to commence in early 2020.

Fire Station #35 Expansion at Pier 22½
The Pier 22½ Fire Station #35 (FS 35) expansion project will improve the City's capacity for meeting current and future fire service demands, including water-oriented emergency response. The project concept consists of construction of a new two-level, approximately 16,000 square feet fireboat station behind the existing historic fire station. The new structure will rest on a new floating pier secured by pilings. A ramp located south of the existing FS 35 will provide access to the new firehouse from The Embarcadero. There is a pedestrian gangway between the two buildings. The new pier will provide berths for three fire boats and multiple small watercraft. The 2014 Earthquake Safety and Emergency Response bond provides funding for construction of this new and expanded facility. Construction is expected to commence in 2019.

Alcatraz Embarkation
The Pier 31½ marginal wharf is currently the embarkation point for visitors to Alcatraz Island, a major tourist destination run by the National Park Service (NPS). The Port and NPS are working together to transform the site, which was constructed for relatively short-term use (about ten years), into a first-class embarkation site leasable for up to 50 years. The long-term designation of the site as the entry to Alcatraz facilitates a significant investment, supporting high-quality visitor amenities and interpretation. The proposed project includes: (1) renovation of the interiors of the Piers 31 and 33 bulkheads (approximately 18,000 square feet of gross leasable area); (2) improvements to 43,000 square feet of marginal wharf for a pedestrian-only area with public open space, passenger queueing, and site circulation; (3) addition of a second new float to increase ferry capacity; (4) improvements to 13,200 square feet of support, storage, and parking area within the Pier 31 and Pier 33 sheds; and (5) repairs to the substructure of the Pier 31½ marginal wharf. The Port Commission and the Board of Supervisors endorsed a Term Sheet for the project in 2016. NPS is partnering with the Golden Gate National Parks Conservancy to complete the proposed project. The Port Commission approved entitlements and transaction document approvals in June 2018 and the Board of Supervisors approved the project in September 2018. Construction will be phased, with multiple parties performing the work under different leases with different start dates. The schedule anticipates the completion of all improvements by 2024.

Seawall Lot 322-1 Development for Affordable Housing
In 2014, the Port Commission approved a memorandum of understanding between the Port and the Mayor's Office of Housing and Community Development (MOHCD) to explore the feasibility of developing Seawall Lot 322-1 with affordable housing. Port staff pursued and secured enabling legislation that added this site to designated seawall lots that may, under specified conditions, be leased for non-trust uses, including affordable housing. MOHCD selected a private development partner in August 2016. The project will include approximately 124 affordable housing units and one manager unit totaling approximately 137,100 gross square feet of residential dwelling space and approximately 8,700 gross square feet of nonresidential space. Residents will have access to a common, community room on the ground floor, an open podium courtyard on the second floor, two open decks on the fifth and sixth floors, and a rooftop terrace and community garden. Ancillary ground-level uses could include retail/commercial, a childcare center with an outdoor play area, and a childcare arcade. The Port Commission and Board of Supervisors approved the project in July 2018. Construction is expected to commence in 2019 with occupancy in 2021.

Seawall Lots 323 and 324
In 2015, the Port Commission approved an ENA with Teatro ZinZanni and a financial partner, operating together as TZK Broadway, LLC, for the lease and development of Seawall Lots 323 and 324 for a dinner-theater, a maximum 200-room, 40-foot high boutique hotel and an approximately 14,000-square foot privately-financed public park, and ancillary uses. The Port Commission and the Board of Supervisors both endorsed a non-binding term sheet for the project in 2016. The development team has added a financial partner and continues to seek entitlements for the project. The development team expects to secure project entitlements and to commence construction in 2019.

Downtown Ferry Terminal Expansion
The San Francisco Bay Area Water Emergency Transportation Authority (WETA) is expanding and improving facilities at the existing ferry terminal in downtown San Francisco. The project will add ferry gates, improve pedestrian circulation and ferry patron boarding, enhance emergency response capabilities, and accommodate anticipated increases in ferry ridership. The project includes construction of two new ferry gates (Gates F and G) and four new berths, landside pedestrian circulation improvements, installation of amenities such as weather-protected areas for queuing, and covering of the current "lagoon" area south of the Ferry Building. This covered area will enhance emergency response capabilities and serve as a new public plaza in the heart of the Ferry Building area. The new gates and amenities will support projects currently under development to provide new ferry service to Richmond, Treasure Island, and other locations, as well as efforts to enhance existing services. As part of this project, WETA will also refurbish and assume control of the adjacent Gate E. Construction commenced June 2017 and completion is expected in 2019.

Mission Bay Ferry Landing
The proposed Mission Bay Ferry Landing will provide regional ferry service to and from San Francisco's Mission Bay, Dogpatch, Potrero Hill, Pier 70, and Central Waterfront neighborhoods. The ferry landing will provide capability to berth two ferry boats simultaneously and may include a nearby water taxi landing. This ferry terminal will have the capacity to handle up to 6,000 passengers per day. The terminal is essential to alleviate current regional transportation overcrowding, and provide transportation resiliency in the event of an earthquake, BART or Bay Bridge failure, or other unplanned events. The Port is leading the project, with the support of the Mayor's Office, Office of Economic and Workforce Development, WETA, and consulting design teams. To date, funding has been secured ($3.5 million

from the Port and $3.5 million in the City's General Fund) to support the design and entitlements for this project. The Port continues to work with WETA, its development partners, major employers in the area and the City to secure the $35.7 million needed for the construction phase. The timeline anticipates that construction will be completed in 2022.

Park projects

The City's ten-year capital plan programs periodic general obligation bond measures for park projects. Recent park bond issues, Clean and Safe Neighborhood Parks, have included allocations to parks and open space projects on Port property: $34.5 million approved in November 2012 and $33.5 million in February 2008. Port projects funded by the 2012 bond issue include the Northeast Wharf Plaza, Agua Vista Park, Crane Cove Park, improvements to Islais Creek and Heron's Head Park. Projects funded in part by the 2008 bond issue include a promenade at Pier 43½ in Fisherman's Wharf; the Brannan Street Wharf Park in South Beach; Bayfront Park in the China Basin area; and, in the Southern Waterfront, Crane Cove Park, Islais Creek, Bayview Gateway, and improvements to Heron's Head Park. Significant project completions include the Cruise Terminal Plaza fronting the James R. Herman Cruise Terminal at Pier 27, Brannan Street Wharf, Pier 43 Bay Trail Link (including promenade work), Bayfront Park, improvements to Heron's Head Park and the Bayview Gateway. Through June 30, 2018, the Port has expended approximately $73.8 million for park projects, including $45.7 million from the park bonds and $28.1 million from other funds.

Requests for Information

This report is designed to provide a general overview of the Port of San Francisco's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Information Officer at Port of San Francisco, Pier 1, San Francisco, California, 94111. Additional information concerning the Port can also be found at www.sfport.com. Questions concerning the City and County of San Francisco or requests for a copy of the City's Comprehensive Annual Financial Report should be addressed to: Office of the Controller, City and County of San Francisco, City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, California 94102. Additional information concerning the City can also be found at www.sfgov.org.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Statements of Net Position
June 30, 2018 and 2017
(dollar amounts in thousands)

	2018	2017
Assets		
Current assets:		
Unrestricted:		
Cash and investments held in City Treasury (Note 3)	$ 155,722	$ 146,019
Cash held outside of City Treasury (Note 3)	5	5
Receivables, net (Note 4)	12,060	11,758
Accrued interest receivable	699	245
Materials and supplies	1,352	1,592
Prepaid charges and advances (Note 5)	-	223
Total unrestricted current assets	169,838	159,842
Restricted:		
Cash and investments held in City Treasury (Note 3)	30,877	34,748
Cash and investments held outside of City Treasury (Note 3)	10,077	10,144
Total restricted current assets	40,954	44,892
Total current assets	210,792	204,734
Noncurrent assets:		
Capital assets (Note 6):		
Nondepreciable	130,380	119,237
Depreciable, net	304,322	308,505
Capital assets, net	434,702	427,742
Unrestricted other noncurrent assets (Note 7)	3,632	3,768
Total noncurrent assets	438,334	431,510
Total assets	649,126	636,244
Deferred outflows of resources		
Deferred outflows of resources related to pension (Note 10)	12,986	20,916
Deferred outflows of resources related to other postemployment benefits (OPEB) (Note 2 and 12)	1,686	-
Total deferred outflows of resources	14,672	20,916

The accompanying notes are an integral part of these financial statements.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

Statements of Net Position (Continued)
June 30, 2018 and 2017
(dollar amounts in thousands)

	2018	2017
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,551	$ 4,746
Payable to the City General Fund	-	100
Accrued interest payable	1,535	1,580
Accrued payroll	1,667	1,612
Accrued vacation and sick leave pay (Note 8)	1,346	1,285
Accrued workers' compensation (Notes 8 and 18)	454	461
Estimated claims payable (Notes 8, 17 and 18)	200	775
Current maturities of long-term obligations (Note 8)	2,693	2,567
Pollution remediation obligations (Notes 8 and 17)	44	231
Prepaid rents and advance payments	4,077	2,326
Rent credits due to tenants	1,986	2,566
Lessee and other deposits	8,668	8,256
Total current liabilities	32,221	26,505
Noncurrent liabilities:		
Accrued vacation and sick leave pay (Note 8)	909	882
Accrued workers' compensation (Notes 8 and 18)	2,546	2,445
Estimated claims payable (Notes 8, 17 and 18)	250	350
Long-term obligations - net of current maturities (Note 8)	83,622	86,377
Pollution remediation obligations (Notes 8 and 17)	3,000	11,211
Net pension liability (Note 10)	43,730	51,608
Net OPEB liability (Note 12)	30,750	23,864
Prepaid rents, advance payments and other liabilities	13,981	14,369
Rent credits due to tenants	47,636	47,599
Total noncurrent liabilities	226,424	238,705
Total liabilities	258,645	265,210
Deferred inflows of resources		
Deferred inflows of resources related to pensions (Note 10)	3,151	2,210
Deferred inflows of resources related to OPEB (Notes 2 and 12)	50	-
Total deferred inflows of resources	3,201	2,210
Net position		
Net investment in capital assets	305,609	298,928
Restricted for capital projects	20,738	24,365
Unrestricted	75,605	66,447
Total net position	$ 401,952	$ 389,740

The accompanying notes are an integral part of these financial statements.

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PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017
(dollar amounts in thousands)

	2018	2017
Operating revenues (Note 9):		
Commercial and industrial	$ 57,336	$ 54,510
Parking	22,281	21,900
Cruise	7,901	7,406
Cargo	8,685	6,248
Ship repair	-	1,398
Fishing	2,184	2,402
Harbor services	1,847	1,827
Other maritime	2,652	1,739
Other	6,883	15,923
Total operating revenues	109,769	113,353
Operating expenses:		
Personal services	40,930	47,998
Contractual services	18,038	11,660
Utilities	2,859	2,833
Materials and supplies	1,001	1,853
Depreciation and amortization	17,778	24,191
General and administrative	3,585	4,345
Services provided by other City departments (Note 14)	19,310	19,009
Pollution remediation (Note 17)	(8,211)	242
Other	1,514	1,944
Total operating expenses	96,804	114,075
Operating income (loss)	12,965	(722)
Nonoperating revenues (expenses):		
Interest and investment income	2,231	1,502
Operating grants and transfers	4,232	3,786
Dispositions, net (Note 14)	(1,383)	(56)
Interest expense	(4,461)	(4,262)
Total net nonoperating revenues (expenses)	619	970
Change in net position before capital contributions	13,584	248
Capital contributions:		
Grants from government agencies and other contributions	2,626	1,822
Change in net position	16,210	2,070
Net position, beginning of the year, as previously reported	389,740	387,670
Cumulative effect of change in accounting principle due to implementation of GASB 75 (Note 2)	(3,998)	-
Net position, beginning of the year, as restated	385,742	387,670
Net position, end of the year	$ 401,952	$ 389,740

The accompanying notes are an integral part of these financial statements.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017
(dollar amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Cash received from tenants for rent	$ 78,499	$ 74,154
Cash received from customers and others	27,400	28,578
Deposits received from tenants and customers	608	835
Cash paid to employees for services	(38,631)	(34,529)
Cash paid to suppliers for goods and services	(22,542)	(21,029)
Cash paid to City for services	(19,345)	(18,629)
Customer deposits returned	(364)	(778)
Net cash provided by operating activities	25,625	28,602
Cash flows from noncapital financing activities:		
Contribution from other City Departments	4,250	1,000
Operating grants	730	2,624
Net cash provided by noncapital financing activities	4,980	3,624
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(15,498)	(17,123)
Dredging	(4,920)	(3,098)
Payments of long-term debt	(2,567)	(2,521)
Interest payments on long-term debt	(4,587)	(4,688)
Capital grants received	443	644
Other capital contributions	550	550
Proceeds from sale of equipment and materials	30	2
Net cash (used in) capital and related financing activities	(26,549)	(26,234)
Cash flows from investing activities:		
Interest and investment income	1,709	1,436
Net cash provided by investing activities	1,709	1,436
Change in cash and cash equivalents	5,765	7,428
Cash and cash equivalents, beginning of year	190,651	183,223
Cash and cash equivalents, end of year	$ 196,416	$ 190,651

The accompanying notes are an integral part of these financial statements.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2018 and 2017
(dollar amounts in thousands)

	2018	2017
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 12,965	$ (722)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	17,778	24,191
Change in allowance for doubtful accounts	(180)	188
Net effects of (increase) decrease in:		
Receivables	763	(5,653)
Tenant deposits held outside City Treasury	-	39
Materials and supplies	240	(129)
Prepaid charges, advances and other assets	428	(2,251)
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	1,580	1,085
Accrued payroll	55	328
Accrued vacation and sick leave pay	88	(24)
Accrued workers' compensation	94	179
Estimated claims payable	(675)	150
Pollution remediation obligations	(8,398)	413
OPEB and related deferred outflows/inflows of resources	1,252	2,220
Rent credits, prepaid rent and other liabilities	(1,358)	(2,332)
Net pension liability and related deferred outflows/inflows of resources	993	10,920
Net cash provided by operating activities	$ 25,625	$ 28,602
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	$ 5,033	$ 1,908
Tenant improvements financed by rent credits	2,590	613
Reclassification of construction improvement materials to inventory	-	573
Capitalized interest	18	326
Asset disposals and abandoned capital improvement projects	(1,413)	(58)
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	$ 155,722	$ 146,019
Restricted	30,877	34,748
Cash and investments held outside City Treasury		
Unrestricted	5	5
Restricted	10,077	10,144
Cash and equivalents	196,681	190,916
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	(265)	(265)
Total cash and cash equivalents	$ 196,416	$ 190,651

The accompanying notes are an integral part of these financial statements.

1. Organization

The Port of San Francisco (Port) is an enterprise fund of the City and County of San Francisco (City). Only the accounts of the Port are included in these financial statements. There are no component units that should be considered for inclusion in the Port's financial reporting entity. A five-member Port Commission is responsible for the organization’s operation, development, and maintenance. Commission members are appointed by the Mayor and confirmed by the Board of Supervisors for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included in the City’s basic financial statements.

Prior to February 1969, the Port was owned and administered by a state agency, the San Francisco Port Authority. In February 1969, the state transferred the Port in trust to the City under the terms and conditions specified in the state statutes of 1968, Chapter 1333 (Burton Act), as amended, and ratified by the City’s voters in November 1968. Under the terms of the Burton Act, the State Legislature reserves the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust, provided that the State would then assume all lawful obligations related to such lands.

The Port’s revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Substantially all of the Port’s property rental customers are located within the boundaries of the City. Port revenues are held in a separate fund (Harbor Fund) and are appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, these revenues may be spent only for uses and purposes of the public trust.

2. Significant Accounting Policies

Basis of Accounting

The Port’s financial statements are prepared using the economic resources measurement focus and the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred. The statement of net position presents the residual difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as the net position. Net position is reported in three broad components, as applicable – net investment in capital assets; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net position, all Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net position.

Cash Equivalents

The Port considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Port’s cash and investments in the City Treasury are, in substance, demand deposits and are considered cash equivalents.

2. Significant Accounting Policies (Continued)

Investments

The Port reports its investments at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurs. Money market investments are valued at amortized cost.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, using observable market transactions or available market information.

Restricted Cash and Investments

Assets whose use is restricted to specific purposes by bond indenture or otherwise are segregated on the statement of net position. These assets are primarily restricted for construction and debt service purposes. Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. A bond trustee holds these funds.

Cash security deposits received by the Port pursuant to lease agreements are held in the City Treasury. Other lessee deposits are renewable certificates of deposit tendered by tenants in lieu of cash and held by banks as third-party certificates in the name of the Port.

Capital outlay funds are restricted for use in construction and acquisition of equipment, due to restrictions from grant agreements and bond resolutions. It is Port policy to first apply restricted resources when both restricted and unrestricted resources are available to cover the expenditure.

Materials and Supplies

Materials and supplies are used for construction and maintenance of Port facilities and are stated at average cost.

Capital Assets

Land transferred to the City in February 1969 is stated at an amount which includes an increase over historical cost of $56,063,000. This amount was recorded by the State to reflect appraised values in 1929 and carried forward in the accounting records transferred to the City.

Capital assets purchased are stated at cost. It is the policy of the Port to capitalize all expenditures of more than $100,000 for infrastructure and facilities and improvements and $5,000 for equipment and vehicles with an estimated useful life in excess of one year. Donated surplus equipment received from the federal government is carried at an acquisition value determined in accordance with federal guidelines. Interest paid on bond funds used for construction purposes, less interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, if applicable, is capitalized from the date of borrowing through the construction period.

2. Significant Accounting Policies (Continued)

Capital Assets (continued)

Depreciation and amortization expense is calculated using the straight-line method over the following estimated useful lives of the assets:

Facilities and improvements	5 to 65 years
Machinery and equipment	2 to 30 years
Infrastructure	15 to 40 years
Intangible assets	Varies with type

Tenant improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the related lease. Maintenance and repairs are expensed as incurred. Dredging costs are amortized using the straight-line method over the estimated useful period ranging from one to seven years. The Port's Waterfront Land Use Plan was approved in 1997. The costs of the plan are amortized using the straight-line method over an estimated life of 20 years.

Bond Premiums and Discounts

Bond premiums and discounts are amortized using the straight-line method, which approximates the effective interest method over the life of the bonds. Bonds payable are recorded net of the applicable bond premium or discount.

Rent Credits

Rent credits are issued to certain tenants to finance certain facility improvements that are beneficial to the Port. Rent credits are recognized in accordance with the lease agreements by those tenants. Port facility improvements and related rent credit obligations, which apply against tenant minimum rents, are recorded by the Port and amortized over the leasehold period using the straight-line method.

Pollution Remediation Obligations

Pollution remediation obligations represent the accrued costs to address current or potential detrimental effects of existing pollution. These obligations are measured at their current value using a cost-accumulation approach, based on the pollution remediation outlays expected to be incurred to settle those obligations. Each obligation or obligating event is measured as the sum of probability-weighted amounts in a range of possible estimated amounts. Some estimates of ranges of possible cash flows may be limited to a few discrete scenarios or a single scenario, such as the amount specified in a contract for pollution remediation services.

Restricted Net Position

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. A liability relates to restricted assets if the asset results from a resource flow that also results in recognition of a liability or if the liability will be liquidated with the restricted assets reported. Assets are considered restricted when constraints on consumption or use are imposed by third parties or enabling legislation.

2. Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The Port distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from real estate leasing, maritime and other principal ongoing activities of the Port's normal business operations. Real estate revenues consist principally of rentals of Port property to industrial, commercial, retail, office and other business enterprises. Parking revenues include parking lot operations, metered on-street parking and parking fine revenue. Maritime revenues are derived from vessel operations, warehousing, ship repair, harbor services and other maritime activities. Vessel operations include roll-on/roll-off ships for automobiles, dry, liquid bulk, and break bulk cargoes, cruise, and other berthing. Other operating revenues include building permit and inspections fees. Operating expenses include facility maintenance, the cost of operations, administrative expenses, and depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Minimum base rental revenue is recognized on the straight-line basis over related lease terms. Most term leases provide rents to be payable to the Port in equal monthly installments on the first day of each month until the termination of the lease. Contingent rentals are recorded or accrued only for periods in which thresholds for gross sales or revenues are met by the tenant. Use fees are recorded when the fee is earned, based on actual occupancy or use. Use fees are assessed by a measured unit (e.g. lineal feet of vessel for dockage) or measured time (e.g. per twenty-four hour day). Maritime activity or use fees may be based on a standardized tariff schedule or covered by specific contractual agreements.

Capital Contributions

The Port, at various times, receives federal and State grants, proceeds from City general obligation bonds, and other funds from external sources for construction of waterfront facilities and improvements. The funds are reported as capital contributions on the statement of revenues, expenses and changes in net position.

Effects of New Pronouncements

In 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB 75), which is intended to improve accounting and financial reporting for OPEB. GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The Port did not restate the financial statements for the year ended June 30, 2017 because the actuarial information was not available. As such, the Port included the OPEB disclosures under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). As of July 1, 2017, the Port restated its net position by ($3,998,000) to restate beginning Net OPEB Liability from ($23,864,000) to ($29,383,000) and record beginning Deferred Outflows of Resources of $1,521,000.

2. Significant Accounting Policies (Continued)

Cumulative effect on Beginning Net Position as of 7/1/2017 (in thousands):

		Increase/(Decrease)
Beginning Net OPEB Liability pursant to GASB 75	$	(29,383)
Beginning Deferred Outflows of Resources pursant to GASB 75		1,521
Remove Net OPEB Obligation, June 30, 2017		23,864
Total cumulative effect of change in accounting principle	$	(3,998)

The City's adoption of GASB Statement No. 81, *Irrevocable Split-Interest Agrements*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement 86, *Certain Asset Retirmenet Obligations*, did not have a material impact on the Port's financial statements.

In 2017, the City adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 77, *Tax Abatement Disclosures,* GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units* did not have a material impact on the Port's financial statements.

The City and Port are currently analyzing their accounting practices to determine the potential impact on the financial statements of certain new accounting standards pronouncements issued by the GASB, including GASB Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases* (GASB 87), GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

The Port anticipates that the implementation GASB 87 will have a material impact on the Port's financial statements. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessor (like the Port) is required to recognize, for each lease, a lease receivable and a deferred inflow of resources. The lease receivable is measured at the present value of lease payments expected to be received during the term of the lease. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Interest revenue is recognized on the lease receivable and inflow of resources (revenue) is recognized from the deferred inflows of resources in a systematic and rational manner over the term of the lease. Lessors do not derecognize the asset underlying the lease. To allow adequate time for financial statement preparers to plan for the transition and its implementation, the accounting change for leases is required by the fiscal year ending June 30, 2021. For the transition, leases should be converted ("recognized and measured") using the facts and circumstances that exist at the beginning of the period of implementation, or the beginning of the earliest period restated.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and

2. Significant Accounting Policies (Continued)

assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Investments

The Port's cash and investments at June 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Cash and investments in City Treasury	$ 155,722	$ 146,019
Cash outside of City Treasury - imprest fund	5	5
Restricted assets:		
Cash and investments in City Treasury	30,877	34,748
Cash and investments outside of City Treasury:		
Cash and investments held by fiscal agents	9,812	9,879
Lessee deposits	265	265
	$ 196,681	$ 190,916

City Treasurer's Pool

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments as part of the City's pool of cash and investments. The notes to the basic financial statements of the City provide more detailed information concerning deposit and investment risks and fair value hierarchy disclosure associated with the City's pool of cash and investments at June 30, 2018 and 2017. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee, established under California Government Code Sections 27130 to 27137, is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The provisions of the City's investment policy also address interest rate risk, credit risk, and concentration of credit risk and provides for additional restrictions related to investments.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment policy specifies authorized investment types and sets parameters for maximum maturity.

3. Cash and Investments (Continued)

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's pool is not registered with the SEC as an investment company and is not rated.

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 its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the City Treasurer's custodial agent in the City's name.

To address concentration of credit risk, the City's investment policy sets parameters pertaining to the maximum percentage of the total portfolio which may be invested in specific investment types and the maximum investment to one issuer for certain investment types. U.S. Treasury and Agency securities are not subject to this limitation.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by federal deposit insurance by pledging authorized securities as collateral. The market value of pledged securities must equal at least 110 percent of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. The investment policy states that mortgage-backed collateral will not be accepted. At June 30, 2018 and 2017, all of the banks with funds deposited by the Treasurer secure those deposits with sufficient collateral. The following table shows the maturity of the City's pooled investments by duration:

	Investment maturities (in months)			
	Under 1	**1-6**	**6-12**	**12-60**
FY 2018	14.3%	22.1%	18.5%	45.1%
FY 2017	20.1%	21.2%	18.0%	40.7%

At June 30, 2018 and 2017, the City's pooled investments have a weighted average maturity of 1.29 years.

3. Cash and Investments (Continued)

Cash and Investments Outside of City Treasurer's Pool

Cash and investments outside of the City Treasurer's Pool consist of cash, cash equivalents, money market mutual funds and U. S. agency securities. The Port categorizes its fair value measurements within the fair value herarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2018, Port held $2,825,000 U.S. agency securities using Level 2 input. The other investments in cash, cash equivalents and money market mutual funds are exempt from the accounting pronouncement for fair value measurement.

Investment classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Investments are priced based on evaluated prices and such evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.

At June 30, 2018 and 2017, cash equivalents and investments held by fiscal agents consisted of (in thousands):

	2018	2017
Reserve accounts:		
Cash equivalents - U.S. Bank commercial paper	$ 3,972	$ 3,972
Money market mutual fund	-	2,827
U.S. agency securities	2,825	-
Project account:		
Money market mutual fund	2,890	2,941
Debt service and other accounts:		
Cash equivalents - U.S. Bank commercial paper	125	139
	$ 9,812	$ 9,879

Investment of all funds and accounts held by trustees are governed by underlying trust documents, like the Bond Indenture (Indenture) and trust agreement for the Certificates of Participation (COP), rather than the general provisions of the California Government Code or the City's investment policy.

3. Cash and Investments (Continued)

A portion of the investments held by the bond trustee consist of the trustee bank's open commercial paper (no term). The trustee bank's commercial paper has a Standard & Poor's rating of A-1+ and a Moody's rating of P-1 at June 30, 2018 and 2017. The money market fund has a Standard & Poor's rating of AAAm and a Moody's rating of Aaa-mf at June 30, 2018 and 2017. The U.S. government agency securities have a Standard & Poor's rating of AA+ and a Moody's rating of AAA.

Certain lessee security deposits are held on behalf of the Port by third party trustees and invested in renewable certificates of deposit. Deposits that are made by tenants directly to banks are held outside of the City Treasury and are not collateralized as public agency deposits.

4. Receivables

Receivables consisted of the following June 30, 2018 and 2017 (in thousands):

	2018	2017
Accounts receivable from tenants and customers	$ 7,252	$ 5,478
Less allowance for doubtful accounts	(561)	(741)
Accounts receivable, net	6,691	4,737
Settlement proceeds from former tenant (Note 17)	-	4,900
Grants receivable	2,077	1,192
Other	3,292	929
	$ 12,060	$ 11,758

Other receivables consist principally of cost recoveries due from others pursuant to development or other agreements.

5. Prepaid Charges and Advances

The Port and United States Army Corps of Engineers (USACE) periodically enter into cost-sharing agreements for the USACE to carry out local work that is in the federal interest. Under these cost-sharing arrangements, the Port is typically required to pay an estimated cost share in advance to the USACE. No unexpended advances were available to the USACE to apply to future project costs at June 30, 2018 and 2017. All previous payment advances have been fully expended by the USACE in connection with current projects. The account balance in Prepaid Charges and Advances at June 30, 2018 and 2017 is for prepaid rent.

6. Capital Assets

A summary of changes in capital assets for years ended June 30, 2018 and 2017 are as follows (in thousands):

	Balance July 1, 2017	**Increases**	**Decreases**	**Balance June 30, 2018**
Capital assets, not being depreciated/amortized:				
Land	$ 105,582	$ -	$ 1,413	$ 104,169
Construction in progress	13,655	25,850	13,294	26,211
Total capital assets, not being depreciated/ amortized	119,237	25,850	14,707	130,380
Capital assets, being depreciated/amortized:				
Facilities and improvements	582,568	7,891	-	590,459
Machinery and equipment	25,426	767	359	25,834
Intangible assets	2,264	-	-	2,264
Dredging	4,539	4,921	-	9,460
Waterfront Land Use Plan	2,779	16	-	2,795
Infrastructure	30,682	-	-	30,682
Total capital assets, being depreciated/ amortized	648,258	13,595	359	661,494
Less accumulated depreciation/amortization for:				
Facilities and improvements	302,598	12,528	-	315,126
Machinery and equipment	15,887	1,211	359	16,739
Intangible assets	2,198	36	-	2,234
Dredging	3,454	2,627	-	6,081
Waterfront Land Use Plan	2,739	56	-	2,795
Infrastructure	12,877	1,320	-	14,197
Total accumulated depreciation/amortization	339,753	17,778	359	357,172
Total capital assets, being depreciated/amortized, net	308,505	(4,183)	-	304,322
Capital assets, net	$ 427,742	$ 21,667	$ 14,707	$ 434,702

6. Capital Assets (Continued)

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets, not being depreciated/amortized:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	13,906	18,003	18,254	13,655
Total capital assets, not being depreciated/ amortized	119,488	18,003	18,254	119,237
Capital assets, being depreciated/amortized:				
Facilities and improvements	570,156	16,624	4,212	582,568
Machinery and equipment	24,960	998	532	25,426
Intangible assets	2,264	-	-	2,264
Dredging	3,159	3,098	1,718	4,539
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	30,010	672	-	30,682
Total capital assets, being depreciated/ amortized	633,328	21,392	6,462	648,258
Less accumulated depreciation/amortization for:				
Facilities and improvements	288,991	17,761	4,154	302,598
Machinery and equipment	15,017	1,402	532	15,887
Intangible assets	1,957	241	-	2,198
Dredging	1,974	3,198	1,718	3,454
Waterfront Land Use Plan	2,574	165	-	2,739
Infrastructure	11,453	1,424	-	12,877
Total accumulated depreciation/amortization	321,966	24,191	6,404	339,753
Total capital assets, being depreciated/amortized, net	311,362	(2,799)	58	308,505
Capital assets, net	$ 430,850	$ 15,204	$ 18,312	$ 427,742

Facilities and improvements include pier substructures, which have an estimated useful life greater than 50 years. The cost of such long-lived assets totaled $21,915,000 as of June 30, 2018 and 2017. The cost of fully depreciated assets still in use was approximately $187,571,000 and $175,335,000 at June 30, 2018 and 2017, respectively. The Port received proceeds from sales of equipment and materials of $30,000 in 2018 and $2,000 in 2017. Total interest expense was $4,479,000 and $4,588,000 for fiscal years 2018 and 2017, of which $18,000 and $326,000 was capitalized, respectively. Depreciation and amortization expense in 2018 included a ($4,732,000) adjustment derived from calculations using updated estimated useful lives for centain capital assets.

7. Other Assets

Other unrestricted noncurrent assets represent the long-term portion of lease or other agreement obligations from tenants and customers. The Port and a developer entered into a promissory note for $1,500,000 to cover the cost of certain improvements. Repayment is scheduled to commence at a future date following the Developer Equity Repayment Date, as defined in the master lease. Account balance includes interest receivable of $69,000 on the principal balance disbursed and outstanding at the rate of 4.41% per annum, simple interest.

8. Bonds, Loans and Other Payables

The changes in bonds, loans and other payables for the years ended June 30, 2018 and 2017 are as follows (in thousands):

	July 1, 2017	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2018	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 52,860	$ -	$ 1,325	$ 51,535	$ 1,390
Certificates of participation	32,275	-	1,105	31,170	1,160
Net of premiums/discounts:					
For issuance premiums	1,898	-	72	1,826	-
For issuance discounts	(202)	-	(10)	(192)	-
Total bonds payable	86,831	-	2,492	84,339	2,550
Other payables:					
Loan payable	2,113	-	137	1,976	143
Accrued vacation and sick leave pay	2,167	1,688	1,600	2,255	1,346
Accrued workers' compensation (Note 18)	2,906	638	544	3,000	454
Estimated claims payable (Note 18)	1,125	-	675	450	200
Pollution remediation obligations (Note 17)	11,442	-	8,398	3,044	44
Long-term obligations	$ 106,584	$ 2,326	$ 13,846	$ 95,064	$ 4,737

	July 1, 2016	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2017	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 54,125	$ -	$ 1,265	$ 52,860	$ 1,325
Certificates of participation	33,335	-	1,060	32,275	1,105
Net of premiums/discounts:					
For issuance premiums	1,969	-	71	1,898	-
For issuance discounts	(211)	-	(9)	(202)	-
Total bonds payable	89,218	-	2,387	86,831	2,430
Other payables:					
Loan payable	2,244	-	131	2,113	137
Loan from City department	65	-	65	-	-
Accrued vacation and sick leave pay	2,191	1,480	1,504	2,167	1,285
Accrued workers' compensation (Note 18)	2,727	612	433	2,906	461
Estimated claims payable (Note 18)	975	154	4	1,125	775
Pollution remediation obligations (Note 17)	11,029	497	84	11,442	231
Long-term obligations	$ 108,449	$ 2,743	$ 4,608	$ 106,584	$ 5,319

8. Bonds, Loans and Other Payables (Continued)

Annual debt service requirements for all bonds and loans outstanding as of June 30, 2018 are as follows (in thousands):

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest	State Loan Payable Principal	State Loan Payable Interest	Total Principal	Total Interest
2019	$ 1,390	$ 2,786	$ 1,160	$ 1,574	$ 143	$ 89	$ 2,693	$ 4,449
2020	1,455	2,718	1,215	1,516	149	82	2,819	4,316
2021	1,530	2,644	1,280	1,455	156	76	2,966	4,175
2022	1,625	2,550	1,340	1,391	163	69	3,128	4,010
2023	1,725	2,452	1,410	1,324	170	61	3,305	3,837
2024-2028	10,430	10,434	4,090	5,875	973	185	15,493	16,494
2029-2033	11,135	6,760	5,270	4,697	222	10	16,627	11,467
2034-2038	11,865	4,047	6,775	3,185	-	-	18,640	7,232
2039-2043	9,105	1,249	8,630	1,337	-	-	17,735	2,586
2044	1,275	53	-	-	-	-	1,275	53
Total	$ 51,535	$ 35,693	$ 31,170	$ 22,354	$ 1,976	$ 572	$ 84,681	$ 58,619

	Revenue Bonds	Certificates of Participation	State Loan Payable
Remaining interest rates	2.60% - 7.408%	4.75% - 5.25%	4.5%

8. Bonds, Loans and Other Payables (Continued)

The Port Commission issues its Revenue Bonds under a Master Trust Indenture dated February 1, 2010 (Indenture), which provides for, among other things, the issuance of one or more series of Bonds, the general terms and conditions of the Bonds, and certain covenants made by the Port Commission for the benefit of the bondholders. The Revenue Bonds are special limited obligations of the Port Commission secured by and payable solely from the net revenues of the Port and are not an obligation of the City.

In May 2014, the Port issued $22,675,000 in revenue bonds in two series; an AMT tax-exempt series (Series 2014A) and a taxable series (Series 2014B). Series 2014A included serial and term bonds totaling $19,880,000 with coupon rates ranging from 3.00% to 5.00% and maturities from March 2020 to March 2044. Series 2014B included serial bonds totaling $2,795,000 with coupon rates ranging from 0.55% to 3.00% and maturities from March 2015 through March 2020. Series 2014A bonds with scheduled maturities on or after March 2025 are subject to redemption as a whole or in part at the sole option of the Port at any time on or after March 2024 at redemption prices specified in the Indenture. Bonds with scheduled maturities on or before March 2024 are not subject to optional redemption prior to their maturity. Under terms of the indenture, the Port is required to deposit in a debt service reserve fund with a bond trustee, amounts equal to the Series 2014A reserve requirement and the Series 2014B reserve requirement. The Series 2014A reserve requirement is an amount equal to the lesser of: a) the maximum annual debt service with respect to the Series 2014A bonds, b) 125% of the average annual debt service on the Series 2014A bonds, c) 10% of the initial principal amount of the Series 2014A bonds, or d) the sum of $650,615, which is the initial deposit into the reserve fund, plus any amounts available to be transferred from the Series 2014B reserve account pursuant to the Indenture. Funds on deposit in the Series 2014A reserve fund are only for the benefit of the Series 2014A bondholders. The Series 2014B reserve requirement is an amount equal to the maximum annual debt service on the Series 2014B bonds. Funds on deposit in the Series 2014B reserve fund are only for the benefit of the Series 2014B bondholders. At June 30, 2018, the Port was in compliance with these reserve requirements.

In February 2010, the Port issued $36,650,000 in revenue bonds in two series; a non-AMT tax-exempt series (Series 2010A) and a taxable series (Series 2010B). Series 2010A consists of a term bond totaling $14,220,000 maturing March 2040 with a coupon rate of 5.125%. Series 2010B, original issue total of $22,430,000, has serial and term bonds of $16,585,000 outstanding at June 30, 2018 with remaining coupon rates ranging from 6.015% to 7.408% and remaining maturities from March 2019 through March 2030. Bonds with scheduled maturities on or after March 2021 are subject to redemption as a whole or in part at the sole option of the Port at any time on or after March 2020 at redemption prices specified in the Indenture. Bonds with scheduled maturities on or before March 2020 are not subject to optional redemption prior to their maturity. Under terms of the indenture, the Port is required to deposit in a debt service reserve fund with a bond trustee, an amount equal to the Series 2010A reserve requirement plus the Series 2010B reserve requirement. The Series 2010A reserve requirement is an amount equal to the lesser of: a) the maximum annual debt service with respect to the Series 2010A bonds, b) 125% of the average annual debt service on the Series 2010A bonds, c) 10% of the outstanding principal amount of the Series 2010A bonds, or d) $728,775, which is the initial deposit into the reserve fund. Funds on deposit in the Series 2010A reserve fund are only for the benefit of the Series 2010A bondholders. Prior to June 30, 2018, a transfer from the Series 2010A reserve fund

8. Bonds, Loans and Other Payables (Continued)

to the interest debt service fund completed by the trustee bank based on its calculations, resulted in an insignificant shortfall versus the total required reserve account balance as of June 30, 2018. Interest earnings posted to the account in July 2018 were sufficient to restore the reserve account balance to be in compliance with the Indenture requirement.

The Series 2010B reserve requirement is an amount equal to the maximum annual debt service on the Series 2010B bonds. Funds on deposit in the Series 2010B reserve fund are only for the benefit of the Series 2010B bondholders. At June 30, 2018, the Port was in compliance with the Series 2010B reserve fund requirement.

The Port has pledged future net revenues to repay the Revenue Bonds. Annual principal and interest payments through 2044 are expected to require less than 12% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $87,228,000. The principal and interest payments made in 2018 were $4,174,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $36,197,000. The principal and interest payments made in 2017 were $4,169,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $38,959,000.

While revenue bonds are outstanding, the Port may not create liens on its property essential to its operations or dispose of any property essential to maintaining operating activity at a level necessary for it to meet its covenants, including its covenant to maintain net revenue coverage. The Port also is required to maintain specified insurance or qualified self-insurance. The Port is not required to carry earthquake insurance. Covenants of the Indenture include that the Port will manage its business operations, establish and maintain rentals, fees and charges for the use of Port property and for services provided by the Port so that the net revenue, as defined in the Indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2018, the Port was in compliance with such bond covenants.

The revenue bonds are subject to an arbitrage rebate requirement. Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 21, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that earnings from the investment of tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on the fifth anniversary of each bond issue. There was no cumulative arbitrage liability with respect to the revenue bonds as of June 30, 2018 and 2017.

In May 2012, the Board of Supervisors authorized the City to issue $45 million in certificates of participation (COPs) to finance various facilities and improvements under the jurisdiction of the Port, including the construction of a primary cruise terminal at Pier 27. The public sale of $37,700,000 in COPs was completed in October 2013. The COPs were issued in two series, consisting of Series 2013B (Non-AMT) in the amount of $4,830,000 and Series 2013C (AMT) in the amount of $32,870,000. Series 2013B certificates will mature March 2036 and March 2038, and carry coupon rates of 5.25% and 4.75%, respectively. Series 2013C certificates mature March 2014 through March 2043 and carry coupon rates between 4.00% and 5.25%. The COPs with scheduled maturities on or after March 2023 are subject to redemption at specified prices at the option of the City. Those COPs with scheduled maturities before March 2023 are not subject to optional redemption prior to their maturity.

8. Bonds, Loans and Other Payables (Continued)

A memorandum of understanding between the City and the Port governs the terms of repayment for the City COPs. The Port is required to make payments to the City equal to annual debt service on the COPs. These payment obligations are subordinate to any Port revenue bond obligations. The Port has agreed, during the term of the COPs, to annually budget amounts necessary for direct payment of obligations or for reimbursement by the Port to the City for costs incurred on behalf of the Port in connection with the COPs. While the completed cruise terminal serves as the leased asset for the COPs to secure the City's covenants and obligations under the lease, there is no remedy under the COPs for the purchasers thereof to take possession of the leased property.

The Port has entered into a loan agreement with the California Department of Boating and Waterways (Cal Boating) for $3,500,000 to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and interest accrues at a rate of 4.5% per annum on the unpaid balance over 30 years. The project was completed in 2002 and annual payments commenced on August 1, 2002. The loan is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $2,548,000. Annual principal and interest payments were $232,000 in 2018 and 2017 and pledged harbor revenues were $95,000 and $117,000 for the years ended June 30, 2018 and 2017, respectively.

9. Operating Revenues – Property Rentals

Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. For the years ended June 30, 2018 and 2017, property rental revenues were comprised as follows (in thousands):

	2018	2017
Minimum rentals, all revenue types	$ 65,321	$ 61,303
Percentage rentals	16,773	17,681
Total	$ 82,094	$ 78,984

9. Operating Revenues – Property Rentals (Continued)

The future minimum rent revenues under noncancellable operating leases having terms in excess of one year as of June 30, 2018 are as follows (in thousands):

Year Ending June 30	
2019	$ 44,864
2020	39,331
2021	36,306
2022	33,092
2023	27,055
2024-2028	96,130
2029-2033	80,511
2034-2038	66,908
2039-2043	43,122
2044-2048	35,514
2049-2053	24,484
2054-2058	19,072
2059-2063	16,114
2064-2068	11,445
2069-2073	5,089
2074-2077	3,402
Total	$ 582,439

Property subject to operating leases and property held for lease at June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Land	$ 51,800	$ 53,184
Facilities and improvements at cost, net of accumulated depreciation	156,860	155,148
Total	$ 208,660	$ 208,332

Under the terms of some long-term leases, certain minimum rent obligations are fulfilled by the completion of major tenant-financed rehabilitation and improvement work that benefits the Port. The Port records these improvements and the related obligation for tenant improvement credits upon the certified completion and acceptance of the agreed work.

A development lease with The Exploratorium for Piers 15-17 commenced on November 3, 2010. In consideration for performing certain substructure repair and other work, the Port granted to the tenant rent credits equivalent to 100% of Pier 15 minimum rentals due under the lease for the first fifty years. The rent credit is capped or limited to the 50-year period and the Port is released from further obligation for unused or unapplied credits in the event of early termination of the lease. Project construction, including substructure repair and seismic work valued in excess

9. Operating Revenues – Property Rentals (Continued)

of $65 million, was completed and The Exploratorium opened to the public in April 2013. The Port recorded approximately $45 million in substructure improvements, together with the associated obligation to credit future minimum rents. The tenant improvements and associated rent credit obligation are being amortized on a straight-line basis over the remaining term of the lease.

10. Retirement Plan

The City administers a cost-sharing multiple-employer defined benefit pension plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

	2018	2017
Valuation Date	June 30, 2016 updated to June 30, 2017	June 30, 2015 updated to June 30, 2016
Measurement Date	June 30, 2017	June 30, 2016
Measurement Period	July 1, 2016 to June 30, 2017	July 1, 2015 to June 30, 2016

The City is an employer of the Plan with a proportionate share of 94.07% as of the June 30, 2017 measurement date and 94.22% as of the June 30, 2016 measurement date. The Port's allocation percentage was determined based on the Port's employer contributions divided by the City's total employer contributions for each measurement period. The Port's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Port's allocated percentage. The Port's allocation of the City's proportionate share was approximately 0.93% as of the June 30, 2017 measurement date and 0.94% as of the June 30, 2016 measurement date.

Plan Description - The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website http://mysfers.org or by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

10. Retirement Plan (Continued)

***Benefits* -** The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments (COLA) after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis (Proposition C). Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of assets basis

10. Retirement Plan (Continued)

and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2018 varied from 7.5% to 13.0% as a percentage of gross covered salary and for fiscal year 2017 from 7.5% to 12.0% as a percentage of gross covered salary. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46% and based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.90% to 21.40%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in the years ended June 30, 2017 and 2016 (measurement periods) was $519.1 million and $496.3 million, respectively. The Port's allocation of employer contributions for the 2017 measurement period was $4,891,000 and for the 2016 measurement period was $4,845,000.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2018, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of $4.70 billion. The City'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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Port's allocation of the City's proportionate share of the net pension liability for Plan as of June 30, 2017 and 2018 (reporting years) was $51,608,000 and $43,730,000, respectively. During the measurement year 2016-17, the actual investment earnings decreased the total pension liability. This was only partially offset by an increase in service costs and interest costs, resulting in an overall decrease in the net pension liability reported at June 30, 2018. Comparatively during the measurement year 2015-16, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased the total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability reported at June 30, 2017.

For the years ended June 30, 2018 and 2017, the City's recognized pension expense, including amortization of deferred outflows/inflows related pension items, was $0.73 billion and $1.81 billion, respectively. The Port's allocation of pension expense, including amortization of

10. Retirement Plan (Continued)

deferred outflows/inflows related pension items for 2018 and 2017, was $6,417,000 and $15,811,000, respectively. Pension expense decreased in 2018, largely due to the impact of actual investment earnings and increased in 2017, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred outflows/inflows.

At June 30, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pension were the following (in thousands):

	June 30, 2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Pension contributions subsequent to measurement date	$ 5,424	$ -
Differences between expected and actual experience	406	1,320
Change in assumptions	7,091	128
Net difference between projected and actual earnings on pension plan investments	-	1,631
Change in proportionate share	65	72
	$ 12,986	$ 3,151

At June 30, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pension were the following (in thousands):

	June 30, 2017	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Pension contributions subsequent to measurement date	$ 4,891	$ -
Differences between expected and actual experience	-	1,902
Change in assumptions	8,878	260
Net difference between projected and actual earnings on pension plan investments	7,056	-
Change in proportionate share	91	48
	$ 20,916	$ 2,210

10. Retirement Plan (Continued)

The pension contributions made subsequent to the measurement date will be applied to the net pension liability in the next period. All other deferred outflows and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

Year Ending June 30	Deferred Outflows (Inflows) of Resources
2019	$ 203
2020	3,676
2021	2,335
2022	(1,803)

Actuarial Assumptions **-** A summary of the actuarial assumptions and methods used to calculate the total pension liability as of measurement dates June 30, 2017 and 2016 is provided below. Refer to the July 1, 2016 and 2015 actuarial valuation reports for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

	2018	2017
Valuation Date	June 30, 2016 updated to June 30, 2017	June 30, 2015 updated to June 30, 2016
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Expected Rate of Return	7.5%	7.5%
Municipal Bond Yield	3.58% as of June 30, 2017 Bond Buyer 20-Bond-GO Bond Index June 29, 2017	2.85% as of June 30, 2016 Bond Buyer 20-Bond-GO Bond Index June 30, 2016
Discount Rate	7.50% as of June 30, 2017	7.50% as of June 30, 2016
Administrative Expenses	0.60% of payroll as of June 30, 2017	0.60% of payroll as of June 30, 2016

Basic COLA	June 30, 2017	June 30, 2016
Old Miscellaneous and all New Plans	2.00%	2.00%
Old Police & Fire pre 7/1/75 Retirements	2.70%	2.70%
Old Police & Fire, Charters A8.595 & A8.596	3.30%	3.30%
Old Police & Fire, Charters A8.559 & A8.585	4.40%	4.40%

Mortality rates for active members and healthy annuitants were based upon the adjusted Employee and Healthy Annuitant CALPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale. The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based upon results of an actuarial experience study for the period from 2009 to 2014.

Discount Rate – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate used to measure the total pension liability as of June 30, 2017 and 2016 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 and 2015

10. Retirement Plan (Continued)

actuarial valuations. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17 years and 5 years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, the City actuary, Cheiron, developed assumptions as of June 30, 2017 and 2016 for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

	June 30, 2017 Valuation		June 30, 2016 Valuation	
	1996 - Prop C	Before 11/06/96 or after Prop C	1996 - Prop C	Before 11/06/96 or after Prop C
2018	0.75%	0.00%	0.75%	0.00%
2023	0.75%	0.29%	0.75%	0.22%
2028	0.75%	0.35%	0.75%	0.32%
2033	0.75%	0.38%	0.75%	0.37%
2038 and thereafter	0.75%	0.38%	0.75%	0.38%

10. Retirement Plan (Continued)

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2096 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2017 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.3%
Fixed Income	20.0%	1.6%
Private Equity	18.0%	6.5%
Real Assets	17.0%	4.6%
Hedge Funds/Absolute Returns	5.0%	3.6%

Sensitivity of Proportionate Share of the Net Pension Liability (NPL) to Changes in the Discount Rate - The following presents the Port's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the Port's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	($000's)		
Measurement Year	1% Decrease Share of NPL @ 6.50%	Allocated Share of NPL @ 7.50%	1% Increase Share of NPL @ 8.50%
June 30, 2017	$ 74,916	$ 43,730	$ 17,925
June 30, 2016	81,783	51,608	26,650

11. Health Service System

Health care benefits for Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City principally through the City and County of San Francisco Health Service System. The annual contribution to the City health plan is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The Port's payments for all health care benefits amounted to approximately $5,005,000 and $4,836,000 in fiscal years 2018 and 2017, respectively.

The City Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report can be found on its website http://www.myhss.org or may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

12. Other Postemployment Benefits (OPEB)

Plan Descriptions – Port participates in an agent multiple-employer defined benefit other postemployment benefits plan (the OPEB Plan). The OPEB Plan is maintained by the City and is administered through the City's Health Service System. It provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other postemployment benefit plan.

GASB 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System Retiree Plan

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Dave	June 30, 2017
Measurement Period	July 1, 2016 and June 30, 2017

The Port's proportionate share percentage of the OPEB Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the year ended June 30, 2017. The Port's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Port's allocated percentage. The Port's proportionate share of the City's OPEB elements was 0.83% as of the measurement date.

12. Other Postemployment Benefits (OPEB) (Continued)

***Benefits* –** Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service[1]
		Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement[2]		Any age with 10 years of credited service
Terminated Vested[3]		Age 50 with 5 years of credited service at separation
Active Death[2]		Any age with 10 years of credited service

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.

[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.

[3] Effective with Proposition B, passed on June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO - City Health Plan (Self-insured)
	HMO - Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental and DeltaCare USA
Vision:	Vision benefits are provided under the medical insurance plans and are adminstred by Vision Service Plan

Projections of the sharing of benefit related costs are based on an established pattern of practice.

Contributions – Benefits provided under the OPEB Plan are currently paid through "pay-as-you-go" funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded. At that time, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund.

12. Other Postemployment Benefits (OPEB) (Continued)

Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the year ended June 30, 2018, the City's funding was based on "pay-as-you-go" plus a contribution of $25,839,000 to the Trust Fund. The "pay-as-you-go" portion paid by the City was $178,019,000 for a total contribution of $203,858,000 for the year ended June 30, 2018. The Port's proportionate share of the City's contributions for fiscal year 2018 was $1,686,000.

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB – As of June 30, 2018 the City reported net OPEB liabilities related to the OPEB Plan of $3.7 billion. The Port's proportionate share of the City's net OPEB liability as of June 30, 2018 was $30,750,000.

For the year ended June 30, 2018, the City's recognized OPEB expense in the amount of $355.2 million and the Port's proportionate share of the City's OPEB expense was $2,938,000.

As of June 30, 2018, the Port reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 1,686	$ -
Net difference between projected and actual earnings on plan investments	-	50
Total	$ 1,686	$ 50

12. Other Postemployment Benefits (OPEB) (Continued)

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows (in thousands):

Year ended June 30	Deferred Inflows of Resources	
2019	$	(13)
2020		(13)
2021		(12)
2022		(12)

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2017 (measurement date) is provided below:

Key Actuarial Assumptions	
Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.25% and trends down to ultimate rate of 4.50% for 2033 and beyond
	Medicare trend starts at 7.0% and trends down to ultimate rate of 4.50% for 2033 and beyond
	10-County average trend starts at 6.0% and trends down to ultimate rate of 4.50% for 2033 and beyond
	Vision and expenses trend remains a flat 3.50% for all years
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50%
	Additional Merit Component (dependent on years of service):
	Police: 0.00% - 8.00%
	Fire: 0.00% - 15.00%
	Miuni Drivers: 0.00% - 15.00%
	Craft: 0.00% - 3.50%
	Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflaction: 3.50% compounded annually
	Consumer Price Inflation: 3.00% compounded annually

12. Other Postemployment Benefits (OPEB) (Continued)

Mortality Table

Base mortality tables are developed by multiplying a published table by an adjustment factor developed in Retirement System experience study for the period ended June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disabled Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disabled Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate – The following presents the Port's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the Port's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

June 30, 2017 (measurement year) ($000's)		
1% Decrease	Baseline	1% Increase
$ 26,836	$ 30,750	$ 35,589

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2017 was 7.5%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the OPEB Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

12. Other Postemployment Benefits (OPEB) (Continued)

The long-term expected rate of return on OPEB plan investments was 7.5% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	20-year Expected Return
Equities		
U.S. Equities	41.0%	7.5%
Developed Market Equity (non-U.S.)	20.0%	7.3%
Emerging Market Equity	16.0%	9.8%
Credit		
High Yield Bonds	3.0%	6.0%
Bank Loans	3.0%	5.5%
Emerging Market Bonds	3.0%	5.5%
Rate Securities		
Treasury Inflation Protected Securities	5.0%	3.5%
Investment Grade Bonds	9.0%	3.5%

The asset allocation targets summarized above have a 20-year return estimate of 7.75%, which was weighted against a 10-year model estimating a 6.59% return, resulting in the ultimate long-term expected rate of return of 7.5%.

The following presents the Port's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the Port's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

June 30, 2017 (measurement year)
($000's)

1% Decrease Share of NOL @ 6.50%	Allocated Share of NOL @ 7.50%	1% Increase Share of NOL @ 8.50%
$ 35,227	$ 30,750	$ 27,079

OPEB disclosures under GASB Statement No. 45 for year ended June 30, 2017 – In prior years, the City determined a City-wide Annual Required Contribution (ARC), interest on net OPEB obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45 by the City's actuaries. The City's allocation of the OPEB related costs to the Port for the year ended June 30, 2017 based upon its percentage of City-wide payroll costs is presented below. Included in the Port's payments for all health care benefits amounts is approximately $1,508,000 for fiscal years 2017 to provide postemployment benefits for retired employees in the City Health Service System, largely on a "pay-as-you-go" basis. As the OPEB Plan has not changed, but the accounting treatment under GASB Statement No. 75 has changed, see earlier discussion for a description of the plan, benefits, and contributions.

12. Other Postemployment Benefits (OPEB) (Continued)

The following table shows the components of the City's annual OPEB allocations for the Port during fiscal year 2017, for the amount contributed to the OPEB Plan, and changes in the City's net OPEB obligation pursuant to GASB 45 (dollar amount in thousands):

		2017
Annual required contribution	$	3,209
Interest on net OPEB obligation		872
Adjustment to annual required contribution		(353)
Annual OPEB cost (expense)		3,728
Contribution made		(1,508)
Increase in net OPEB obligation		2,220
Net OPEB obligation - beginning of year		21,644
Net OPEB obligation - end of year	$	23,864

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

13. Redevelopment Agency

Under Assembly Bill No. X1 26 (AB26) and the California Supreme Court's decision in California Redevelopment Association v. Matosantos, No. S194861, all redevelopment agencies in the State of California, including the Redevelopment Agency of the City and County of San Francisco (Agency), were dissolved by operation of law as of February 1, 2012. The Board of Supervisors adopted Resolution No. 11-12 in January 2012 to provide for the transition of assets and functions pursuant to AB26. Subsequently, in June 2012, Assembly Bill No. 1484 (AB1484) was adopted by the California Legislature. AB1484 significantly amended AB26 and impacted the transition plans initiated by the City.

A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the Agency held leasehold interests to certain Port properties. Prior to AB1484, it was planned for the Port to resume management and control on July 1, 2012 of its property, including the leasehold improvements completed by the Agency. The Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, have negotiated a memorandum of agreement covering the termination of Port agreements and providing for the transfer of certain assets and operations of the Rincon Point South Beach Project to the Port. While the agreement has been approved by the Port and Successor Agency governing commissions, the Oversight Board to the Successor Agency and the California State Department of Finance in 2015, the transfer is executory pending the completion of all closing conditions. At June 30, 2018, discussions continue with Cal Boating concerning terms for the Port to assume certain loans that financed the South Beach Harbor project. The Agency and the City were co-borrowers for these Cal Boating loans.

13. Redevelopment Agency (Continued)

South Beach Harbor revenues, including certain tax increments, were pledged to a 1986 revenue bond issue that pre-dated the Port's Revenue Bonds. The South Beach Harbor revenue bonds were paid off on December 1, 2016.

14. Related Party Transactions

The Port receives services from, and provides services to, various City departments that are categorized in the various operating expense line items in the statements of revenues, expenses and changes in net position. The Port continues to evaluate its payments to the City's General Fund and various City departments for services that support activities within the Port area and refine the methodologies used for the allocation of City direct and indirect costs. In fiscal year 2018, services provided by other City departments included $2,696,000 of insurance premiums and $544,000 in workers' compensation expense. In fiscal year 2017, services provided by other City departments included $2,695,000 of insurance premiums and $612,000 in workers' compensation expense.

Services provided by City departments include: fireboat operations and maintenance from the Fire Department, legal and litigation-related services from the City Attorney's Office, street cleaning, direct and contractual services from the Department of Public Works, services provided by the City Purchaser, contract compliance review services by the City Administrator's Contract Monitoring Division, security services from the Police Department, risk management consulting services through the City Risk Manager, parking enforcement services and parking meter system maintenance and collection services from and through the San Francisco Municipal Transportation Agency (SFMTA), communications and network services from the Department of Technology and real estate services from the Department of Real Estate. Charges for electrical service provided by the San Francisco Public Utilities Commission (SFPUC), included in utilities on the statements of revenues, expenses and changes in net position, were $1,929,000 and $2,113,000 in fiscal years 2018 and 2017, respectively. Rental revenues from City departments included in operating revenues were approximately $2,776,000 and $2,435,000 in fiscal years 2018 and 2017, respectively.

In support of the three-year planning phase of the Seawall Earthquake Safety and Disaster Prevention Program, the Port received $500,000 from SFMTA and $250,000 from the Planning Department in 2018. The Port received $500,000 from SFMTA and $500,000 from the Planning Department for project planning in 2017. Also in 2018, the City provided $3,500,000 to support planning and design of the Mission Bay Ferry Landing.

In 2012, the Port and the SFPUC entered into a memorandum of understanding (MOU) to facilitate the installation of a shore side power system at the Pier 70 ship repair facility. Among other things, the SFPUC committed to provide the Port a project rebate of $1.5 million, or a pro-rata amount, based on a pre-established threshold for metered electricity consumption by the shoreside power system during the first ten years of operation. A prorated rebate amount of $332,000 has been accrued at June 30, 2018 and $324,000 has been accrued at June 30, 2017 as a noncurrent receivable, a component of unrestricted other noncurrent assets.

The Port and SFMTA entered into a MOU dated January 25, 2001 which granted the SFMTA the right to use an approximately 17-acre portion of certain Port property (within an area commonly known then as the Western Pacific Railroad Yard) for permitted uses, as defined therein.

14. Related Party Transactions (Continued)

Pursuant to the MOU, SFMTA paid to the Port $29.7 million in 2001 for the perpetual use and the future jurisdictional transfer of this property, subject to the satisfaction of various conditions. With the transfer conditions satisfied and the necessary approvals inplace, the Board of Supervisors in July 2017 approved the interdepartmental jurisdictional transfer of this property from the Port to the SFMTA for no additional consideration. The transfer price of $29.7 million paid in 2001 was the estimated fair market value determined by an independent appraisal at the time it was paid. The property cost of $1.4 million was recorded as an asset disposition in fiscal year 2018.

In December 2017, the Port and San Francisco Fire Department (SFFD) entered into a MOU for the use of water, apron, shed and office space at Pier 26 for berthing and servicing of fire boats for five years and on a month-to month basis afterward. To facilitate these uses, SFFD repaired apron decking, replaced the fender system within the leasehold area and upgraded electrical services to Pier 26. In return, the Port allowed SFFD to apply hundred percent rent credits toward the lease payments until all required capital improvements, approximately $2.3 million, are fully offset. As of June 30, 2018, rent credits of $2.2 million have been approved by the Port based on completed work.

15. Operating Lease Commitment

The Port has a noncancellable operating lease (sublease) for its offices at Pier 1 from the master tenant, which requires the following minimum annual payments (in thousands):

Year Ending June 30	
2019	$ 2,728
2020	2,728
2021	2,728
2022	2,728
2023	2,728
2024-2028	13,640
2029-2033	13,640
2034-2038	13,640
2039-2043	13,640
2044-2048	13,640
2049-2053	13,640
2054-2058	13,640
2059-2063	13,640
2064-2065	2,955
Total	$ 125,715

The master lease, as amended in fiscal year 2016, allows the master tenant an option to extend the lease term for an additional 15 years. Among other things, the amended provisions include a grant to the Port, as sub-lessee, a one-time early termination right in 2031, and if such termination is not exercised, a 15-year extension option, for a term coterminous with the master lease, if the master lease is also extended. The Port has an option to purchase the leasehold premises at a price equal to the present value of the remaining base rent due from the Port to the master tenant, effective through the expiration date of the sublease. Rental payments totaled $2,704,000 in fiscal year 2018 and $2,702,000 in fiscal year 2017.

16. Commitments

Development and Capital Projects

The Port is engaged in development and capital projects, which involve commitments to expend significant funds. Certain development plans, such as that for the Pier 70 area, require complex financing strategies including an array of public and private financing mechanisms in order to accomplish development objectives, which may include environmental remediation (see Note 17), preservation and adaptive reuse of historic buildings, and construction of new infrastructure and public open spaces.

The Port has pursued State legislative changes to increase funding options to address future capital requirements. In 2005, Senate Bill No. 1085 amended the California Government Code to enable the City and Port to form, in the Port area, infrastructure financing districts, pursuant to Section 53395 et seq. Among other things, this legislation enumerated additional infrastructure improvements that qualify for infrastructure financing districts, including seismic upgrades, historic renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers and wharves.

The 2012 San Francisco Clean and Safe Neighborhood Parks Bond general obligation bonds, included $34.5 million and the 2008 Parks Bond included $33.5 million of funding for parks and open space projects on Port property.

Under an agreement (The San Francisco Waterfront Special Area Plan) with the San Francisco Bay Conservation and Development Commission (BCDC), finalized in 2001, the Port committed to fund and expend up to $30.0 million over a 20-year period for pier removal, construction of parks and plazas and other public access improvements in the Northern Waterfront. Through June 30, 2018, $46.6 million has been expended for projects under the agreement. In addition to project work funded and managed directly by the Port, the deck and pilings that form the valley between Piers 15 and 17 and a portion of non-historic sheds were removed as part of the construction work completed by The Exploratorium project (Note 9).

Purchase Commitments

The Port had firm purchase and contract commitments at June 30, 2018 for approximately $12.8 million for capital projects and $2.6 million for general operations.

17. Contingencies

Litigation

The Port is a defendant in various lawsuits and claims that arise during the normal course of business. Most of these matters deal with personal injury or property damage resulting from accident or fire and are covered by insurance. When the likelihood of an unfavorable outcome is probable, accrued liabilities will include, at a minimum, the aggregate amount of deductibles under applicable insurance policies. There are also pending actions filed by tenants and vendors, alleging breach of leases or contracts and associated economic losses. The final disposition of these legal actions and certain legal claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the Port.

17. Contingencies (Continued)

In December 2016, the Port's shipyard operator entered into a purchase and sale agreement that transferred to another corporate entity all assets of and interests in the shipyard at Pier 70 (including the Port lease) effective January 2017. The Port consented to the transfer on December 30, 2016. In February 2017, the new operator gave notice of imminent closure as a result of legal disputes with the prior operator concerning the condition of the shipyard facilities and equipment. Based on a negotiated agreement operations continued through the end of May 2017, at which time the new operator abandoned the leasehold. The new operator initiated litigation in San Francisco to rescind the sale and recover damages from the seller and rescission of the lease assignment and declaratory relief from the Port. Mediation discussions led to a partial settlement between the Port and the former shipyard operator. Under the settlement agreement approved by the Port Commission, the Port received from the former operator $4.9 million in August 2017 to support maintenance and repairs in the shipyard. As part of the settlement, the Port assigned to the former operator all of the Port's claims against the new operator, other than those relating to a $769,000 letter of credit provided by the new operator to secure the lessee-operator's obligations under the Port lease. In September 2017, the new operator's San Francisco lawsuit against the former operator and the Port was stayed in favor of litigation filed by the former operator in New York. The new operator subsequently re-filed its claims against the old operator as counterclaims in the New York action. The Port was not a party to the New York action. In April 2018, the former and new operators entered into a settlement agreement. As part of that settlement, the new operator filed for bankruptcy reorganization. The settlement terms were approved by the bankruptcy court in June 2018. In July 2018, the former operator filed a dismissal of its litigation against the new operator and in November 2018, the new operator dismissed its original lawsuit against the former operator and the Port. These dismissals have brought the two related litigation matters to closure.

Grants

Certain grants that the Port receives are subject to audit and financial acceptance by the granting agency based upon their review of costs incurred. The Port's management does not believe that such audits will have a material impact on the financial statements.

Redevelopment Agency's South Beach Harbor Project Obligations

A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the Agency held leasehold interests to certain Port properties (Note 13). Prior to additional 2012 dissolution-related legislation, it was planned for the Port to immediately resume management and control of its property, including the South Beach Harbor and other leasehold improvements completed by the Agency. In 2015, the Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, completed discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and certain associated obligations. The transfer is in executory status, pending the completion of all closing conditions.

17. Contingencies (Continued)

Under BCDC Permit Amendment No. 17 for the South Beach Harbor Project, certain public access and other improvements were to be completed by December 31, 2017. Construction estimates prepared by a Port consultant in 2014 indicate that the required uncompleted work would cost approximately $7.9 million. The Port has worked with the water recreation community to develop an alternative public access improvement proposal for BCDC consideration. Port management believes that the alternate proposal will provide significant public access improvements that are relevant to the project area and at lower cost. The Port is seeking an extension of time from BCDC to complete the amended project work.

Environmental

The Port is required to comply with a number of federal, State and local laws, regulations, and permits designed to protect human health, safety and the environment. In conforming to these laws, the implementing regulations and permits, the Port has instituted a number of compliance programs and procedures. It is the Port's intent that its environmental compliance programs conform to regulatory and legal requirements while effectively managing its financial resources.

The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. As the Port undertakes future development planning, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and, if necessary, accrues a liability. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil, fill material or bay sediment may encounter hazardous materials and/or generate hazardous waste.

The Port has identified certain environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination. The Port may be required to perform certain clean-up work if it intends to develop or lease the property, or at such time as required by the City or State. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for all such risk cannot be reasonably made at this time.

Yosemite Slough – In 2012, the United States Environmental Protection Agency (USEPA) identified the Port as a property owner for much of a site known as Yosemite Slough. Yosemite Slough is within a noncontiguous parcel, located south of Hunter’s Point, covered by the Burton Act (Note 1). USEPA has determined that the Slough mud is contaminated due to past waste disposal in and around the Slough, past discharges from three City-owned combined sewer

17. Contingencies (Continued)

system outfalls, and surface discharges into the Slough. The principal contaminants of concern in the Slough sediments are poly-chlorinated biphenyls (PCBs), and lead. The SFPUC was previously identified by USEPA as one of approximately seventy potentially responsible parties (PRPs) and, together with other PRPs, since 2008 has been working with USEPA to cooperatively address the necessary cleanup. While this cleanup project is considered noncritical, USEPA is using federal Superfund Law (the Comprehensive Environmental Response, Compensation and Liability Act) to guide the cleanup of the contaminated sediment. The USEPA Action Memorandum, issued in March 2014, indicates that this project is not presently listed on or proposed for the National Priority List. Because the Superfund law imposes joint and several liability for cleanup costs, a mediation process is underway to apportion liability for those costs among the PRPs. SFPUC continues to be the lead agency representing the City on the site cleanup.

Pier 70 – This 69-acre site has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Between 2007 and 2010 the Port conducted a comprehensive community-based planning process for redevelopment of Pier 70. This effort culminated in the Preferred Master Plan for Pier 70 (Master Plan issued April 27, 2010) to rehabilitate and reuse many of the historic buildings, enable new development, create parks, open space and other public amenities, complete environmental remediation where required, and preserve existing ship repair facilities.

Between 2009 and 2013, with financial assistance (grant) from the U.S. Department of Commerce, Economic Development Administration, the Port completed a comprehensive investigation of soil and groundwater conditions throughout the site, a risk assessment and feasibility study to evaluate remediation needs and alternative methods, and developed a Remedial Action Plan (RAP), for implementing the recommended alternative. The RAP consists of capping site soils and establishing institutional controls to reduce or eliminate human health risks related to contamination to be managed on-site. The Port subsequently developed a Risk Management Plan (RMP), which establishes institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impact to the environment. The RMP specifies how future development, operation, and maintenance of the area will implement the remedy, by covering existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. The Reginal Water Quality Control Board approved the RMP in January 2014.

Previous investigation of the northeast shoreline of Pier 70, in an area slated for development as the future Crane Cove Park, found that near-shore sediments contain PCBs and polycyclic aromatic hydrocarbons (PAH) at concentrations that pose a potential risk to aquatic life and human health under certain exposure scenarios, and require removal or capping of sediment before development of the area for public access and recreation. Environmental consultants to the Port prepared a preliminary cost estimate, for installation of a chemical isolation cap consisting of an activated carbon based treatment media and gravel/rock layer over the impacted area.

17. Contingencies (Continued)

Pier 70 (continued) – The accrued cost for pollution remediation at Pier 70 is approximately $3.0 million at June 30, 2018 and $11.2 million at June 30, 2017. Total accrued costs have been updated annually based on additional information and transaction events that impact the pollution remediation outlays that are expected to be incurred by the Port. In 2018, the Port entered into a disposition and development agreement with a developer for the 28-acre Waterfront Site. The developer assumes substantial responsibility for capping contaminated soil in the project area in accordance with the RMP. The remaining accrued cost for pollution remediation at June 30, 2018 represents the estimated contract value for a soil cap between Crane Cove Park and the shipyard and a sediment cap underwater northwest of the shipyard. The accrued costs, based on previous investigation, assumes that the contaminated sediment cap would be constructed as a stand-alone project. The net local share of the grant funded work, $39,000 as of June 30, 2018 and 2017, respectively, is accrued as a current net obligation of the Port. Federal grant reimbursements are recorded as the qualifying grant-funded expenditures are incurred by the Port.

Hazardous building materials, such as lead-based paint, asbestos, and mercury and/or PCBs in certain electrical equipment, will have to be abated during the course of rehabilitation of any historic building. In connection with the Pier 70 20th Street Historic Buildings project, necessary abatement work at various historic buildings has been funded and executed by the Port's development partner/tenant or its subtenant. Consistent with provisions in its development agreement, the Port arranged for the developer to remove PCB-containing transformers and related equipment from one of the project buildings and, as part of a larger electrical system improvement project, from the adjacent shipyard.

Other – In 2018, a completed roof repair and replacement project at Piers 23 and 19 ½ included costs totaling $700,000 for hazardous material abatement together with roof removal work and site preparation work at Pier 70 for a future park included costs totaling $300,000 for building demolition and hazardous material abatement. In 2017, a completed project for roof and related structural improvements at Pier 31 included costs for hazardous material abatement of $423,000 and for lead paint containment of $128,000, both pursuant to a site-specific hazardous material abatement work plan.

17. Contingencies (Continued)

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2018 and 2017, is as follows (in thousands):

	Environmental Remediation	Miscellaneous Compliance	Total
Environmental liabilities at July 1, 2016	$ 10,969	$ 60	$ 11,029
Current year claims and changes in estimates	242	255	497
Vendor payments	-	(84)	(84)
Environmental liabilities at June 30, 2017	$ 11,211	$ 231	$ 11,442
Environmental liabilities at July 1, 2017	$ 11,211	$ 231	$ 11,442
Current year claims and changes in estimates	(8,211)	-	(8,211)
Vendor payments	-	(187)	(187)
Environmental liabilities at June 30, 2018	$ 3,000	$ 44	$ 3,044

18. Risk Management

Insurance – General and Workers' Compensation

The Port is subject to various risk of loss including general liability, property and casualty, and workers' compensation. The Port carries commercial insurance for all risks of loss with the following exceptions: (i) workers' compensation; (ii) property damage to most Port owned vehicles; (iii) employee health and accident; (iv) professional liability; and (v) losses due to seismic events.

More specifically, the Port carries the following insurance (listed coverage limits and related deductible amounts are effective July 1, 2018): (i) marine general liability coverage of $100.0 million, subject to a deductible of $100,000 per occurrence; (ii) hull and machinery liability coverage of $1.1 million, subject to a deductible of $100,000 per occurrence; (iii) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1.0 billion and a deductible of $750,000 per occurrence ($150,000 per occurrence for the Port's cargo cranes); and (iv) public officials and employee liability coverage of $5.0 million, subject to a deductible of $50,000 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution, and data processing equipment. In addition to the above, the Port requires its tenants, licensees, and contractors on all contracts to carry commercial general liability insurance in various amounts naming the Port Commission and the City as additional insured parties. Tenants whose operations pose a significant environmental risk are also required to post an environmental oversight deposit and an environmental performance deposit.

Losses from workers' compensation claims of Port employees, the deductible portion of insured losses, and losses from other uninsured risks must be funded by current revenues or reserves. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not reported claims, is provided by the City. The workers' compensation liability as of June 30, 2018 and 2017 has been evaluated by an independent actuary.

18. Risk Management (continued)

Insurance (continued)

With respect to the general liability accrual, the Port has various unsettled lawsuits filed or claims asserted against it as of June 30, 2018 and 2017. The Port's General Counsel and management have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Port and to arrive at an estimate of the amount or range of potential loss to the Port. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The estimate for claims liability depends on complex factors, such as inflation, changes in legal doctrines, newly discovered information and historical damage awards. Claims are reevaluated periodically to consider such factors and recent claims settlement trends (including frequency and amount of pay-outs). The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The general liability reserve is included in estimated claims payables.

Changes in the reported liability reserves for June 30, 2018 and 2017 resulted from the following activity (in thousands):

	General Liability		Workers' Compensation	
	2018	2017	2018	2017
Beginning of year	$ 1,125	$ 975	$ 2,906	$ 2,727
Current year claims & changes in estimate	(663)	154	638	612
Settlements	(12)	(4)	(544)	(433)
End of year	$ 450	$ 1,125	$ 3,000	$ 2,906

19. Subsequent Events

In October 2018, the Port received participation income of $10.3 million from the sale and transfer of the Ferry Building lease. A historic rehabilitation of the Ferry Building was completed through a public-private partnership in 2003. The developer entered into a 66-year ground lease, expiring in 2067, with the Port.

On November 6, 2018, City voters approved Proposition A, a ballot measure to authorize a City bonded debt of $425 million for the San Francisco Seawall Earthquake Safety and Disaster Prevention Program. These general obligation bonds will fund certain urgent life safety improvements to the northern seawall on Port property. The over three miles of seawall underpins the Embarcadero Historic District and provides flood protection to over 500 acres of the City and regional transportation systems.

The Pier 70 Mixed-Use District Project is a mixed-use development on the Port's central and southern waterfront areas. In October 2017, the Board of Supervisors approved the formation of the Pier 70 Special Use District (CFD) and a disposition and development agreement (DDA) with the Pier 70 developer. Under the terms of the DDA, the Port agreed to sell Parcel K North, a Port-owned parcel free from the public trust restrictions, to a third-party buyer. On February 13, 2019, the Port sold the parcel with a book value of $0.2 million for approximately $24.0 million. In accordance with the DDA, the Port advanced the proceeds of the sale to the Pier 70 developer for public infrastructure improvements, in exchange for a promissory note. Interest will accrue on the unpaid principal amount at an annual rate of 3.89%, compounded quarterly.

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