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, 2023 and 2022

Certified
Public
Accountants

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
For the Year Ended June 30, 2023 and 2022

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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 Audit of the Financial Statements

Opinion

We have audited the 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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of the Port are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023 and 2022, 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.

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

Responsibilities of Management for the Financial Statements

The Port's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Port's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The supplemental combining financial schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental combining financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023 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 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

Walnut Creek, California
December 11, 2023

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Introduction

This discussion is a narrative overview and analysis of the financial activities of the Port of San Francisco (Port). The narrative serves as an introduction to the audited financial statements, which can be found on pages 23 to 28 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 results are included in the City's basic financial statements. Only Port accounts 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 on pages 29 to 34.

Financial Statement Overview

The statements of net position present information on all 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 funding.

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 29 to 77 of this report. The supplemental schedule of this report provides additional information about South Beach Harbor (SBH).

Certain reclassification has been made to prior year amounts to conform to current year presentation. The following is a presentation of condensed financial information derived from the financial statements.

Certain restatement has been made to prior year amounts to conform to the new accounting principle.

Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30, 2023	June 30, 2022	June 30, 2021 (As Restated)	2023-2022 Change	2022-2021 Change
Current and other assets	$ 940,458	$ 818,281	$ 810,506	$ 122,177	$ 7,775
Capital assets, net	492,974	508,572	516,033	(15,598)	(7,461)
Total assets	1,433,432	1,326,853	1,326,539	106,579	314
Deferred outflows of resources	20,837	17,002	19,218	3,835	(2,216)
Current liabilities	36,944	35,069	33,122	1,875	1,947
Noncurrent liabilities	327,776	227,055	278,966	100,721	(51,911)
Total liabilities	364,720	262,124	312,088	102,596	(49,964)
Deferred inflows of resources	523,895	595,684	583,982	(71,789)	11,702
Net position:					
Net investment in capital assets	313,084	321,130	326,045	(8,046)	(4,915)
Restricted	47,811	21,269	31,063	26,542	(9,794)
Unrestricted	204,759	143,648	92,579	61,111	51,069
Total net position	$ 565,654	$ 486,047	$ 449,687	$ 79,607	$ 36,360

Changes in Net Position (in thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021 (As Restated)	2023-2022 Change	2022-2021 Change
Revenues:					
Operating revenues	$ 128,667	$ 120,951	$ 90,937	$ 7,716	$ 30,014
Nonoperating revenues	39,420	21,297	29,604	18,123	(8,307)
Capital contributions	39,369	4,252	2,259	35,117	1,993
Total revenues	207,456	146,500	122,800	60,956	23,700
Expenses:					
Operating expenses	123,184	105,250	138,870	17,934	(33,620)
Nonoperating expenses	4,665	4,890	5,535	(225)	(645)
Total expenses	127,849	110,140	144,405	17,709	(34,265)
Change in net position	79,607	36,360	(21,605)	43,247	57,965
Net position, beginning of year	486,047	449,687	471,292	36,360	(21,605)
Net position, end of the year	$ 565,654	$ 486,047	$ 449,687	$ 79,607	$ 36,360

Financial Analysis

Fiscal Year 2022-23 was characterized by progress in the areas of economic recovery, resilience, and equity.

- The Port experienced economic recovery, as nearly all major revenue categories increased during the fiscal year. In total, Operating revenues continued to recover at $128,667,000 in the fiscal year 2022-23 compared to $120,951,000 in the prior year and $122,033,000 in 2018-19, which was the most recent pre-pandemic year.

- The Port continued to focus on resiliency, spending approximately $14,665,000 on the Waterfront Resilience Program, an increase from the prior year amount of $9,816,000, involving planning, community outreach, and needs assessments. When the severe storms and atmospheric river battered much of the Bay Area, including the San Francisco Waterfront, in early 2023, the Port deployed sandbags, cleared drains and trees, and recovered loose barges at the 3rd Street bridge.

- Also, the Port continued to promote and advance racial equity during the fiscal year by sponsoring "Pop-Ups on the Plaza," a quarterly event series that featured local Black-owned businesses participating in Foodwise's Building Equity Program. The event series took place at the Embarcadero Ferry Terminal Plaza and was free to the public. Also, during the fiscal year, the Port sponsored the Harvest Festival, the Black Women Makers, and the 3rd Annual Juneteenth on the waterfront.

Total net position on June 30, 2023, of $565,654,000 was $79,607,000 higher than the net position on June 30, 2022. Comparatively, in 2022, net position increased by $36,360,000 and in 2021, net position decreased by $21,605,000. The net investment in capital assets represents the largest portion of the Port's net position: 55% on June 30, 2023, 66% on June 30, 2022, and 73% on June 30, 2021. This net position component consists of capital assets net of accumulated depreciation/amortization, and it is reduced by the outstanding balances of debt attributable to the acquisition, construction, and improvement of those assets. The total net investment in capital assets was $313,084,000 on June 30, 2023, representing funds that are not 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). The remaining portion of net position on June 30, 2023 consists of $47,811,000 restricted for specific capital project expenditures and $204,759,000 that is unrestricted and available to meet future capital requirements and ongoing obligations. Capitalized project expenditures have decreased in recent years. There was a net decrease in capital assets in 2023 of $15,598,000 and a net decrease of $7,461,000 in 2022. The funding for the acquisition and construction of capital assets such as 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. Other noncurrent assets decreased by $36,980,000 in 2023, mainly from a decrease of $20,800,000 in long-term net pension asset due to a change in prior-year investment gains and a decrease of $15,775,000 in long-term lease receivables. Other noncurrent assets decreased by $9,579,000 in 2022 from a decrease of $30,346,000 in long-term lease receivables offset by an increase of $20,800,000 in long-term net pension asset due to investment gains.

In 2023, a few events affected the increase in net position and largely explained the $79,607,000 change in the net position. First, the Port received a $38,733,000 capital contribution from the City's second issuance of the Embarcadero Seawall Earthquake Safety Bond (Seawall Bond) to support early projects, adaptation strategies, and San Francisco Waterfront Coastal Flood Study general investigation. In November 2018, the City voters passed approved Proposition A, approving a $425 million General Obligation Bond known as the 2018 Embarcadero Seawall Earthquake Safety Bond. Secondly, the Port received $117,086,000 in COVID-19 relief funds from the State of California in full and recognized $19,265,000 in revenues to cover current fiscal year operating and capital expenditures. Third, interest and investment income were $6,937,000 higher than last year due to increases in interest rates and higher cash and investment balance held in the City Treasury. In addition, Cruise revenues increased by $5,134,000 from the partial recovery of tourism and the return of cruise ships which were previously halted due to the COVID-19 pandemic outbreak.

The net increase in current assets of $159,157,000 in 2023 is due principally to an increase of $145,219,000 in unrestricted cash and investment held in the City Treasury principally from full receipts of the COVID-19 recovery funds from the State mentioned earlier and $26,873,000 increase in restricted cash and investment held in the City Treasury due to a capital contribution from the City's sale of general obligation bonds to support early Seawall projects, Seawall adaptation strategies, and San Francisco Waterfront Coastal Flood Study general investigation. These increases were offset by a decrease of $13,189,000 in net receivables primarily due to a $13,811,000 decrease in grant receivables as a result of receipts of the COVID-19 recovery funds from the State. Comparatively, in 2022, current asset increased by $17,354,000. This was due principally to an increase of $14,044,000 in receivables related to COVID-19 recovery funds from the State mentioned earlier and a $10,770,000 increase in unrestricted cash and investment held in the City Treasury due to recovery in cash collection from tenants. The increases were offset by a decrease in restricted cash and investment held in the City Treasury of $9,787,000 as a result of Waterfront Resilience Program project spending and a decrease in current lease receivables of $2,149,000.

The $1,875,000 increase in current liabilities as of June 30, 2023 is attributable to an increase of $1,075,000 in accounts payable and accrued expenses related to capital projects and operating activities, an increase of $668,000 in customer lease deposits, and an increase of $618,000 from customer prepayments. These increases were offset by decreases from scheduled debt payments and current pollution remediation obligations. The $1,947,000 increase in current liabilities as of June 30, 2022 is attributable to facility improvement credits, an increase in accounts payable and accrued expenses from higher obligations for various operating and capital activities.

The $100,721,000 increase in noncurrent liabilities in 2023 included a $84,784,000 increase in unearned grant as a result of deferral of COVID-19 recovery funds from the State received to be applied against future operating and capital expenditures, a $21,192,000 increase in pension liabilities due to changes in the prior year investment gains, and a $1,805,000 increase in long-term pollution remediation liabilities. These increases were offset by a decrease of $3,230,000 in long-term obligations due to scheduled debt payments, a decrease of $1,697,000 in rent credit due to tenant as a result of amortization, and a decrease of $1,555,000 in lease liabilities. In 2022, the $51,911,000 decrease in noncurrent liabilities included a $46,503,000 decrease in net pension liabilities primarily due to investment gains in the measurement year, a $3,839,000 decrease in long-term obligation from debt repayments, a $1,520,000 decrease in long term lease liabilities due to lease payments made, and a $890,000 decrease in long-term pollution remediation liability due to change in estimates.

Operating revenues in 2023 and 2022 supported current year operation and maintenance expenses before depreciation and amortization. Nonoperating revenues include interest and investment income, operating grants, one-time settlements, and credit auction proceeds gained from the Port's participation in Hetch Hetchy Power low carbon fuel standard partnership program.

Capital contribution revenues fluctuate with the level of capital grant revenues realized from grant-funded construction activities. Historically, capital contribution revenues have also included the City's direct contributions for certain projects and general obligation bond proceeds allocated to fund the Port's open space and park improvement projects. Nonoperating expenses are costs outside of normal operations and are reported in the nonoperating revenues and expenses section. Examples include interest expense, any costs for pier removal, demolition work, asset disposition costs, any associated losses from those capital and operational events including early termination leases, insurance settlements, bond issuance costs, and arbitrage expenses.

In 2022, nonoperating expenses also included loans to eligible Port's Micro-Local Business Enterprises contractors, subcontractors, subconsultants or tenants harmed by the COVID-19 pandemic and administrative fees associated with the program. Information concerning significant variances and nonrecurring items are included in the more detailed discussion that follows.

The statements of revenues, expenses, and changes in net position on page 26 present the Port's operating revenues in more detail by industry revenue types. Operating revenues for the year ended June 30, 2023, increased by $7,716,000 or 6.4%. The increase is principally from increased commercial and industrial, and cruise revenues. Cruise revenues increased by $5,134,000 due to increasing cruise activities and the expected record number of cruise calls in 2023. Commercial and industrial rent increased by $1,853,000 attributable to increases in percentage rent revenues due to post COVID-19 restaurant sales recovery. Parking revenues increased by $630,000 principally from a one-time revenue catch-up, including retroactive license fees and retroactive parking stall rental fees. These increases were offset by a decrease of $2,028,000 in other revenues principally due to a reduction in development project cost recoveries. In 2022, operating revenues increased by $30,014,000 or 33.0%. The increase is principally due to the economic recovery resulting in increased commercial and industrial, parking, and cruise. Parking revenues increased by $10,503,000 from parking rents, parking meter collections, and parking fines due to increased activity along the waterfront. In addition, rents from a parking lot added at Crane Cove Park also contributed to the parking revenue increase. Commercial and industrial rent increased by $8,818,000 attributable to income sharing related to the master lease at Historic Pier 70 beginning in 2022 and an increase in percentage rent revenues due to restaurant sales recovery. Cruise revenues increased by $4,950,000 due to the return of cruise activities and the expected record number of cruise calls in 2022. The remaining increase is explained by an increase of $4,224,000 in other revenues principally due to a temporary reduction in permit fees and expense recoveries from Port development projects in the prior year, and an increase of $2,103,000 due to leases renewed in fiscal year 2022 from the South Beach Harbor operation.

Cruise revenues increased significantly by $5,134,000 in 2023 from an increase volume of cruise calls. There were 110 cruise calls in 2023 compared to 71 cruise calls in 2022. Also, passenger counts were 391,000 in 2023 compared to 157,000 in 2022. In 2022, the safe return of cruise operations, which were shut down during the COVID-19 pandemic, drove revenue increases to $5,248,000. There were 71 passenger cruise calls in 2022 compared to none in 2021 and 57 passenger cruise calls in 2020. Cruise passenger counts were 157,000 in 2022, none in 2021, and 186,000 in 2020. The Port received participation income for special events and other activities occurring at the cruise terminal.

Commercial and industrial revenues increased by $1,853,000 due principally to increases in percentage rent revenues due to restaurant sales recovery. Comparatively, in 2022, commercial and industrial revenues increased significantly by $8,818,000 due principally to the return of many restaurant customers and an increase from an income sharing arrangement. These increases were offset by a $3,069,000 decrease in lease revenues.

Parking revenues increased by $630,000 in 2023 principally due to a one-time revenue catch-up from retroactive license fees and retroactive parking stall rentals. Parking 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. In the prior year, parking revenue increased significantly by $10,503,000 from $10,138,000 to $20,641,000 due principally to the return of tourism and increased other activity on the waterfront since the COVID-19 pandemic. In addition, rents from a parking lot added at the Crane Cove Park also contributed to parking revenue increases in 2022.

Other operating revenues include construction and event permit fees, additional one-time transaction fees, and expense recoveries realized or realizable from significant development projects. These revenues fluctuate from year to year since they are primarily derived from construction activities on Port property and are subject to the timing of specific project transactions. In 2023, other operating revenues decreased by $2,028,000 principally due to a reduction in expense recoveries related to development projects. In 2022, other operating revenues increased by $4,224,000 principally due to declines in permit fee revenues and development project expense recoveries in fiscal year 2021.

Other fluctuations in operating revenues included harbor revenue, cargo revenues, other maritime revenue, and fishing revenues. Harbor services revenue increased by $965,000 primarily due to a prior year revenue reduction from uncollectible accounts. Cargo revenue increased by $588,000 principally from activities of existing cargo facilities tenants and an increase in demurrage revenues from increased auto cargo volume. In 2023, the Port's cargo terminal operator at Pier 80, handled 29,000 autos, a 49% increase from the previous fiscal year. This increase can be attributed to an improvement from the previous year's supply chain disruptions and semiconductor shortages, in addition to new auto import businesses due to overflow at other west coast ports. Other maritime revenues increased by $422,000 primarily from increases in excursion revenues, and more activities related to dockage for vessel repair and cruise events. Fishing revenue increased by $152,000. Fishing revenue fluctuates due to various factors including the number of permanent berth holders, general rate increases and estimates of uncollectible accounts. Comparatively, in 2022, harbor services revenue increased by $2,103,000 due to leases renewed in fiscal year 2022 from South Beach Harbor operations. Fishing revenue increased by $921,000 due to the prior year's revenue decrease as a result of rent relief granted to qualified tenants. Cargo revenue decreased by $1,711,000 related to a decline in auto cargo volume due to unforeseen global challenges in the production of automobiles.

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 in progress at the Port. Overall, capital grants and contributions increased by $35,117,000. The increase is from a capital contribution from the City's second issuance of the Seawall Bond to support early projects, adaptation strategies, and the San Francisco Waterfront Coastal Flood Study general investigation. In 2022, capital grants and contributions increased by $1,993,000 due principally to a capital contribution of land at India Basin received from a developer.

Total operating expenses of $123,184,000 (condensed summary on page 6) for 2023 represent a $17,934,000 increase from 2022. Comparatively, 2022 operating expenses were $33,620,000 lower than total operating expenses in 2021. The statements of revenues, expenses, and changes in net position on page 26 present the Port's operating and nonoperating expenses in greater detail. Information concerning significant variances and nonrecurring items are presented in the more detailed discussion that follows.

Operating expense changes in 2023 and 2022 are highlighted as follows:

	Increase / (Decrease)	
	2023	**2022**
Personal services	$ 6,449,000	$ (20,496,000)
Contractual services	3,547,000	(5,440,000)
Utilities	1,199,000	1,493,000
Materials and supplies	(71,000)	243,000
Depreciation and amortization	1,988,000	(2,618,000)
General and administrative	(862,000)	(967,000)
Services provided by other City departments	2,455,000	3,141,000
Pollution remediation	1,889,000	(8,035,000)
Other	1,340,000	(941,000)

Personal services increased by $6,449,000 primarily from prior year pension expenses decrease due to investment gains in fiscal year 2022. Pension and OPEB expenses and their related liabilities can fluctuate significantly as they include regularly updated actuarial assumptions, estimates about future investment returns, and future projections regarding benefit payments. More detailed information concerning pension and OPEB are in Note 8 beginning on page 49 and Note 10 beginning on page 58, respectively. Other cost fluctuations can be attributed to various factors, including headcount change, salaries and fringe benefits change pursuant to collective bargaining agreements, retirement, temporary salaries, and the amount of labor capitalized as capital assets. In 2022, personal services decreased by $20,496,000 primarily due to a $20,153,000 decrease in pension expenses from investment gains in fiscal year 2022. Other decreases were attributable to more retirement and separation payouts in prior years, which resulted in a current year decrease in miscellaneous time off, and an overall decrease in employer paid retirement benefits in 2022. More detailed information concerning pension and OPEB are in Note 8 beginning on page 49 and Note 10 beginning on page 58, respectively. Year-to-year cost fluctuations can be attributed to various factors, including headcount change, retirement, temporary salaries, and amount of labor capitalized as capital assets.

Contractual services increased by $3,547,000 or 20%, primarily due to an increase in spending from the Waterfront Resilience Program and Mission Rock development project. The level of contractual services recorded as operating expense fluctuates with the volume of project-related activities and those projects' work phases. Preliminary conceptual design work, feasibility analyses, environmental investigations, hazardous material removal, and demolition costs are generally expensed when incurred. The Real Estate and Development Division continues to drive several major development projects in various stages of negotiation, entitlement, early implementation, and horizontal construction. The Waterfront Resilience Program continues to undergo significant planning and preliminary design activities.

Utility costs increased by $1,199,000 or 30.66% in 2023. Utility cost variances are derived from rate and utilization changes. In 2022, utility costs increased by $1,493,000 or 61.8% from higher electricity usage, attributable to employees returning to work onsite. Materials and supplies fluctuate with the type and volume of maintenance and repair work that the Port performs during the fiscal year. Depreciation and amortization expense in 2023 increased by $1,988,000 or 8.54% from depreciation expense related to new assets placed in service. Comparatively, depreciation and amortization expense in 2022 decreased by $2,618,000 or 10% due to a decline in large capital additions and related depreciation expense. General and administrative expenses decreased by $862,000 primarily due to a decrease in overhead costs allocated by other City departments. Comparatively, in 2022, general and administrative expenses decreased by $967,000 primarily due to a decrease in overhead costs allocated by other City departments and a decrease in office space rent expense. In 2023, materials and supplies decreased by $71,000 or 5.63%. Expenses related to materials and supplies including lumber, minor data processing equipment, electrical supplies, perishable for events, cleaning supplies, and others fluctuate from inventory purchase, capitalization, and usage. Comparatively, in 2022, materials and supplies increased by $243,000 or 24% due to an increase in the purchase of lumber, building maintenance supplies and data processing equipment.

Total service reimbursements to other City departments were $27,830,000, a net increase of $2,455,000 from 2022 or an 9.67% increase, primarily from an increase in insurance expenses and increased event and project-related activities procured from the Fire Commission. Other increases included increased workers' compensation payouts in the current fiscal year.

Pollution Remediation expenses increased by $1,889,000 in 2023. The increase was derived from current evaluations of and re-estimate of accrued expenses primarily from Mission Bay Ferry Landing and Pier 64 Marine Debris clean-up projects. The Port continues to review, evaluate, and re-estimate its obligations to remediate pollution annually. Details of the obligations are covered in the environmental matter section of the Contingencies footnote (Note 14). Other expenses increased by $1,340,000 principally from an increase in software license fees and support services, an increase in judgment and claims due to current year case settlements, and an increase in permit fees and disposal fees related to project activities. Comparatively, in 2022, other expenses decreased by $941,000, principally from a change in judgment and claims estimates. The net change of judgment and claims in fiscal year 2022 was a $602,000 decrease, including a prior year expense increase of $332,000, and a current year decrease of $270,000. The remaining decrease in other expenses is primarily due to a decline of $321,000 in software licensing expenses in 2022.

Nonoperating revenues and expenses, other than interest 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. Other operating grants fluctuate year over year and consist of financial assistance received from various agencies for noncapital purposes such as access improvements, maritime or environmental activities, and emergency related cost recoveries. Nonoperating revenues increased by $18,123,000 in 2023. The increase was primarily due to a $7,747,000 increase in operating grants and transfers, which included revenues from the State of California to mitigate the negative economic impacts of the COVID-19 pandemic. Other increases included an increase of $6,937,000 in interest and investment income from cash held in the City Treasury due to higher interest rate and cash balance, and an increase of $3,238,000 in revenues from various settlements. Comparatively, in 2022, nonoperating revenues decreased primarily due to a $16,442,000 decrease in insurance settlement proceeds realized in the prior year related to the Pier 45 fire and a decrease of $5,008,000 in interest and investment income, principally from unrealized losses reported on the investments. Nonoperating expenses decreased by $225,000 principally from a number of loans made through the Micro-LBE Emergency Loan Program in the prior year and no loan was made in the current year. Other decreases were from lower interest expenses due to changes in debt principal balances and changes in lease liabilities. These decreases in non-operating expenses were offset by an increase in loss from leases due to early termination. In 2022, nonoperating expenses decreased by $645,000 attributable to a decline in the number of loans made through the Micro-LBE Emergency Loan Program, and lower administrative fees associated with the loan program in 2022. Other decreases were from interest expense due to lower bond, loan, and lease principal balances.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets as of June 30, 2023 and 2022, respectively, were $492,974,000 and $508,572,000, 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, furniture, and right-to-use lease assets. More information concerning the Port's capital assets can be found in Note 5 on pages 38-39 and Note 12 on pages 68-70 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 the Waterfront Resilience Program and open space and park projects along the waterfront. As of June 30, 2023, the budget file indicates over $282,092,000 in appropriations for Port capital projects. The Port had firm purchase and contract commitments on June 30, 2023 of approximately $12,377,000 for various capital projects.

Major capital asset related events of fiscal year 2023 included the following:

- ***Pier 70 Shipyard Grading*** **-** The goal of the project is to address contaminated native soil at Pier 70 by covering the exposed native soil with six inches of gravel and removing an underground pipeline contained by polychlorinated biphenyls (PCBs). The project addressed environmental issues as well as prepared the site as future leasable space by removing the pipe and placing carbon-amended backfill to remediate PCBs, regrading existing soil stockpiles onsite, and placing a durable cover over the entire unpaved site to create a level surface with positive drainage. Construction took place in Fall 2022, with substantial completion in March 2023.

- ***Crane Cove Park*** **-** One of the Port's Blue Greenway projects is a 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 is being transformed into a public open space, using multiple construction contracts. In November 2018, the Port awarded a contract to complete the majority of park construction and improvements and the park opened in September 2020. Construction of public restrooms in Crane Cove Park's Building 49 began in June 2021 and was completed in August 2022. See the development activities section below for more information.

- ***Amador Street Pump Station and Roadway Restoration*** **-** This project addresses the aging roadway and pump station located on Amador Street. The current pump station and sewer force main are undersized for major storm events and the roadway has reached the end of its service life. Phase I of the repair project includes the installation of reinforced concrete pipes, the installation of concrete manholes, and the restoration of pavement in front of the Port's leased property along Amador Street and was completed in fiscal year 2022. The next phase of the project includes reconstruction of the entire roadway, landscaping, and replacement of the aged storm, sewer and water lines, and existing pump station located on the street. Construction is expected to be substantially completed in November 2025.

- ***Roundhouse 2 Building Envelope –*** Roundhouse 2 is a 4-story concrete building. The project is to address intrusion issues that Roundhouse 2 has been facing and increase leasable space within the building. The scope of work includes the replacement of the roof, construction of a new roof over the mechanical enclosure on the existing roof level, demolition of the existing solarium structure on the fourth floor and construction of a new solarium structure, and replacement of all the windows on the second through fourth floors. The design phase was completed as of December 2022. Construction is anticipated to be completed in 2025.

Debt Administration

Detailed information concerning the Port's long-term obligations can be found in Note 7 on pages 42-48 of this report. As of June 30, 2023, the Port had long-term debt obligations excluding bond premiums of $69,484,000, including $3,012,000 that is due during the next fiscal year. Total debt outstanding consists of $38,490,000 in revenue bonds, $24,765,000 in certificates of participation, and $6,229,000 in loans payable that is secured by specified revenue sources.

The 2020 revenue bonds were issued with long-term credit ratings of "Aa3", "A" and "A" from Moody's Investor Services, Standard & Poor's Rating Services (S&P), and Fitch Ratings, respectively. 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 March 2023, S&P affirmed its "A" rating and revised its outlook from negative to stable. In April 2023, Fitch affirmed its "A" rating and stable outlook. In May 2023, Moody's affirmed its "Aa3" rating and revised its outlook from negative to stable.

Economic and Other Factors

Economy

Overall, the strength and pace of economic recovery in San Francisco remain uncertain. While demand for office and retail space and sales tax revenues have yet to reach pre-pandemic levels in the City, the economic activity along the 7.5 miles of Port Waterfront has experienced a gradual increase in foot traffic, parking, cruise, and tourism activity. This activity reflects the slight increase in commercial and industrial lease revenues, cruise, parking, and operating revenues compared to the prior year and a return to pre-pandemic levels (2019). In addition, the unemployment rate in San Francisco was slightly up from 2.5% in June 2022 to 3.2% [1] in June 2023. Also, the over-the-year Consumer Price Index for urban consumers (CPI-U) in San Francisco-Oakland-Hayward was down from a rate of 6.9% [2] in June 2022 to 2.9%[2] in June 2023, reflecting a slowdown in inflation.

[1] Federal Reserve Bank of St. Louis – Economic Data
[2] U.S. Bureau of Labor Statistics – Consumer Price Index – Urban, All Items

Other factors

Through various programs and initiatives mentioned below, the Port remains focused on economic recovery, equity, and resiliency.

Waterfront Resilience Program. The Waterfront Resilience Program is a major City and Port effort to improve the Port's 7.5-mile Embarcadero shoreline to provide increased seismic performance, provide near-term flood protection improvements, and plan for long-term resilience and sea-level rise adaptation. In 2018, the Port estimated that the cost of this work for the Embarcadero Seawall zone (approximately 3.5 miles) was up to $5 billion. The Port is now developing updated estimates of these costs for the entire 7.5-

mile Port waterfront. The Port will implement the Waterfront Resilience Program over several decades and will require federal, state, and local permitting and funding to complete the effort. In 2017, the City convened a Seawall Finance Working Group to analyze sources and recommend a funding plan for the program. The funding plan included a $425 million General Obligation Bond, which was overwhelmingly approved by voters in November 2018. Additionally, in February 2019, the Port secured a $5 million appropriation from the State of California. In August 2020, the Port released a multi-hazard seismic and flood risk assessment of Port and City infrastructure along the Embarcadero Seawall which is being used as a guide to inform project planning.

As mentioned earlier, during fiscal year 2023, approximately $14,665,000 was spent related to the Waterfront Resilience Program. The City and the Port continue to seek other sources of revenue to fully fund the Waterfront Resilience Program.

Flood Study. The Port has also partnered with the United States Army Corps of Engineers (USACE) to conduct the San Francisco Waterfront Coastal Flood Study (Flood Study), where the Port and the USACE are examining flood risk along San Francisco's 7.5-mile waterfront for the study period of 2040 through 2140. The Flood Study received waivers, increasing the study duration from three years with a budget of $3 million to seven years and two months with a budget of $16 million. The Flood Study costs are a 50/50 cost share with the USACE, with the Port's matching contribution totaling $8 million. The Flood Study will culminate in a recommendation to Congress regarding additional federal funding to design and construct a system of coastal flood defenses along the Port's jurisdiction to defend the entire 7.5-mile waterfront and inland areas from coastal flooding. The Port expects that the Flood Study will achieve several important milestones in fiscal year 2024 including: (1) public release of a draft Integrated Feasibility Report and Environmental Impact Statement with a Tentatively Selected Plan to reduce coastal and combined flood risk in the Study area and (2) the USACE Agency Decision Milestone which represents the USACE endorsement of a plan that can be recommended to Congress in 2026.

Embarcadero Early projects. In the last four years, the Port has begun to actively address both sea-level rise and damage from earthquakes with the creation of a Waterfront Resilience Program, which includes Proposition A (2018), the $425 million Seawall Earthquake Safety Bond. Proposition A is a down payment for the multi-generational and multi-billion-dollar project to improve the City and the Port assets and infrastructure along the Embarcadero Seawall for greater resilience in the face of earthquakes, floods, sea-level rise, and climate hazards. It will focus on making improvements to protect life safety, support regional disaster response and recovery efforts, and help protect the historic waterfront. In December 2021, the Port identified twenty-three Embarcadero Early Projects to reduce life safety risk, improve disaster response and reduce early flood risk, with a total projected cost of $650 million to $3 billion. The Waterfront Resilience Program team has advanced the first seven Embarcadero Early Projects through the first step of predesign and is now advancing these projects through Alternatives Analysis which will identify a preferred alternative for each project. The Waterfront Resilience Program will use Proposition A and other early program funding to implement the most immediate life safety upgrades to the Embarcadero Seawall at select locations and plan for additional work to ensure a resilient waterfront for 2100 and beyond. The Waterfront Resilience Program team is also advancing one Southern Waterfront Early Project through predesign to improve the seismic performance of Pier 50, home to the Port's Maintenance Division using Port capital funding.

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 June 2023 (2024-2033 Capital Plan), identifies $4.1 billion in capital investments, including $2.2 billion needed 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 2024-2033 Capital Plan identifies an additional $1.9 billion for enhancement projects. The enhancement category includes $589.0 million for the Waterfront Resilience Program, $641.8 million for conditional seismic work, and $670.6 million for other improvements.

The Port's need for capital investments has historically outpaced available funding. The Port applied a multi-pronged approach to this challenge, including dedicating funding to capital, securing new external sources of funding, and targeting available funds to strategic projects. The 2024-2033 Capital Plan identifies $1.8 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, open space, and the Waterfront Resilience Program; 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 $806.5 million in development project funding over the ten-year period supported by a mix of public and private sources.

The Port worked to increase the resources it allocates 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 to capital expenditures. Pursuant to this, the Port designated a minimum of 25% of operating revenue in its operating budget to fund capital expenditures. The Port's budget met or exceeded its capital funding target every year between 2012 and 2020 until COVID-19 affected revenue streams, forcing reductions to the fiscal year 2020-21 and fiscal year 2021-22 capital appropriations below the required target. In fiscal year 2022-23 and 2023-24 budgets, COVID-19 revenue impacts continued to push Port funded capital investments below the required level; however, the award of approximately $117.0 million in stimulus from the State of California pushed capital investment above the requirement.

The plan projects that at the end of the ten-year period, the Port will have invested $1.8 billion to fund both renewals and enhancements, leaving a backlog of $1.7 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 options available to fund 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 and policymaker support. These financing tools may also require the support of regulatory bodies such as the California State Lands Commission and the San Francisco Bay Conservation and Development Commission.

Legislative and Funding Efforts. Since 2005, the Port has pursued state and local legislative changes to increase the options available to fund 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 Waterfront Resilience Program and shoreline improvements to enhance resilience and 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, (2) form Infrastructure Finance Districts (IFDs) and issue IFD bonds against incremental property tax revenues, and (3) form Community Facility Districts to finance the public portion of several public-private development projects. Legislative efforts to support the Waterfront Resilience Program include the approval of Proposition A, the Seawall Earthquake Safety Bond in November 2018, and the award of a $5 million grant from the California Department of Natural Resources in February 2019. The Port is also pursuing state and federal support as well as private funding and partnerships to ensure a safe and inspiring waterfront for generations to come. To date, the Port has secured approvals of shoreline special taxes for the Pier 70 and Mission Rock projects to address sea-level rise and flood risk on Port property. In 2022, the Port was an instrumental part of a coalition that succeeded in advocating for a State of California budget allocation of $143 million over three years (2023-2025) through the California Coastal Conservancy for sea level rise adaptation for ports and urban waterfronts. The Port has applied to the Coastal Conservancy for $7.8 million from this competitive funding. The Port's Waterfront Resilience Program is also pursuing grant funding at the federal level, with a recent notice that the Federal Emergency Management Agency has selected the Port's application for $50 million towards the Downtown Coastal Resilience Project for further review in the national competition for Building Resilience Infrastructure and Communities (BRIC) funding.

In 2005, the California Legislature approved Senate Bill 1085, allowing the City and the Port to create IFDs in the Port area. Among other things, the State authorized the use of an IFD for urban waterfront areas in addition to undeveloped or underdeveloped areas; specifically clarified 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 enumerated 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 processes and proceedings and by the 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 progress. 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 – 28 Acre Site) by Ordinance No. 220-18.

The Port and its development partners seek to take full advantage of special use district financing tools to fund necessary public infrastructure and make development projects feasible. In addition to IFDs, the infrastructure financing plans for certain Port development projects contemplate the formation and implementation of community facility districts (CFDs), which are special tax districts established by local governments in California and commonly referred to as Mello-Roos.

In September 2019, the Board of Supervisors approved an Ordinance amending the City and County's Administrative Code Special Tax Financing Law, constituting Article 43.10, to authorize special tax financing of certain facilities and services related to the Pier 70 and Mission Rock Developments. The Board of Supervisors then approved Resolutions of Formation of the City and County of San Francisco Special Tax Districts 2019-1 (Pier 70 Condominiums) and 2019-2 (Pier 70 Leased Properties) in January 2020. Subsequently, it approved ordinances levying special taxes in the districts in February 2020. The Board of Supervisors approved a Resolution of Formation of the City and County of San Francisco Special Tax District 2020-1 (Mission Rock Facilities and Services) in April 2020 and subsequently approved an ordinance levying special taxes in the district in May 2020. The City, on behalf of the City's Special Tax District No. 2020-1 (Mission Rock Facilities and Services), issued Development Special Tax Bonds, Series 2021A in the amount of $43,300,000 in May 2021. The City issued additional Mission Rock Facilities and Services CFD Bonds in the fall of 2021 in the amount of $64,280,000, comprised of $54,280,000 from taxable Series 2021B and $10,000,000 from tax-exempt Series 2021C.

Stimulus Fund. The Port was awarded $117,086,000 in stimulus from the California State Lands Commission. The Port has fully received the funds as of June 30, 2023. Of this COVID-19 stimulus, $19,265,000 was spent on eligible expenses in fiscal year 2022-23, which include $17,520,000 in operating expenses and $1,745,000 in capital expenses. The remaining unspent stimulus in the amount of $83,777,000 is reserved to cover future operating and capital expenses.

Waterfront Land Use Plan. The Port's Waterfront Land Use Plan (Waterfront Plan) establishes land use, design and other policies to guide management and improvements of properties and resources 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 maritime, recreational and public-private partnership projects along the waterfront. The Port commenced a three-year public process to update the Waterfront Plan in 2015, led by a Waterfront Plan Working Group. This working group produced 161 Port-wide policy recommendations that were incorporated into an updated Waterfront Plan in December 2019. In April 2023, the Port Commission approved the Final Waterfront Plan and the Environmental Impact Report (EIR) for the Plan, required under the California Environmental Quality Act. More information can be found at Waterfront Plan Update.

The Port is working with the San Francisco Bay Conservation and Development Commission (BCDC) and the San Francisco Planning Department on amendments to amend BCDC's San Francisco Waterfront Special Area Plan and the San Francisco General Plan to align with the Waterfront Plan. The work is underway.

The 1997 Waterfront Plan identified several locations where mixed-use developments, including maritime, open space, and public access uses are encouraged. Such projects are generally undertaken as public-private partnerships, wherein the Port enters into a development agreement and a long-term lease with a private developer that is usually selected through a request for proposal process. Active development activities include:

Pier 70 Area

Pier 70 is approximately 69 acres, located on San Francisco's Central Waterfront, generally between 18th and 22nd Streets, east of Illinois Street. In April 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. As discussed in more detail in Note 14, the Port completed an environmental investigation and risk assessment of the project area. The Port Commission endorsed the Pier 70 Master Plan in May 2010. The plan balances historic preservation, new waterfront parks, and new development. It identified over three million square feet of potential new buildings and 700,000 square feet of building rehabilitation.

Historic Core - 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 Pier 70 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. In December 2012, the Board of Supervisors added its endorsement of the term sheet and found the proposed development fiscally feasible under Chapter 29 of the Administrative Code. The Port and the developer executed the lease in July 2015. Construction of core and shell improvements commenced in August 2015, and the first building became available for occupancy in June 2017. In the fall of 2022, the project achieved substantial completion with the opening of Building 101. In July 2023, the Port starts reviewing a certified project cost statement provided by the developer to terminate the Lease Disposition and Development Agreement ("LDDA"). The Port is preparing to issue the formal Certificate of Completion at which time the LDDA will terminate. Upon issuance of the formal Certification of Completion, it is estimated that the project will be deemed complete by the end of December 2023.

Waterfront Site - This project area requires significant infrastructure investment and land use approvals to redeploy a largely vacant portion of Pier 70 for fresh 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 passage of Proposition F in 2014 allowed a 90-foot height limit for the site. The land use program for the 28-acre Waterfront Site, as defined within the proposed Pier 70 Special Use District amendments to the Planning Code, allows the development of approximately 1,100 to 2,150 new residential units, between one million and two million gross square feet of commercial and office space, and small-scale manufacturing, retail, neighborhood services, waterfront parks, and public infrastructure. The master developer secured necessary project entitlements, including certification of the Final Environmental Impact Report, in fall 2017.

Development of the Waterfront Site, which will occur in three phases, is governed by the Disposition and Development Agreement, Development Agreement, and Master Lease with the master developer. Following the close of the master lease, the master developer commenced site preparation in May 2018 for Phase 1 of the project, which includes the development of three acres of parks and backbone infrastructure to support an anticipated 588 residential units, more than 50,000 square feet of maker/PDR/retail space, and up to 460,000 square feet of office. In March of 2019, construction of horizontal infrastructure including installation of utilities, including auxiliary water supply main, low-pressure water main, combined sewer main, integrated sewer storage, and non-potable water main along 20^{th} Street, Maryland Street, Louisiana Street, 21^{st} Street, and 22^{nd} Street, as well as surface improvements began. Phase 1 horizontal improvements, excluding parks which will be constructed on a schedule that coincides with the delivery of adjacent vertical development, are substantially completed, and acceptance by the City and the Port of the completed infrastructure is anticipated by the end of 2023. The master developer also completed the rehabilitation of historic Building 12 and leasing efforts are underway but has not yet exercised its options for any of the Phase 1 development parcels, primarily due to the unprecedented economic impacts and uncertainties caused by the COVID-19 pandemic, and high construction costs.

Crane Cove Park - Crane Cove Park is a significant 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, historical artifacts, and renovations to Building 49, including restrooms. The park opened to the public in September 2020, along with the 19th Street parking lot. Construction at 19th and Georgia Street was completed in July 2021. The final piece of the project is a partial renovation of Building 49, including public restrooms. Construction on that phase was completed in August 2022.

Seawall Lot 337 and Pier 48 ("Mission Rock")

In 2010, the Port entered into an Exclusive Negotiation Agreement (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, in 2012 the developer submitted its revised proposal for a flexible mixed-use development at the site, balancing residential, office, retail, exhibition, and parking use. In 2013, 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. 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 due to 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, including the disposition and development agreement and financing plan for the fully entitled project, were executed in August 2018, and the Port Commission approved the Phase 1 budget in September 2019. Vertical construction is underway on all phase I parcels including parcels A and F (housing), B (life science building), and G (pre-leased office building). Parcel A received its Temporary Certification of Occupancy (TCO) and welcomed its first residents in June 2023. A significant new office lease is anticipated in October 2023. Parcel B received its TCO and is currently available for lease. Tenant improvement is underway for Parcel G with occupancy slated to occur in early 2024. Parcel F is anticipating its TCO in mid-2024. The developer submitted the Phase 2 application in December 2022 and, along with the Port, are monitoring market and financing conditions to assess a feasible 2nd phase. The City, on behalf of the City's Special Tax District No. 2020-1 (Mission Rock Facilities and Services), issued Development Special Tax Bonds, Series 2021A in the amount of $43,300,000 in May 2021. The City issued additional Mission Rock Facilities and Services CFD Bonds in the fall of 2021 in the amount of $64,280,000, comprised of $54,280,000 from taxable Series 2021B and $10,000,000 from tax-exempt Series 2021C. These are not the Port's revenue bonds but debt of the Mission Rock CFD.

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). NPS has partnered with Golden Gate National Parks Conservancy (GGNPC), and GGNPC selected Alcatraz Cruise as its ferry concessionaire. Both parties are working together with the Port to transform the site, which was constructed for relatively short-term use, into a first-class embarkation site with the option to lease for up to 50 years. The long-term designation of the site as the entry to Alcatraz incentivizes a significant investment to create 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 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; (5) installation of shoreside electrical power for hybrid-electric ferry vessels; and (6) 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. The Port Commission approved entitlements and transaction documents 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. Repairs and improvements to the substructure of Pier 31½ and adjacent apron structures were completed in 2019. The Port's tenants at the site are pursuing the improvements, and construction of phase 1 improvements to the Pier 31 bulkhead will begin at the end of 2023. Full build-out of the site is expected to be completed by fiscal year 2025.

Seawall Lot 322-1 Development for Affordable Housing (88 Broadway)

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. After securing approvals from the Port Commission, the Board of Supervisors, and the State, project construction commenced in May 2019. Occupancy commenced in May 2021 at the project. The project includes approximately 124 affordable housing units and one manager unit occupying 137,100 gross square feet and a nonresidential space occupying 8,700 gross square feet. A Final Certificate of Completion and Occupancy (FCCO) was issued for this project in July 2022. MOHCD paid the Port approximately $15,000,000 for the opportunity to use this seawall lot for affordable housing under a lease for the next 75 years. 88 Broadway Family LP, the developer and the tenant under the lease, is paying the Port $20,000 per year in minimum base rent.

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. The project includes a dinner-theater, a maximum 200-room, 40-foot-high boutique hotel, an approximately 14,000 square feet privately financed public park, and ancillary uses. This project was further refined through the entitlement process and its hotel room count is now 192. The Port Commission and the Board of Supervisors both endorsed a non-binding term sheet for the project in 2016. On September 10, 2019, pursuant to Resolution 19-36, the Port Commission approved the proposed lease for this project. On January 14, 2020, the Board of Supervisors adopted Resolution No. 05-20, approving the proposed lease as well. The developer has secured project entitlements and is currently seeking building permits and construction financing. As hotel occupancy has not recovered to the pre-pandemic levels, the developer is seeking appropriate financing. The project timeline now anticipates construction to start by 2024 with completion by 2025 or 2026.

Mission Bay Ferry Landing Terminal

The 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 the capability to berth two ferry boats simultaneously with the capacity to handle up to 6,000 passengers per day. The terminal is essential to alleviate regional transportation overcrowding and provide transportation resiliency in an earthquake, BART or Bay Bridge failure, or other unplanned events. The Port is leading the project in collaboration with Water Emergency Transportation Agency (WETA) alongside support from the Mayor's Office, Office of Economic and Workforce Development, and consulting design teams. The project design and environmental permitting are complete. Dredging and site preparation (Phase 1) was completed in 2020. Due to project funding limitations, litigation, and the financial impact of COVID-19, the Port revised the project timetable. However, as a short-term solution, the Port and WETA constructed an interim ferry landing at Pier 48½ with financial support from Golden Gate Transit. The interim facility opened in fall 2019. The Port is currently working with WETA to establish a schedule for constructing the permanent facility, with completion possible as early as 2026.

Potrero Power Station Project and Development Agreement
In February 2020, the Port Commission authorized a 66-year lease between California Barrel Company (CBC) and the Port on 1.6 acres of waterfront property within the larger Potrero Power Station Development Project. CBC is the project sponsor of the Potrero Power Station project, a 5.4 million square feet development managed by the City's Office of Economic and Workforce Development through a Development Agreement. The project, situated adjacent to the Port on City land, will include over 2,500 housing units, 1.6 million square feet of commercial space, and over 75,000 square feet of community and assembly uses. Through the approved lease and development agreement, CBC will construct approximately seven acres of public parks and open space, including 1.6 acres on Port property. The lease for the Port land is one dollar a year for 66 years.

Park Projects
Since 2008, the Port has received funding from two park bond issues, $34.5 million from the 2012 bond measure and $33.5 million from the 2008 measure. Port projects funded by the 2012 bond issue include the Cruise Terminal Plaza fronting the James R. Herman Cruise Terminal at Pier 27, Agua Vista Park, Crane Cove Park, and improvements to Islais Creek and Heron's Head Park. The 2008 bond issue funded projects include a promenade at Pier 43½ in Fisherman's Wharf, the Brannan Street Wharf Park, Bayfront Park, Crane Cove Park, Islais Creek, Bayview Gateway, improvements to Heron's Head Park, and Heron's Park Shoreline Stabilization. Through June 30, 2023, the Port expended approximately $105.5 million for park projects, including $66.1 million from the park bonds and $39.4 million from other funds. In fiscal year 2023, the Port completed the restoration and stabilization of the southern shoreline of Heron's Head Park. The project reconstructed the beach by placing coarse sand and gravel stabilized by rock and cobble groynes.

Requests for Information

This report is designed to provide a general overview of the Port'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 Annual Comprehensive 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 may 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, 2023 and 2022
(dollar amounts in thousands)

	2023	2022
Assets		
Current assets:		
Unrestricted:		
Cash and investments held in City Treasury (Note 3)	$ 336,948	$ 191,729
Cash held outside of City Treasury (Note 3)	5	5
Receivables, net (Note 4)	24,153	37,342
Current lease receivables (Note 12)	41,963	44,471
Accrued interest receivable	2,323	207
Accrued interest receivable related to leases	3,088	2,491
Materials and supplies	1,875	1,950
Prepaid charges and advances	176	176
Total unrestricted current assets	410,531	278,371
Restricted:		
Cash and investments held in City Treasury (Note 3)	58,686	31,813
Cash and investments held outside of City Treasury (Note 3)	5,402	5,278
Total restricted current assets	64,088	37,091
Total current assets	474,619	315,462
Noncurrent assets:		
Capital assets (Notes 5 and 12):		
Nondepreciable	117,432	119,381
Depreciable, net	312,812	324,038
Intangible lease assets, net (Note 12)	62,730	65,153
Capital assets, net	492,974	508,572
Unrestricted other noncurrent assets (Note 6)	2,249	2,445
Long-term lease receivables (Note 12)	463,121	478,896
Long-term accrued interest receivable related to leases	469	309
Net pension asset (Note 8)	-	20,800
Advance to other City Fund (Note 11)	-	369
Total noncurrent assets	958,813	1,011,391
Total assets	1,433,432	1,326,853
Deferred outflows of resources		
Deferred outflows of resources from refunding of debt	148	157
Deferred outflows of resources related to pension (Note 8)	14,987	12,024
Deferred outflows of resources related to other postemployment benefits (OPEB) (Note 10)	5,702	4,821
Total deferred outflows of resources	20,837	17,002

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, 2023 and 2022
(dollar amounts in thousands)

	2023	2022
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,353	$ 5,278
Accrued interest payable	1,169	1,227
Accrued interest payable leases	135	138
Accrued payroll	2,695	2,173
Accrued vacation and sick leave pay (Note 7)	1,818	1,673
Accrued workers' compensation (Notes 7 and 15)	611	495
Estimated claims payable (Notes 7 and 15)	225	100
Current maturities of long-term obligations (Note 7)	3,012	3,621
Pollution remediation obligations (Notes 7 and 14)	1,350	1,913
Unearned rents and advance payments	3,948	3,330
Rent credits due to tenants	2,564	2,760
Current lease liabilities (Notes 7 and 12)	1,555	1,520
Lessee and other deposits	11,509	10,841
Total current liabilities	36,944	35,069
Noncurrent liabilities:		
Accrued vacation and sick leave pay (Note 7)	1,684	1,733
Accrued workers' compensation (Notes 7 and 15)	2,272	2,052
Estimated claims payable (Notes 7 and 15)	405	400
Long-term obligations - net of current maturities (Note 7)	70,363	73,593
Pollution remediation obligations (Notes 7 and 14)	9,575	7,770
Net pension liability (Note 8)	21,192	-
Net OPEB liability (Note 10)	30,862	31,617
Long-term lease liabilities (Notes 7 and 12)	65,881	67,436
Rent credits due to tenants	40,758	42,454
Unearned grants (Note 4)	84,784	-
Total noncurrent liabilities	327,776	227,055
Total liabilities	364,720	262,124
Deferred inflows of resources		
Deferred inflows of resources related to pensions (Note 8)	4,830	50,968
Deferred inflows of resources related to OPEB (Note 10)	6,573	7,190
Deferred inflows of resources related to leases (Note 12)	512,492	537,526
Total deferred inflows of resources	523,895	595,684
Net position		
Net investment in capital assets	313,084	321,130
Restricted for capital projects	47,811	21,269
Unrestricted	204,759	143,648
Total net position	$ 565,654	$ 486,047

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, 2023 and 2022
(dollar amounts in thousand)

	2023	2022
Operating revenues (Note 12):		
Commercial and industrial	$ 66,315	$ 64,462
Parking	21,271	20,641
Cruise	10,382	5,248
Cargo	7,028	6,440
Fishing	2,559	2,407
Harbor services	7,394	6,429
Other maritime	6,114	5,692
Other	7,604	9,632
Total operating revenues	128,667	120,951
Operating expenses:		
Personal services	36,988	30,539
Contractual services	21,283	17,736
Utilities	5,110	3,911
Materials and supplies	1,189	1,260
Depreciation and amortization (Note 5 and Note 12)	25,272	23,284
General and administrative (Note 12)	2,120	2,982
Services provided by other City departments (Note 11)	27,830	25,375
Pollution remediation (Note 14)	1,242	(647)
Other	2,150	810
Total operating expenses	123,184	105,250
Operating income	5,483	15,701
Nonoperating revenues (expenses):		
Interest and investment income	13,950	7,013
Operating grants and transfers	22,028	14,281
Settlement revenue	3,238	-
Loss from lease terminations	(135)	-
Gain from capital asset disposal	1	3
Interest expense	(4,530)	(4,707)
Other revenues	203	-
Other contributions	-	(183)
Total net nonoperating revenues	34,755	16,407
Change in net position before capital contributions	40,238	32,108
Capital contributions:		
Other contribution	-	3,829
Grants from government agencies and other contributions	39,369	423
Change in net position	79,607	36,360
Net position, beginning of the year	486,047	449,687
Net position, end of the year	$ 565,654	$ 486,047

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 Flow
For the Years Ended June 30, 2023 and 2022
(dollar amounts in thousand)

	2023	2022
Cash flows from operating activities:		
Cash received from tenants for rent	$ 89,808	$ 72,407
Cash received from customers and others	33,817	31,016
Deposits received from tenants and customers	1,142	1,035
Cash paid to employees for services	(47,090)	(44,299)
Cash paid to suppliers for goods and services	(34,954)	(27,809)
Cash paid to the City for services	(26,134)	(24,408)
Customer deposits returned	(387)	(456)
Net cash provided by operating activities	16,202	7,486
Cash flows from noncapital financing activities:		
Contributions and receipts from other City Departments	90	-
Operating grants	116,429	2,107
Loan distributions	-	(183)
Payment for demolition and other costs funded by insurance proceeds	-	(5)
Proceeds from miscellaneous settlements	3,238	-
Proceeds from other revenues	203	-
Net cash provided by noncapital financing activities	119,960	1,919
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(8,637)	(6,031)
Interest payments on lease related capital and financing	(1,638)	(1,667)
Payment of lease liabilities	(1,520)	(727)
Payments of long-term debt	(3,621)	(3,492)
Interest payments on long-term debt	(3,164)	(3,302)
Capital grants and contributions received	4,104	280
Capital contributions received from the City	39,325	-
Capital contributions received from others	-	93
Repayment from loan to developer	130	125
Interest payments on loan to developer	24	24
Proceeds from sale of equipment and materials	1	3
Net cash provided by (used in) capital and related financing activities	25,004	(14,694)
Cash flows from investing activities:		
Interest and investment income	11,053	6,273
Change in cash and cash equivalents	172,219	984
Cash and cash equivalents, beginning of year	228,557	227,573
Cash and cash equivalents, end of year	$ 400,776	$ 228,557

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, 2023 and 2022
(dollar amounts in thousand)

	2023	2022
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 5,483	$ 15,701
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	25,272	23,284
(Decrease)/increase in allowance for doubtful accounts	(114)	2
Net effects of (increase) decrease in:		
Receivables	(508)	(6,122)
Lease receivables	12,417	32,495
Tenant deposits held outside City Treasury	3	5
Materials and supplies	(301)	(75)
Prepaid charges, advances and other assets	41	478
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	1,400	151
Payable to other City funds	-	(25)
Due from other City	369	-
Accrued payroll	522	45
Accrued vacation and sick leave pay	96	(306)
Accrued workers' compensation	336	23
Estimated claims payable	130	(275)
Pollution remediation obligations	1,242	(647)
Net OPEB liability and related deferred outflows/inflows of resources	(2,253)	3,877
Rent credits, unearned rent and other liabilities	(1,547)	(4,679)
Net pension liability/asset and related deferred outflows/inflows of resources	(7,109)	(16,422)
Lease liabilities and deferred inflows of resources related to leases	(19,277)	(40,042)
Net cash provided by operating activities	$ 16,202	$ 7,468
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	$ 1,038	$ 1,363
Capital contributions received	45	3,829
Facility improvement contributed by tenant	941	5,500
Reclassification of inventory materials to construction improvement	376	-
Pier 70 and Mission Rock CFDs promissiory notes and accrued interest	4,086	3,905
Allowance for CFDs promissiory notes and accrued interest	(4,086)	(3,905)
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	$ 336,948	$ 191,729
Restricted	58,686	31,813
Cash and investments held outside City Treasury		
Unrestricted	5	5
Restricted	5,402	5,278
Cash and equivalents	401,041	228,825
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	(265)	(268)
Total cash and cash equivalents	$ 400,776	$ 228,557

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 a department of the City, and the accompanying financial statements are included in the City's basic financial statements. The financial statements of the Port are intended to present the activity of the City that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023 and 2022, 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.

Prior to February 1969, the Port was owned and administered by a state agency, the San Francisco Port Authority. In February 1969, the State of California (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 the 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.

2. Significant Accounting Policies (Continued)

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.

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 with a remaining maturity at the time of purchase of one year or less 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 the Port's 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. The Port, at various times, receives donated materials and supplies and recognizes the donations in the period received, at fair value.

Lease Receivables and Lease Liabilities
The Port, as a lessor, recognizes lease receivables and deferred inflows of resources at the commencement of the lease term. The Port, as a lessee, recognizes lease liabilities at the commencement of the lease term. The lease receivables and liabilities are measured at the present value of the lease payments expected to be received or paid during the lease term. For a detailed discussion on lease receivables, deferred inflows of resources for lease receivables, and lease liabilities, refer to Note 12 Leases.

2. Significant Accounting Policies (Continued)

Capital Assets

Land transferred to the City in February 1969 is stated at an amount which includes an increase over the 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 expenses or assets with net present value 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. Depreciation and amortization expense are 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. Intangible assets related to leases are amortized using the straight-line method over the lease term.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts are amortized using the straight-line method over the life of the bonds. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

Gains or losses from Refunding of Debt

Gains or losses from refunding of debt prior to maturity are reported as deferred outflows and deferred inflows of resources from refunding of debt. The balances are amortized and recorded as a component of interest expense using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Facility Improvement Credits

Facility improvement credits are issued to certain tenants to finance certain facility improvements that are beneficial to the Port. These credits are recognized in accordance with the lease agreements by those tenants and applied against tenant rents over the leasehold period using the straight-line method.

2. Significant Accounting Policies (Continued)

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 and deferred outflows of resources 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.

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, 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 permits and inspection 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.

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 measuring unit (e.g. lineal feet of the 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 the construction of waterfront facilities and improvements. The funds are reported as capital contributions on the statement of revenues, expenses, and changes in net position.

2. Significant Accounting Policies (Continued)

Effects of New Pronouncements

In 2022, the City and the Port adopted GASB Statement No. 87, *Leases* (GASB 87). 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) establishes requirements 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 relates 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. 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. The implementation of GASB 87 resulted in adjustments to the balance sheet as of July 1, 2020.

In 2022, the City and the Port also implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*; GASB Statement No. 92, *Omnibus* 2020; GASB Statement No. 93, *Replacement of Interbank Offered Rate*; and certain provisions of GASB Statement No. 99, *Omnibus 2022*. The adoption of the above-mentioned GASB statements did not have a material impact on the Port's financial statements. The adoption of the above-mentioned GASB statements did not have a material impact on the Port's financial statements.

In 2023, the City and Port also implemented GASB Statement No. 91, *Conduit Debt* Obligations; GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*; and requirements related to leases, public-public and public-private partnerships, and subscription-based information technology arrangements under GASB Statement No. 99, *Omnibus 2022*. The adoption of the above-mentioned GASB statements did not have a material impact on the Port's financial statements.

The City and the Port is currently analyzing their accounting practices to determine the potential impact of certain new accounting standards pronouncements issued by the GASB, including the requirements related of GASB Statement No. 99, *Omnibus 2022* on financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53; GASB Statement No. 100, *Accounting Changes and Error Corrections*; and GASB Statement No. 101, *Compensated Absences*.

2. Significant Accounting Policies (Continued)

Estimates

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

Reclassifications

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

3. Cash and Investments

The Port's cash and investments at June 30, 2023 and 2022 are as follows (in thousands):

	2023	2022
Cash and investments in City Treasury	$ 336,948	$ 191,729
Cash outside of City Treasury - imprest fund	5	5
Restricted assets:		
Cash and investments in City Treasury	58,686	31,813
Cash and investments outside of City Treasury:		
Cash and investments held by fiscal agents	5,137	5,010
Lessee deposits	265	268
Total cash and investments	$ 401,041	$ 228,825

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, 2023 and 2022. 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.

3. Cash and Investments (Continued)

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.

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 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. As of June 30, 2023 and 2022, all of the banks holding funds deposited by the Treasurer secure those deposits with sufficient collateral.

3. Cash and Investments (Continued)

The following table shows the maturity of the City's pooled investments:

	Investment maturities (in months)			
	Under 1	**1-6**	**6-12**	**12-60**
FY 2023	21.5%	18.0%	14.5%	46.0%
FY 2022	20.2%	14.0%	14.9%	50.9%

On June 30, 2023 and 2022, the City's pooled investments have a weighted average maturity of 1.21 years and 1.56 years, respectively.

Cash and Investments Outside of City Treasurer's Pool

Cash and investments outside of the City Treasurer's Pool consist of cash, cash equivalents, and money market mutual funds. The Port categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure the 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. The money market mutual funds are recorded at net asset value and seek to provide daily liquidity while maximizing current income. Commercial paper at the time of purchase is within one year of their maturity dates and are recorded using the amortized cost method.

Investment classified in Level 2 of the fair value hierarchy is valued using 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.

On June 30, 2023 and 2022, cash equivalents and investments held by fiscal agents consisted of the following (in thousands):

	2023	**2022**
Reserve accounts:		
Cash equivalents - U.S. Bank commercial paper	$ 1,237	$ 1,237
Money market mutual fund	2,733	2,646
Project account:		
Money market mutual fund	1,164	1,124
Debt service and other accounts:		
Cash equivalents - U.S. Bank commercial paper	3	3
	$ 5,137	$ 5,010

3. Cash and Investments (Continued)

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

A portion of the investments held by the bond trustee consists of the trustee bank's 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 on June 30, 2023. The trustee bank's commercial paper has a Standard & Poor's rating of A-1+ and a Moody's rating of P-1 on June 30, 2022. The money market mutual fund has a Standard & Poor's rating of AAAm and a Moody's rating of Aaa-mf on June 30, 2023 and 2022.

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 and Unearned Grants

Receivables consisted of the following on June 30, 2023 and 2022 (in thousands):

	2023	2022
Accounts receivable from tenants and customers	$ 39,562	$ 42,778
Grants receivable	450	14,261
Other	5,535	1,810
Subtotal	45,547	58,849
Less allowance for doubtful accounts	(21,394)	(21,507)
Receivables, net	$ 24,153	$ 37,342

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

At June 30, 2023, the Port reported $84,784,000 in unearned grants due primarily to an advance receipt during the year of $117,086,000 in COVID-19 relief funds from the State of California.

5. Capital Assets

A summary of changes in capital assets for years ended June 30, 2023 and 2022 are as follows (in thousands):

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets, not being depreciated/amortized:				
Land	$ 107,810	$ -	$ -	$ 107,810
Construction in progress	11,571	7,866	9,815	9,622
Total capital assets, not being depreciated/ amortized	119,381	7,866	9,815	117,432
Capital assets, being depreciated/amortized:				
Facilities and improvements	689,360	10,757	-	700,117
Machinery and equipment	31,610	866	81	32,395
Intangible assets	2,264	-	-	2,264
Intangible lease assets (Note 12)	69,999	-	-	69,999
Dredging	13,916	-	-	13,916
Infrastructure	33,929	-	-	33,929
Total capital assets, being depreciated/ amortized	841,078	11,623	81	852,620
Less accumulated depreciation/amortization for:				
Facilities and improvements	388,349	19,727	-	408,076
Machinery and equipment	21,780	1,461	81	23,160
Intangible assets	2,264	-	-	2,264
Intangible lease assets (Note 12)	4,846	2,423	-	7,269
Dredging	13,916	-	-	13,916
Infrastructure	20,732	1,661	-	22,393
Total accumulated depreciation/amortization	451,887	25,272	81	477,078
Total capital assets, being depreciated/amortized, net	389,191	(13,649)	-	375,542
Capital assets, net	$ 508,572	$ (5,783)	$ 9,815	$ 492,974

5. Capital Assets (Continued)

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets, not being depreciated/amortized:				
Land	$ 103,981	$ 3,829	$ -	$ 107,810
Construction in progress	11,896	6,309	6,634	11,571
Total capital assets, not being depreciated/ amortized	115,877	10,138	6,634	119,381
Capital assets, being depreciated/amortized:				
Facilities and improvements	680,725	8,635	-	689,360
Machinery and equipment	30,418	1,192	-	31,610
Intangible assets	2,264	-	-	2,264
Intangible lease assets (Note 12)	69,999	-	-	69,999
Dredging	13,916	-	-	13,916
Infrastructure	31,437	2,492	-	33,929
Total capital assets, being depreciated/ amortized	828,759	12,319	-	841,078
Less accumulated depreciation/amortization for:				
Facilities and improvements	369,779	18,570	-	388,349
Machinery and equipment	20,253	1,527	-	21,780
Intangible assets	2,264	-	-	2,264
Intangible lease assets (Note 12)	2,423	2,423	-	4,846
Dredging	13,916	-	-	13,916
Infrastructure	19,968	764	-	20,732
Total accumulated depreciation/amortization	428,603	23,284	-	451,887
Total capital assets, being depreciated/amortized, net	400,156	(10,965)	-	389,191
Capital assets, net	$ 516,033	$ (827)	$ 6,634	$ 508,572

The India Basin mixed-use development project and related Development Agreement authorized certain real estate transfers between the City and County of San Francisco and India Basin Investment, LLC ("Developer"), in which the City agreed to vacate and convey certain streets to the Developer in exchange for the Developer's agreement to convey real property to the City for open space and dedicate future improved right-of-way to the City. On June 23, 2022, the Trust exchange was closed pursuant to the Public Exchange Agreement & Title Settlement Agreement for India Basin dated November 21, 2021. These agreements involved the City, Developer, and the State Lands Commission (State of California). As a result of these agreements, the Port recorded the receipt of 2.49 acres of developer-owned land for $3,829,000 as of June 30, 2022.

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, 2023 and 2022.

6. Other Noncurrent Assets

On June 30, 2023 and 2022, other noncurrent assets were $2,249,000 and $2,445,000, respectively. Other noncurrent assets include the long-term portion of the lease or other agreement obligations from tenants and customers. During fiscal year 2017, the Port and a developer entered into a promissory note for $1,500,000 to cover the cost of seismic and structural repairs to Building 113 at Pier 70. As of June 30, 2023 and 2022, the remaining principal balance was $1,184,000 and $1,315,000, respectively. On June 30, 2023 and 2022, the account balance includes interest receivable of $173,000 and $198,000, respectively, on the outstanding principal balance at the rate of 4.41% per annum, simple interest.

In fiscal year 2021, the Port launched a Micro-LBE Emergency Loan Program to support its diverse and local contracting community. The program allocated $1 million for loans up to $40,000 each to eligible Port contractors, subcontractors, subconsultants, or tenants harmed by the COVID-19 pandemic. As of June 30, 2023 and 2022, the Port recorded no receivable and $890,000, respectively, and a full allowance as the Port does not expect repayment in the near term and the specific timing of repayment is uncertain.

Community Facilities Districts

In September 2019, the Board of Supervisors approved an ordinance amending the City and County's Administrative Code Special Tax Financing Law, constituting Article 43.10, to authorize special tax financing of certain facilities and services related to the Pier 70 and Mission Rock developments.

In January 2020, the Board of Supervisors approved Resolutions of Formation of the City and County of San Francisco Special Tax Districts 2019-1 (Pier 70 Condominiums) and 2019-2 (Pier 70 Leased Properties) and subsequently approved ordinances levying special parcel taxes in the districts, which established the Pier 70 Condominium Community Facilities District and the Pier 70 Leased Properties Community Facilities District (collectively Pier 70 CFDs).

In April 2020, the Board of Supervisors approved a Resolution of Formation of the City and County of San Francisco Special Tax District 2020-1 (Mission Rock Facilities and Services) and subsequently approved an ordinance levying special taxes in the district, which established the Mission Rock Community Facilities District (Mission Rock CFD).

The City (acting through the Port) and the Pier 70 CFDs executed the following two promissory notes.

- Pier 70 Promissory Note LP and its companion Promissory Note X, effective February 2019, with a principal balance of $24,230,000 at a quarterly compounded interest rate of 3.89%. As of June 30, 2023 and 2022, the Port accrued interest receivable in the amount of $4,473,000 and $3,383,000, respectively.

- Pier 70 Promissory Note PC and its companion Promissory Note PCX, effective December 2018, with a principal balance of $6,500,000 at an annual interest rate of 10%. As of June 30, 2022, the principal balance increased to $6,541,000 with the inclusion of reimbursable appraisal costs added to the principal balance. As of June 30, 2023 and 2022, the Port accrued interest receivable in the amount of $3,498,000 and $2,586,000, respectively.

6. Other Noncurrent Assets (Continued)

Although the City and the Pier 70 CFDs expect full satisfaction of the notes, repayment by the Pier 70 CFDs is not expected in the near term, and the specific timing of repayment is uncertain. As such, the Port has recorded an allowance against the note receivable balance and related accrued interest.

The City (acting through the Port) and the Mission Rock CFD executed the following promissory note.

- Mission Rock Promissory Note, related to ground leases for parcels A, B, F, and G, has an outstanding principal balance of $43,000,000 on June 30, 2023 and 2022 with an annual interest rate of 4.48%. In fiscal year 2020, the promissory note balance of $7,900,000 related to the ground lease for parcel G and 10% of parcels A, B, and F was executed. In October 2020, the promissory note balance of the remaining 90% of the ground leases for parcels A, B, and F were executed, increasing the value of the promissory note to $43,000,000. As of June 30, 2023 and 2022, the Port accrued interest receivable in the amount of $5,579,000 and $3,496,000, respectively.

  Under the Mission Rock Disposition and Development Agreement (DDA), the horizontal developer can ground lease all parcels. The ground leases for parcels A, B, F, and G were between the Port and vertical developer affiliates of the horizontal developer. Under the DDA, vertical developers leasing the initial parcels at the project prepay rent to the Port. Vertical developers that are affiliates of the horizontal developer can prepay in the form of a credit bid, which is a credit reducing a balance owed. The Port then lends the prepaid rent (whether in cash or as credit bid) to the Mission Rock CFD. The Mission Rock CFD credits or transfers in cash the prepaid rent to the horizontal developer to acquire facilities and, in turn, owes the Port the appraised value ($43,000,000) of the parcels evidenced by the above-mentioned promissory note. As of June 30, 2023 and 2022, the Mission Rock CFD credited the balance owed to the horizontal developer in the amount of $43,000,000.

Although the City and the Mission Rock CFD expect full satisfaction of the note, repayment by the Mission Rock CFD is not expected in the near term, and the specific timing of repayment is uncertain. As such, the Port has recorded an allowance against the note receivable balance and related accrued interest.

7. Bonds, Loans and Other Payables

The changes in bonds, loans, and other payables for the years ended June 30, 2023 and 2022 are as follows (in thousands):

	June 30, 2022	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2023	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 40,235	$ -	$ 1,745	$ 38,490	$ 1,785
Certificates of participation	26,175	-	1,410	24,765	740
Net of premiums/discounts:					
For issuance premiums	4,109	-	218	3,891	-
Total bonds payable	70,519	-	3,373	67,146	2,525
Other payables:					
Loan payables	6,695	-	466	6,229	487
Lease liabilities (Note 12)	68,956	-	1,520	67,436	1,555
Accrued vacation and sick leave pay	3,406	2,230	2,134	3,502	1,818
Accrued workers' compensation (Note 15)	2,547	1,358	1,022	2,883	611
Estimated claims payable (Note 15)	500	340	210	630	225
Pollution remediation obligations (Note 14)	9,683	3,368	2,126	10,925	1,350
Long-term obligations	$ 162,306	$ 7,296	$ 10,851	$ 158,751	$ 8,571

	June 30, 2021	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2022	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 41,940	$ -	$ 1,705	$ 40,235	$ 1,745
Certificates of participation	27,515	-	1,340	26,175	1,410
Net of premiums/discounts:					
For issuance premiums	4,327	-	218	4,109	-
Total bonds payable	73,782	-	3,263	70,519	3,155
Other payables:					
Loan payables	7,141	-	446	6,695	466
Lease liabilities (Note 12)	69,683	-	727	68,956	1,520
Accrued vacation and sick leave pay	3,712	1,536	1,842	3,406	1,673
Accrued workers' compensation (Note 15)	2,524	759	736	2,547	495
Estimated claims payable (Note 15)	775	-	(265)	500	100
Pollution remediation obligations (Note 14)	10,330	-	425	9,683	1,913
Long-term obligations	$ 167,947	$ 2,295	$ 7,174	$ 162,306	$ 9,322

7. Bonds, Loans and Other Payables (Continued)

Annual debt service requirements for all bonds and loans outstanding as of June 30, 2023 are as follows (in thousands):

Fiscal Year Ending	Revenue Bonds		Certificates of Participation		State Loan Payables		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 1,785	$ 1,482	$ 740	$ 1,253	$ 487	$ 281	$ 3,012	$ 3,016
2025	1,840	1,433	780	1,216	509	258	3,129	2,907
2026	1,890	1,381	815	1,177	532	235	3,237	2,793
2027	1,945	1,325	855	1,136	556	212	3,356	2,673
2028	2,000	1,265	900	1,092	581	187	3,481	2,544
2029-2033	9,325	5,305	5,270	4,697	2,332	579	16,927	10,581
2034-2038	10,195	3,282	6,775	3,186	1,232	100	18,202	6,568
2039-2043 and after	9,510	1,190	8,630	1,337	-	-	18,140	2,527
Total	$ 38,490	$ 16,663	$ 24,765	$ 15,094	$ 6,229	$ 1,852	$ 69,484	$ 33,609

Remaining interest rates	1.79% - 5.00%	4.75% - 5.25%	4.5%

7. Bonds, Loans and Other Payables (Continued)

The Port Commission issued its Revenue Bonds under a Master Indenture ("Master Indenture") and a First Supplement to Indenture of Trust dated February 1, 2010, a Second Supplement to Indenture of Trust dated May 1, 2014, and a Third Supplement to Indenture of Trust dated February 1, 2020, which provide 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 February 2020, the Port issued $23,780,000 in refunding revenue bonds in two series; a non-AMT tax-exempt series (Series 2020A) and a taxable series (Series 2020B). The purpose of the issuance of the Series 2020A and Series 2020B Bonds was to refund all outstanding Series 2010A and Series 2010B in the aggregate principal amount of $29,865,000. Series 2020A, original issued total of $10,885,000, has serial bonds of $10,885,000 outstanding at June 30, 2023 and 2022 with remaining coupon rates from 4.000% to 5.000% and remaining maturities from March 2031 through March 2040. Series 2020B, original issue total of $12,895,000, has serial bonds of $9,270,000 and $10,500,000 outstanding at June 30, 2023 and 2022, respectively, with remaining coupon rates from 1.794% to 2.408% and remaining maturities from March 2024 through March 2030. The Series 2020A and Series 2020B Bonds are not secured by a debt service reserve fund. Deferred outflows of resources from refunding of debt were $148,000 and $157,000 as of June 30, 2023 and 2022, respectively.

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 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 the 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. 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 $651,000, 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. At June 30, 2023, the Port was in compliance with the Series 2014A reserve requirement. As of March 2020, the Series 2014B Bond was fully repaid.

7. Bonds, Loans and Other Payables (Continued)

The Port has pledged future net revenues to repay the Revenue Bonds. As of June 30, 2023, the total principal and interest remaining to be paid on the bonds is $55,153,000. The principal and interest payments made in fiscal year 2023 were $3,274,000 and a net revenue (total net operating income calculated in accordance with the bond Indenture) was $60,626,000. The principal and interest payments made in fiscal year 2022 were $3,274,000 and a net revenue (total net operating income calculated in accordance with the bond Indenture) was $48,967,000.

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 is also 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 without consideration of a revenue stabilization fund, as defined in the Indenture, in each fiscal year will be at least equal to 100% of aggregate annual debt service for such fiscal year. As of June 30, 2023, the Port has satisfied the debt service coverage covenant.

The revenue bonds contain an acceleration provision that in an event of default, the trustee may, upon written request from the credit provider or holders of not less than fifty-one percent of the aggregate principal amount then outstanding, by written notice to the Commission, shall declare the principal amount of all bonds outstanding and the interest accrued becomes due and payable immediately.

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, 2023 and 2022.

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

7. Bonds, Loans and Other Payables (Continued)

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.

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. In an event of default, the trustee may enforce all of its rights and remedies under the project lease, including the right to recover base rental payments as they become due under the project lease by pursuing any remedy available in law or in equity, other than by terminating the project lease or re-entering and reletting the leased property, or except as expressly provided in the project lease.

The Port has entered into a loan agreement with the California Division 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. As of June 30, 2023, the total principal and interest remaining to be paid on this loan are $1,389,000. Annual principal and interest payments were $232,000 in 2023 and 2022 and pledged harbor revenues were $164,000 and $145,000 for the years ended June 30, 2023 and 2022, respectively. The loan contains a provision that in an event the Port fails, in whole or in part, to make any payment due under the loan contract, then such a deficiency shall be added to and become part of the principal of the loan and a provision that if any annual loan installment payment made by the Port is less than the amount required under the terms of the contract, then such payment shall first be applied to reduce any accrued unpaid interest due on the loan while any remaining part of the payment shall be used to reduce the principal of the loan.

Effective May 1, 2019, the Port assumed the operations and corresponding balances of the South Beach Harbor (SBH) from the Office of Community Investment and Infrastructure, including three loans provided by Cal Boating, which totaled $6,144,000 and accrues interest at a rate of 4.5% per annum. As of June 30, 2023, total principal and interest remaining to be paid on the loans are $6,692,000.

7. Bonds, Loans and Other Payables (Continued)

These loans are secured by net revenues as defined in the loan agreements. Annual principal and interest payments were $536,000 in 2023 and 2022 and pledged net revenues were $1,639,000 and $1,820,000 for the year ended June 30, 2023 and 2022. Cal Boating may take possession of the operations if after ninety days written notice, the Port remains in breach of any of the provisions of Small Craft Harbor loans and operation contract. Cal Boating shall operate or maintain the operations for the account of the Port until the loan is repaid in full.

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

Segment information

Summary financial information with individual activities for the Port as of June 30, 2023 and 2022 is presented below. Additional details are included in the supplemental schedules on pages 79 to 82.

Condensed statements of net position (in thousands)

	June 30, 2023			June 30, 2022		
	Port (excluding SBH)	South Beach Harbor (SBH)	Total	Port (excluding SBH)	South Beach Harbor (SBH)	Total
Assets:						
Current and other assets	$ 914,142	$ 26,316	$ 940,458	$ 791,266	$ 27,015	$ 818,281
Capital assets	475,512	17,462	492,974	490,499	18,073	508,572
Total assets	1,389,654	43,778	1,433,432	1,281,765	45,088	1,326,853
Deferred outflows of resources	20,837	-	20,837	17,002	-	17,002
Liabilities:						
Current liabilities	35,766	1,178	36,944	33,960	1,109	35,069
Noncurrent liabilities	323,025	4,751	327,776	221,992	5,063	227,055
Total liabilities	358,791	5,929	364,720	255,952	6,172	262,124
Deferred inflows of resources	509,071	14,824	523,895	578,253	17,431	595,684
Net position:						
Net investment in capital assets	300,773	12,311	313,084	308,397	12,733	321,130
Restricted	47,811	-	47,811	21,269	-	21,269
Unrestricted	194,045	10,714	204,759	134,896	8,752	143,648
Total net position	$ 542,629	$ 23,025	$ 565,654	$ 464,562	$ 21,485	$ 486,047

7. Bonds, Loans and Other Payables (Continued)

Condensed statements of revenues, expenses, and changes in fund net position (in thousands)

	Year Ended June 30, 2023			Year Ended June 30, 2022		
	Port (excluding SBH)	South Beach Harbor (SBH)	Total	Port (excluding SBH)	South Beach Harbor (SBH)	Total
Revenues:						
Operating revenues	$ 123,235	$ 5,432	$ 128,667	$ 115,879	$ 5,072	$ 120,951
Nonoperating revenues	39,291	129	39,420	21,183	114	21,297
Capital contributions	39,369	-	39,369	4,252	-	4,252
Total revenues	201,895	5,561	207,456	141,314	5,186	146,500
Expenses:						
Operating expenses	119,391 *	3,793	123,184	101,998 *	3,252	105,250
Nonoperating expenses	4,437	228	4,665	4,649	241	4,890
Total expenses	123,828	4,021	127,849	106,647	3,493	110,140
Change in net position	78,067	1,540	79,607	34,667	1,693	36,360
Net position, beginning of year	464,562	21,485	486,047	429,895	19,792	449,687
Net position, end of the year	$ 542,629	$ 23,025	$ 565,654	$ 464,562	$ 21,485	$ 486,047

* *Includes SBH pension and OPEB expenses.*

Condensed statements of cash flows (in thousands)

	Year Ended June 30, 2023			Year Ended June 30, 2022		
	Port (excluding SBH)	South Beach Harbor (SBH)	Total	Port (excluding SBH)	South Beach Harbor (SBH)	Total
Net cash provided by (used in):						
Operating activities	$ 13,893	$ 2,309	$ 16,202	$ 4,756	$ 2,730	$ 7,486
Noncapital financing activities	119,960	-	119,960	1,919	-	1,919
Capital and related financing activities	25,787	(783)	25,004	(13,898)	(796)	(14,694)
Investing activities	10,926	127	11,053	6,164	109	6,273
Increase/(decrease) in cash and cash equivalents	170,566	1,653	172,219	(1,059)	2,043	984
Cash and cash equivalents						
Beginning of year	216,977	11,580	228,557	218,036	9,537	227,573
End of year	$ 387,543	$ 13,233	$ 400,776	$ 216,977	$ 11,580	$ 228,557

8. Retirement Plan

The Retirement System Plan **-** The City participates in a cost-sharing multiple-employer defined benefit pension plan (the Retirement System Plan). The Retirement System 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 Retirement System Plan, and additions to/deductions from the Retirement System Plan's fiduciary net position have been determined on the same basis as they are reported by the Retirement System. 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.

Replacement Benefits Plan **–** The Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the Retirement System Plan. The RBP allows the City to pay the Retirement System retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

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

	2023	**2022**
Valuation Date	June 30, 2021 updated to June 30, 2022	June 30, 2020 updated to June 30, 2021
Measurement Date	June 30, 2022	June 30, 2021
Measurement Period	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

The Retirement System Plan **-** The City is an employer of the Retirement System Plan with a proportionate share of 94.87% as of the June 30, 2022 measurement date and 94.64% as of the June 30, 2021 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/(asset), deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense/(benefit) are based on the Port's allocated percentage. The Port's allocation of the City's proportionate share was approximately 0.81% as of the June 30, 2022 measurement date and 0.87% as of June 30, 2021 measurement date.

8. Retirement Plan (Continued)

The Replacement Benefits Plan – The Port allocation percentage was determined based on the Port's headcount (both active members and retirees) divided by the City's total headcount for fiscal year 2022. The Port's total 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 0.26% as of the June 30, 2022 measurement date and 0.24% as of June 30, 2021 measurement date.

Retirement System Plan Description **-** The Retirement System 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 (COLA) after retirement. The Retirement System 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 Retirement System Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Retirement System 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.

Retirement System Benefits **-** Benefits and refunds are recognized when due and payable in accordance with the terms of the Retirement System Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. 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 the 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.

8. Retirement Plan (Continued)

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 Retirement System Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Retirement System 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 Retirement System 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 Retirement System 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 Retirement System Plan is fully funded on a market value of assets basis 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

The Retirement System Plan - Contributions are made by both the City and participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2023 varied from 7.5% to 12.0% as a percentage of gross covered salary. Employee contribution rates for fiscal year 2022 varied from 7.5% to 13.0% 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, 2021 actuarial report, the required employer contribution rate for fiscal year 2023 was 17.85% to 21.35% and based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 was 19.91% to 24.41%.

Employer contributions and employee contributions made by the employer to the Retirement System 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 fiscal years ended June 30, 2022 and 2021 (measurement years) were $729.6 million and $791.7 million, respectively. The Port's allocation of employer contributions for fiscal years 2022 and 2021 were $6,363,000 and $7,173,000, respectively.

Replacement Benefits Plan - The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $4.5 million replacement benefits in the year ended June 30, 2023.

8. Retirement Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2023, the City reported a net pension liability (NPL) for its proportionate share of the net pension liability of the Retirement System Plan and net pension liability of RBP of $2.71 billion. The City's net pension liability for the Retirement System Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Retirement System Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the Retirement System Plan and RBP used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. As of June 30, 2022, the City reported a net pension asset (NPA) for its proportionate share of the net pension asset of the Retirement System Plan and net pension liability of RBP of $2.23 billion. The City's net pension asset for the Retirement System Plan is measured as the proportionate share of the net pension asset. The net pension asset of the Retirement System Plan is measured as of June 30, 2021 (measurement date), and the total pension liability/(asset) for the Retirement System Plan and RBP used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension liability/(asset) for the Retirement System Plan 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/(asset) for the Retirement System Plan as of June 30, 2023 and 2022 were $20,794,000 and ($21,336,000), respectively. The Port's allocation of the total pension liability for the RBP as of June 30, 2023 and 2022 were $398,000 and $536,000, respectively.

For the years ended June 30, 2023 and 2022, the City's recognized pension expense/(benefit), including amortization of deferred outflows/inflows related pension items, were $1,771,000 and ($922,979,000), respectively. Pension expense/(benefit) increased from the prior year, largely due to the amortization of deferrals. The Port's allocation of pension expense/(benefit), including amortization of deferred outflows/inflows related pension items for fiscal years 2023 and 2022, were ($1,910,000) and ($10,060,000), respectively.

At June 30, 2023, the Port reported deferred outflows of resources and deferred inflows of resources related to pension were the following (in thousands):

	June 30, 2023			
	The Retirement System Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 5,197	$ -	$ -	$ -
Differences between expected and actual experience	1,898	-	52	50
Change in assumptions	5,403	1,621	64	86
Net difference between projected and actual earnings on pension plan investments	-	2,585	-	-
Change in employer's proportionate share	2,369	369	4	119
	$ 14,867	$ 4,575	$ 120	$ 255

8. Retirement Plan (Continued)

At June 30, 2022, the Port reported deferred outflows of resources and deferred inflows of resources related to pension for the Retirement System Plan were the following (in thousands):

	June 30, 2022			
	The Retirement System Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,363	$ -	$ -	$ -
Differences between expected and actual experience	1,959	70	73	-
Change in assumptions	1,444	3,746	100	-
Net difference between projected and actual earnings on pension plan investments	-	46,351	-	-
Change in employer's proportionate share	2,080	645	5	156
	$ 11,846	$ 50,812	$ 178	$ 156

The pension contributions made subsequent to the measurement date will be applied to the net pension liability/(asset) 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):

	Deferred Outflows/(Inflows) of Resources		
Year Ending June 30	The Retirement System Plan	Replacement Benefits Plan	Total
2024	$ (348)	$ (24)	(372)
2025	(1,127)	(25)	(1,152)
2026	(2,606)	(49)	(2,655)
2027	9,176	(37)	9,139

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total pension liability/asset for both the Retirement System Plan and RBP as of June 30, 2022 and 2021 (measurement years) is provided below. This includes any assumptions that differ from those used in the July 1, 2021 actuarial valuation. Refer to the July 1, 2021 and 2020 actuarial valuation reports for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

	The Retirement System Plan		Replacement Benefits Plan	
	2023	2022	2023	2022
Valuation Date	June 30, 2021 updated to June 30, 2022	June 30, 2020 updated to June 30, 2021	June 30, 2021 updated to June 30, 2022	June 30, 2020 updated to June 30, 2021
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost	Entry-Age Normal Cost	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of pension plan investment	7.40% net of pension plan investment		
Municipal Bond Yield	3.54% as of June 30, 2022	2.16% as of June 30, 2021	3.54% as of June 30, 2022	2.16% as of June 30, 2021
	Bond Buyer 20-Bond-GO Bond Index	Bond Buyer 20-Bond-GO Bond Index	Bond Buyer 20-Bond-GO Bond Index	Bond Buyer 20-Bond-GO Bond Index
	June 24, 2021 and June 30, 2022	June 25, 2020 and June 24, 2021	June 24, 2021 and June 30, 2022	June 25, 2020 and June 24, 2021
Discount Rate	7.20% as of June 30, 2022	7.40% as of June 30, 2021	3.54% as of June 30, 2021	2.16% as of June 30, 2021
Administrative Expenses	0.60% of payroll as of June 30, 2022	0.60% of payroll as of June 30, 2021	0.60% of payroll as of June 30, 2022	0.60% of payroll as of June 30, 2021

8. Retirement Plan (Continued)

Mortality rates for healthy Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2022 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2021.

Discount Rate

The Retirement System Plan – 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 was 7.20% as of June 30, 2022 (measurement date) and 7.40% as of June 30, 2021 (measurement date). 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, 2021 and 2020 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 3.25% 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 (Post 97 Retirees), 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

8. Retirement Plan (Continued)

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 Retirement System for certain members, an assumption was developed as of June 30, 2022 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2022. 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, 2022 Valuation			June 30, 2021 Valuation	
	1996 - Prop C	Before 11/06/96 or after Prop C		1996 - Prop C	Before 11/06/96 or after Prop C
2024	0.75%	0.70%	2023	0.75%	0.70%
2025	0.75%	0.60%	2025	0.75%	0.70%
2026	0.75%	0.60%	2027	0.75%	0.60%
2027 and thereafter	0.75%	0.50%	2029	0.75%	0.60%
			2031	0.75%	0.60%
			2033 and thereafter	0.75%	0.50%

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 for all future years. As of June 30, 2022 and 2021 (measurement periods), projected benefit payments are discounted at the long-term expected return on assets of 7.20% and 7.40%, respectively, to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.54% and 2.16%, respectively, to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2022 and 2021 (measurement date) were 7.20% and 7.40%, respectively.

The long-term expected rate of return on pension plan investments was 7.20%, as of June 30, 2022 and 2020 (measurement period) and 7.40% as of June 30, 2021 (measurement period). 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.

8. Retirement Plan (Continued)

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 as of June 30, 2022 and 2021 (measurement periods) are summarized in the following table.

	June 30, 2022 Valuation		June 30, 2021 Valuation	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Global Equity	37.0%	4.8%	37.0%	4.2%
Treasuries	8.0%	0.6%	8.0%	0.0%
Liquid Credit	5.0%	3.5%	5.0%	2.3%
Private Credit	10.0%	5.8%	10.0%	5.1%
Private Equity	23.0%	7.9%	23.0%	7.9%
Real Assets	10.0%	4.7%	10.0%	5.1%
Hedge Funds/Absolute Returns	10.0%	3.4%	10.0%	2.9%
Leverage	-3.0%	0.6%	-3.0%	0.1%

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.54% and 2.16% as of June 30, 2022 and 2021, respectively. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 24, 2021 and June 30, 2022 and these are the rates used to determine the total pension liability as of June 30, 2022.

The inflation assumption of 2.50% as of June 30, 2022 and 2021, respectively, compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $245,000 and $230,000 for 2022 and 2021 (measurement dates) was used.

The Retirement System Plan assumptions about Basic and Supplemental COLA previously discussed also apply to the RBP, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2023, City's membership in the RBP had a total of 327 active members and 160 retirees and beneficiaries currently receiving benefits. The Port has three active member and no retirees and beneficiaries currently receiving benefits.

8. Retirement Plan (Continued)

Sensitivity of Proportionate Share of the Net Pension Liability (NPL)/Net Pension Asset (NPA) to Changes in the Discount Rate – The following presents the Port's allocation of the employer's proportionate share of the net pension liability/(asset) for the Retirement System 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/(asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

June 30, 2022 (Measurement Year) ($000's)			June 30, 2021 (Measurement Year) ($000's)		
1% Decrease Share of NPL /(NPA)@ 6.20%	Allocated Share of NPL/(NPA) @ 7.20%	1% Increase Share of NPL/(NPA) @ 8.20%	1% Decrease Share of NPL /(NPA)@ 6.40%	Allocated Share of NPL/(NPA) @ 7.40%	1% Increase Share of NPL/(NPA) @ 8.40%
$ 56,942	$ 20,794	$ (9,006)	$ 14,220	$ (21,336)	$ (50,691)

The following presents the Port's allocation of the employer's proportionate share of the total pension liability for the RBP, 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.

June 30, 2022 (Measurement Year) ($000's)			June 30, 2021 (Measurement Year) ($000's)		
1% Decrease @ 2.54%	Measurement Date @ 3.54%	1% Increase @ 4.54%	1% Decrease @ 1.16%	Measurement Date @ 2.16%	1% Increase @ 3.16%
$ 472	$ 398	$ 340	$ 646	$ 536	$ 450

9. 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 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.

10. Other Postemployment Benefits (OPEB)

Plan Descriptions – Port participates in a single-employer defined benefit other postemployment benefits plan (the OPEB Plan), which is administered through the City's Health Service System in the Retiree Healthcare Trust Fund. 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 Statement No. 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

	2023	2022
Valuation Date	June 30, 2022	June 30, 2021
Measurement Date	June 30, 2022	June 30, 2021
Measurement Period	July 1, 2021 to June 30, 2022	July 1, 2020 and June 30, 2021

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 years ended June 30, 2022 and 2021 (measurement dates). 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 were 0.82% and 0.86% as of June 30, 2022 and 2021 (measurement dates), respectively.

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		5 years of credited service at separation

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012 under Charter Section 8.603.

[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.

10. Other Postemployment Benefits (OPEB) (Continued)

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

Medical:	PPO - Blue Shield (Self-insured) and UHC Medicare Advantage (fully-insured)
	HMO - Kaiser (fully-insured), Blue Shield (flex-funded), and Health Net (flex funded)
Dental:	Delta Dental, DeltaCare USA and UnitedHealthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are adminstered 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 Healthcare 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 Retiree Healthcare Trust Fund. 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 Retiree Healthcare 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 actuary has determined that the City's portion of the Retiree Healthcare 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 fiscal years ended June 30, 2023 and 2022, the City's funding was based on "pay-as-you-go" plus a contribution of $45.2 million and $41.8 million to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portions paid by the City were $215.4 million for a total contribution of $260.6 million for the year ended June 30, 2023, and $211.0 million for a total contribution of $253.0 million for the year ended June 30, 2022. The Port's proportionate share of the City's contributions for fiscal years 2023 and 2022 were $2,147,000 and $2,165,000, respectively.

10. Other Postemployment Benefits (OPEB) (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB – As of June 30, 2023 and 2022, the City reported net OPEB liabilities related to the OPEB Plan of $3.7 billion and $3.8 billion, respectively. The Port's proportionate share of the City's net OPEB liability as of June 30, 2023 and 2022 were $30,862,000 and $31,617,000, respectively.

For the year ended June 30, 2023, the City's recognized OPEB expense in the amount of $257.0 million. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Port's proportionate share of the City's OPEB income was $106,000. For the year ended June 30, 2022, the City's recognized OPEB expense in the amount of $272.0 million and the Port's proportionate share of the City's OPEB expense was $6,043,000.

As of June 30, 2023, the Port reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources (in thousands):

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 2,146	$ -
Difference between expected and actual experience	685	5,138
Changes in assumptions	1,318	1,435
Net difference between projected and actual earnings on plan investments	497	-
Change in proportion	1,056	-
Total	$ 5,702	$ 6,573

As of June 30, 2022, the Port reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources (in thousands):

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 2,165	$ -
Difference between expected and actual experience	950	4,868
Changes in assumptions	1,336	-
Net difference between projected and actual earnings on plan investments	-	598
Change in proportion	370	1,724
Total	$ 4,821	$ 7,190

10. Other Postemployment Benefits (OPEB) (Continued)

Amounts reported as deferred outflows of resources, 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	
2024	$	(773)
2025		(765)
2026		(455)
2027		(537)
Thereafter		(487)

10. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2022 and 2021 (measurement dates) is provided below:

Valuation Dates	June 30, 2022 and 2021
Measurement Dates	June 30, 2022 and 2021
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 7.74% trending down to ultimate rate of 3.93% in 2076
	Medicare trend starts at 7.74% trending down to ultimate rate of 3.94% in 2076
	10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2076
	Vision and expenses trend remains a flat 3.00% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25%
	Additional Merit Component (dependent on years of service):
	Police: 0.50% - 7.50%
	Fire: 0.50% - 14.00%
	Muni Drivers: 0.00% - 16.00%
	Craft: 0.50% - 3.75%
	Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflaction: 3.25% compounded annually
	Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	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, 2019.

Non-Annuitant

	Published Table	Adjustment Factor Male	Female
Miscellanous	PubG-2010 Employee	0.834	0.866
Safety	PubG-2010 Employee	1.011	0.979

Healthy Retirees

	Published Table	Adjustment Factor Male	Female
Miscellanous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	0.947	1.044

Disabled Retirees

	Published Table	Adjustment Factor Male	Female
Miscellanous	PubG-2010 Employee	1.045	1.003
Safety	PubG-2010 Employee	0.916	0.995

Beneficiaries

	Published Table	Adjustment Factor Male	Female
Miscellanous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

10. Other Postemployment Benefits (OPEB) (Continued)

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scare for the actuarial valuation as of June 30, 2022 and 2021.

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:

	($000's)		
Measurement Year	**1% Decrease**	**Baseline**	**1% Increase**
June 30, 2022	$ 26,402	$ 30,862	$ 36,395
June 30, 2021	$ 26,912	$ 31,617	$ 37,486

Discount Rate – The discount rates used to measure the total OPEB liability as of June 30, 2022 and 2021 was 7.0%. 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.

The long-term expected rate of return on OPEB plan investments were 7.0% based on expected future returns and historical returns experienced by the Retiree Healthcare Trust Fund as of June 30, 2022 and 2021 (measurement periods). Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Retiree Healthcare Trust Fund's asset allocation.

10. Other Postemployment Benefits (OPEB) (Continued)

Target allocation as of June 30, 2022 and 2021 (measurement periods) for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	June 30, 2022 Valuation	
	Target Allocation	Long - term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	6.8%
U.S. Small Cap	3.0%	7.4%
Developed Market Equity (non-U.S.)	15.0%	7.5%
Emerging Market Equity	13.0%	8.4%
Credit		
Bank Loans	3.0%	4.0%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.2%
Rate Securities		
Investment Grade Bonds	9.0%	2.4%
Long-term Government Bonds	4.0%	2.8%
Short-term Treasury Inflation-Protected Securities	4.0%	1.9%
Private Markets		
Private Equity	5.0%	10.0%
Core Private Real Estate	5.0%	6.1%
Risk Management Strategies		
Global Macro	5.0%	5.0%
Total	100.0%	

Asset Class	June 30, 2021 Valuation	
	Target Allocation	Long - term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	8.2%
U.S. Small Cap	3.0%	9.5%
Developed Market Equity (non-U.S.)	15.0%	8.9%
Emerging Market Equity	13.0%	11.0%
Credit		
High Yield Bonds	3.0%	4.4%
Bank Loans	3.0%	4.4%
Emerging Market Bonds	3.0%	4.3%
Rate Securities		
Investment Grade Bonds	9.0%	1.9%
Long-term Government Bonds	4.0%	3.2%
Short-term Treasury Inflation-Protected	4.0%	1.5%
Private Markets		
Private Equity	5.0%	13.0%
Core Private Real Estate	5.0%	6.2%
Risk Management Strategies		
Global Macro	5.0%	4.4%
Total	100.0%	

10. Other Postemployment Benefits (OPEB) (Continued)

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:

	($000's)		
Measurement Year	**1% Decrease 6.00%**	**Discount Rate 7.00%**	**1% Increase 8.00%**
June 30, 2022	$ 35,930	$ 30,862	$ 26,705
June 30, 2021	$ 36,971	$ 31,617	$ 27,244

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.

11. 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 to ensure that they support activities within the Port area and to refine the methodologies used for the allocation of City direct and indirect costs. In fiscal year 2023, services provided by other City departments included $8,785,000 of insurance premiums and $1,022,000 in workers' compensation expense. In fiscal year 2022, services provided by other City departments included $7,340,000 of insurance premiums and $736,000 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 San Francisco Public Works, services provided by the City Purchaser, contract compliance 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 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 $3,940,000 and $3,300,000 in fiscal years 2023 and 2022, respectively. Rental revenues from City departments included in operating revenues were approximately $8,961,000 and $8,505,000 in fiscal years 2023 and 2022, respectively.

11. Related Party Transactions (Continued)

In November 2018, the City voters passed Proposition A, approving a $425 million General Obligation Bond known as the 2018 Embarcadero Seawall Earthquake Safety Bond to support the Seawall Earthquake Safety and Disaster Prevention Program. In 2023, the Port received $38,733,000 of proceeds as capital contribution from the City's issuance of Series 2023B Bonds to support early projects, adaptation strategies and the San Francisco Waterfront Coastal Flood Study general investigation.

In March 2021, the Port and the SFPUC entered into a memorandum of understanding (MOU) authorizing SFPUC to use up to an additional 3.5 megawatt of available capacity from Port's primary service location at Pier 70's Building 102 to provide temporary electrical service to the Seawall Lot 337 development project and the SFPUC Mariposa Pump Station facility. Accordingly, the SFPUC will pay $1,150,000 for the use of this capacity for one year from the effective date of the MOU with an option to extend. The SFPUC will pay the Port $145,000 per month when the service period exceeds one year from the effective date. In 2022, the SFPUC exercised its first option to extend capacity purchase from the Port's Building 102 at Pier 70. In fiscal year 2023, the SFPUC paid the Port $1,740,000 in total. As of June 30, 2022, SFPUC paid the Port $1,150,000 in full, including the second installment payment of $575,000, and monthly service of $580,000 covering service costs since March 2022.

In 2012, the Port and the SFPUC entered into an MOU to facilitate the installation of a shoreside 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. At June 30, 2022, a pro-rated rebate amount of $369,000 was accrued as an advance to other City departments. The rebate was paid in full as of June 30, 2023.

In 2022, the Port participated in the SFPUC Hetch Hetchy Power premium program by enrolling the Pier 27 Cruise Terminal Shoreside Power electricity account to receive 100 percent renewable energy that meets the requirements of California's Renewable Portfolio Standard. The California Air Resources Board Low Carbon Fuel Standard (CARB LCFS) Program allows the accrual of low carbon fuel standard credits for entities that reduce greenhouse gas (GHG) emissions from transportation sources by using electric energy or other lower-GHG emitting fuels. Hetch Hetchy Power facilitates the sale of municipal customers' LCFS credits to potential credit buyers through the CARB LCFS credit sales portal. In 2023, the Port received $203,000 in net proceeds from the sale and reported as other nonoperating revenues.

The Port and SFPUC entered into an MOU dated September 1, 2018 to construct certain improvements to the Mariposa Pump Station and associated sewer work on the Port premises located within Seawall Lot 345. The SFPUC will use the premises for an initial term of 30 years and pay the Port rent payment of $0.45 per square foot per month with a 3% annual increase for a total rent of $1,242,000. In fiscal year 2019, SFPUC paid the Port a lump sum of $502,000 representing the unearned net present value of the total rent for the initial term of 30 years. As of June 30, 2023 and 2022, the balances were $405,000 and $438,000 and reported as prepaid rents and advance payments liabilities.

11. Related Party Transactions (Continued)

In September 27, 2018, the Port and Mayor's Office of Housing and Community Development (MOHCD) entered into an MOU to implement the affordable housing development project at Seawall Lot 322-1 (88 Broadway). Under the MOU, the Port was due a total of $14,958,000 from MOHCD as of June 30, 2019. In August 2019, MOHCD paid the Port $14,996,000, including additional interest accrued since June 30, 2019. As part of the 88 Broadway project, the Port entered into a Ground Lease with a developer in March 2019. The Ground Lease has a term of fifty-seven years plus one eighteen extension option (a 75-year maximum term but with expiration no later than December 31, 2105). The lease revenues are being amortized over the 75-year maximum term of the lease. In addition to the payment by MOHCD, the developer will be required to make lease payments representing a share of any cash flow generated by commercial activities. As of June 30, 2023 and 2022, the Port reported $13,708,000 and $13,907,000, respectively, of unearned revenue related to this Ground Lease as prepaid rents and advance payments liabilities.

In December 2017, the Port and San Francisco Fire Department (SFFD) entered into an MOU for the use of water, apron, shed and office space at Pier 26 for berthing and servicing of fireboats for five years and on a month-to-month basis afterward. To facilitate these uses, SFFD repaired the 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 a hundred percent rent credits toward the lease payments until all required capital improvements, approximately $2.3 million, are fully offset. As of June 30, 2023 and 2022, rent credits of $747,000 and $713,000, respectively, have been provided to SFFD.

In December 2019, the Port and SFFD entered into an MOU for the installation of the newly constructed Fireboat Station 35, a floating first response facility, at Pier 22½. This MOU replaced the existing License 501 for the use of the Pier 22½ shed as a firehouse building. In 2022, the Port authorized SFFD to apply $941,000 of rent credits toward the lease payments for the tenant improvements to the existing marginal wharf and substructure as part of the Project for a dedicated public access area. As of June 30, 2023, rent credits of $77,000 have been provided to SFFD.

The Port and the Office of Community Investment and Infrastructure (OCII) entered into a grant agreement in November 2018, to reimburse the Port from available excess bond proceeds for the Mission Bay Ferry Terminal Landing project construction costs in the amount not-to-exceed $9 million. In January 2021, the OCII reimbursed $7,826,000, which was returned to the City's General Fund since the project cost was advanced by the City's General Fund. As of June 30, 2022, the OCII reimbursed the remaining $642,000.

12. Leases

The Port has entered into numerous lease agreements for equipment, land, and buildings. Most leases held by the Port are for real estate assets for which the Port is in a lessor position.

Lessor positions

As a lessor, the Port has entered into lease agreements for real estate to commercial entities, mainly from the hospitality and entertainment industries. The terms of the various lease agreements range from 1 to 66 years. Rent adjustments that were explicitly stated in lease agreements with specific amounts were included in the lease calculation. However, CPI and inflationary percentage rent increases were not reasonably certain and did not result in variable rent revenues.

Information about lease and interest revenues recognized during fiscal years 2023 and 2022, as well as receivable and deferred inflows of resources amounts recognized as of June 30, 2023 and 2022 is presented below (in thousands):

Asset Classes	Lease Revenue 2023	Interest Revenue 2023	Lease Receivable 2023	Deferred Inflow of Resources 2023
Land	$ 10,472	$ 1,975	$ 92,314	$ 99,812
Buildings, office space and others	44,915	9,115	412,770	412,680
Total	$ 55,387	$ 11,090	$ 505,084	$ 512,492

Asset Classes	Lease Revenue 2022	Interest Revenue 2022	Lease Receivable 2022	Deferred Inflow of Resources 2022
Land	$ 8,935	$ 1,730	$ 83,712	$ 93,196
Buildings, office space and others	46,046	9,279	439,655	444,330
Total	$ 54,981	$ 11,009	$ 523,367	$ 537,526

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, 2023 and 2022, property rental revenues were comprised as follows (in thousands):

	2023	2022
Minimum rentals, all revenue types	$ 84,574	$ 83,642
Percentage rentals	17,420	15,363
Total	$ 101,994	$ 99,005

12. Leases (Continued)

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.

The future principal and interest receipts for leases from lessor positions as of June 30, 2023, were as follows (in thousands):

Year Ending June 30	Principal receivables	Interest receivables	Total
2024	$ 41,963	$ 10,687	$ 52,650
2025	35,510	10,022	45,532
2026	32,453	9,396	41,849
2027	28,400	8,804	37,204
2028	21,378	8,300	29,678
2029-2033	87,119	35,871	122,990
2034-2038	68,220	27,316	95,536
2039-2043	41,565	21,286	62,851
2044-2048	34,534	16,969	51,503
2049-2053	13,352	13,817	27,169
2054-2058	15,064	12,203	27,267
2059-2063	18,966	10,308	29,274
2064-2068	22,063	7,280	29,343
2069-2073	22,989	4,202	27,191
2074-2078	21,508	868	22,376
Total	$ 505,084	$ 197,329	$ 702,413

The Port also provides berthing and landing facilities for a variety of excursion vessel operators. Excursion vessels typically transport passengers for purposes including, but not limited to dinner cruises, harbor tours, scuba diving expeditions, fishing expeditions, and whale watching tours. Multiple tour operators call the San Francisco waterfront homeport, including Alcatraz Cruises, Blue & Gold Fleet, Hornblower Cruises, and Red & White Fleet. The Port also has licenses in place for excursion vessel operators, homeported at other Bay Area harbors and marinas, that seek to land at the Port's facilities. As of June 30, 2023 and 2022, excursion revenues were $2,539,000 and $2,379,000, respectively, and reported as part of harbor services operating revenue.

12. Leases (Continued)

Lessee positions

As a lessee, the Port has entered into lease agreements for real estate and equipment. Below is a description of the positions (in thousands):

	2023			2022		
	Real Estate	Equipment	Total	Real Estate	Equipment	Total
Lease assets (intangible)	$ 69,924	$ 75	$ 69,999	$ 69,924	$ 75	$ 69,999
Accumulated amortization	7,212	57	7,269	4,808	38	4,846
Lease assets, net	$ 62,712	$ 18	$ 62,730	$ 65,116	$ 37	$ 65,153

The future principal and interest payments for leases from lessee positions as of June 30, 2023, were as follows (in thousands):

Year Ending June 30	Principal payables	Interest payables	Total
2024	$ 1,555	$ 1,598	$ 3,153
2025	1,574	1,561	3,135
2026	1,777	1,521	3,298
2027	2,052	1,474	3,526
2028	2,102	1,424	3,526
2029-2033	11,301	6,330	17,631
2034-2038	12,740	4,888	17,628
2039-2043	14,363	3,261	17,624
2044-2048	16,192	1,428	17,620
2049-2050	3,780	46	3,826
Total	$ 67,436	$ 23,531	$ 90,967

Significant leases

The Port has a noncancelable operating lease (sublease) for its offices at Pier 1 from the master tenant. 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. On February 1, 2021, the sublease adopted a market rate adjustment, resulting in an increase in future minimum annual payments. At June 30, 2023 and 2022, the lease liability for this sublease were $67,418,000 and $68,919,000, respectively.

13. 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 14), 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 the 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, renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers, and wharves.

The 2018 Embarcadero Seawall Earthquake Safety Bond general obligation bonds (Seawall Bond) first issuance (Series 2020A) included $49,548,000 of funding for planning and preliminary design phases of the Waterfront Resilience Program. The second issuance (series 2023B) of the Seawall Bonds included $38,733,000 of funding to support early projects, adaptation strategies, and the San Francisco Waterfront Coastal Flood Study general investigation.

Purchase Commitments

The Port had firm purchase and contract commitments at June 30, 2023 for approximately $12,377,000 for capital projects and $3,837,000 for general operations.

14. Contingencies

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.

South Beach Harbor Project Commitments

On May 1, 2019, OCII transferred South Beach Harbor operations to the Port. Under San Francisco Bay Conservation and Development Commission (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 $7,900,000. 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 alternative proposal will provide significant public access improvements that are relevant to the project area and at a lower cost. On December 18, 2020, BCDC issued Amendment No. 20 for the South Beach Harbor Permit (1984.002.20) requiring amended project work to be completed by December 31, 2024, including installation of a new guest dock, kayak launch, and hoists located at Pier 40.

14. Contingencies (Continued)

Environmental

The Port is required to comply with several 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 the soil, fill material or bay sediment may encounter hazardous materials and/or generate hazardous waste.

The Port has identified certain environmental issues related to the Port's property, including polychlorinated biphenyls (PCBs), polycyclic aromatic hydrocarbons (PAHs) and other 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.

Pier 70 – For over 150 years, there were ironworks, steelworks, shipbuilding and repair, and other industrial operations at this 69-acre site. Between 2007 and 2010, the Port conducted a comprehensive community-based planning process for the redevelopment of Pier 70. This culminated in the Preferred Master Plan for Pier 70 involving rehabilitation and reuse of the historical buildings, preservation of ship repair facilities, new development, park and open space, and pollution remediation.

Between 2009 and 2013, with financial assistance from the U.S. Department of Commerce, the Port completed a comprehensive investigation of soil and groundwater conditions, a risk assessment and feasibility study, and a Remedial Action Plan (RAP). The RAP consists of capping site soils and establishing institutional controls to reduce or eliminate human health risks related to contamination. The Port subsequently developed a Risk Management Plan (RMP), which established institutional controls (e.g. use restrictions, soil handling requirements, health and safety plans, etc.) and engineering controls (e.g. capping contaminated soil) to protect the public and

14. Contingencies (Continued)

prevent an 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 Regional Water Quality Control Board approved the RMP in January 2014. Over the past several years, developers have completed the installation of durable covers, removal of hazardous materials, and it is expected that most of the required capping will be accomplished through site development and will not require a separate remedial action by the Port.

The Port evaluates cost estimates annually based on additional information and transaction events that may impact the pollution remediation outlays. The accrued cost for pollution remediation at Pier 70 is estimated to be $3,525,000 on June 30, 2023 and $3,890,000 on June 30, 2022. These are obligations not assumed by the Port development partners. As of June 30, 2023, $2,775,000 is the estimated cost to install a sediment cap offshore along the former Pier 70 Shipyard and adjacent to Crane Cove Park, while $750,000 is the estimated cost to perform studies and risk assessments involving the Pier 70 Undeveloped Upland area.

Former Pier 64 Marine Terminal Investigation & Remediation **-** A 2017-2018 investigation of sediment quality in the former Pier 64 area found elevated concentrations of PAHs in submerged land owned by the Port. In August 2019, the San Francisco Bay Regional Water Quality Control Board (Water Board) issued a directive to conduct further investigation and evaluation of sediment contamination near the former Pier 64. This directive constitutes a regulatory order, which identified a group of potentially responsible companies. These companies or their predecessors discharged petroleum products and other hazardous chemicals into the waters of the state. The Port is named in this directive primarily because it is the past and current property owner.

In 2020, the Port entered into a Cost Sharing Agreement with the potentially responsible parties subject to the Water Board directive, under which all agreed to cooperate, and share costs related to fulfilling the directive. Under the Cost Sharing Agreement, the potentially responsible parties submitted a Sediment Investigation Work Plan designed to identify potential sources, characterize extent, and evaluate potential environmental impacts of the PAH contamination.

The Port and responsible parties performed the sediment investigation and submitted a report of its findings to the Water Board in February 2021. The Water Board responded that any encountered pollution must be managed properly to avoid threats to human health or the environment. As of June 30, 2023 and 2022, the Port has estimated the remediation obligation to be approximately $2,000,000 and $1,400,000, respectively. This estimate is not intended to reflect an admission of liability.

14. Contingencies (Continued)

Mission Bay Ferry Landing **-** The Port's Mission Bay Ferry Landing (MBFL) project is located adjacent to the south side of the former Pier 64. The MBFL project consists of approximately eight acres of in-water area, dredging, ferry berths, and a few hundred feet of armored shoreline.

While planning the MBFL project, the Port analyzed sediment and found elevated PAH concentrations in a portion of the proposed dredge area. As required by the regulatory and resource agencies that authorize in-water construction and dredging, the Port completed a feasibility study for remediating contaminated sediment in June 2018. The feasibility study evaluated the potential environmental impacts of dredging, construction activities, and the effect on aquatic organisms. The study proposed a sediment cap where residual PAHs would remain covered in sediment following construction. The final project engineering plans include removal of the upper portion of contaminated sediment and placement of a 1.6-acre sediment cap.

The PAH contamination may be attributable primarily to historic operations by the Pier 64 potentially responsible companies. While the Port is seeking to recover costs from responsible parties, the Port has proceeded to remediate the sediment contamination as part of the project, to ensure the project is completed in a timely manner. In the future, the Port may seek to recover costs incurred during the MBFL project from the Pier 64 potentially responsible companies.

The Port completed phase one of MBFL construction in November 2020. A marine mattress and additional sand layer will be part of the phase two construction to protect the sand layer from erosion. Construction for phase two is scheduled for fiscal year 2024-25. As of June 30, 2023, the Port estimated this pollution remediation obligation to be $3,700,000. This estimate is not intended to reflect an admission of liability.

Hyde St. Harbor/Wharf J10 Petroleum Discharge - In Spring 2020, petroleum sheens were observed at the shoreline near the Hyde Street Harbor office including the Wharf J10 shoreline. In July 2020, the US Coast Guard issued a Notice of Federal Interest (NOFI).

In September 2020, the United States Environmental Protection Agency (EPA) issued a Cleanup Order to the Port, as the landowner, to investigate and mitigate the petroleum seep. The Port's investigation discovered red-dye renewable diesel fuel in soil, groundwater, and in petroleum seepage into the Bay. In March 2021, the EPA issued a Cleanup Order to the potentially responsible company, a tenant of the Port, to investigate and mitigate the release. In April 2021, the potentially responsible company performed integrity testing on underground pipelines, which supplied renewable diesel fuel to the Hyde Street Harbor Fuel Dock.

In March 2021, EPA approved a Subsurface Investigation Work plan to determine the extent of renewable diesel fuel contamination. The EPA also directed the potentially responsible company to submit a Product Recovery Work Plan for US EPA review and approval. Product recovery work began in calendar year 2022. In calendar year 2022, the EPA transferred lead agency authority to the State Water Board, who then issued a Cleanup Order to potentially responsible parties to prepare and submit a Remedial Action Plan. It is anticipated that the potentially responsible party will submit a Feasibility & Remedial Action Plan to the State Water Board to address soil and groundwater contamination in fiscal year 2023-24.

14. Contingencies (Continued)

The Port believes the potentially responsible company is responsible for the cost of remediation. In addition, there may be other potentially responsible parties due to historical usage of the property and possible insurance coverage for those parties. The full extent of the Port's potential liability cannot reasonably be made at this time. As of June 30, 2023, the Port estimated the pollution remediation obligation to be approximately $1,600,000. This estimate is not intended to reflect an admission of liability.

As of June 30, 2023, the Port also estimated the remaining pollution remediation obligation not previously discussed to be approximately $100,000.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2023 and 2022, is as follows (in thousands):

	Environmental Remediation
Environmental liabilities at July 1, 2021	$ 10,330
Current year claims and changes in estimates	(647)
Environmental liabilities at June 30, 2022	$ 9,683
Environmental liabilities at July 1, 2022	$ 9,683
Current year claims and changes in estimates	1,242
Environmental liabilities at June 30, 2023	$ 10,925

15. Risk Management

Litigation

The Port is a defendant in various lawsuits and claims that arise during the ordinary course of business. Most of these matters deal with personal injury or property damage resulting from an 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.

The estimated claims payable at June 30, 2023 and 2022 is $630,000 and $500,000, respectively. Asserted claims in litigation contribute to the Port's estimated claims liability.

15. Risk Management (Continued)

Insurance – General and Workers' Compensation

The Port is subject to various risks 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, 2023): (i) marine general liability coverage of $100,000,000, subject to a deductible of $100,000 per occurrence, inclusive of hull protection and indemnity coverage of $1,000,000 per occurrence; ii) machinery and equipment breakdown coverage, including business interruption, of $100,000,000, subject to a deductible of $25,000; (iii) commercial property insurance for Port facilities, subject to a maximum coverage of $300,000,000 and a deductible of $5,000,000 per occurrence (increased from a maximum of $140,000,000 and a deductible of $10,000,000 per occurrence before July 1, 2022); (iv) public officials and employee practices liability coverage of $5,000,000, subject to a deductible of $50,000 per occurrence; and (v) special events for cruise terminals at Pier 27, 29 and 35 coverage of $1,000,000 and no deductible. 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 most of 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. 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, 2023 and 2022 has been evaluated by an independent actuary.

With respect to the general liability accrual, the Port has various unsettled lawsuits filed, or claims asserted against it as of June 30, 2023 and 2022. 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 re-evaluated 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.

15. Risk Management (Continued)

Changes in the reported liability reserves for June 30, 2023 and 2022 resulted from the following activity (in thousands):

	General Liability		Workers' Compensation	
	2023	**2022**	**2023**	**2022**
Beginning of year	$ 500	$ 775	$ 2,547	$ 2,524
Current year claims & changes in estimate	340	(270)	1,358	759
Settlements	(210)	(5)	(1,022)	(736)
End of year	$ 630	$ 500	$ 2,883	$ 2,547

Supplemental Schedules

Supplemental Schedule - Combining Statements of Net Position

June 30, 2023 and 2022

(dollar amounts in thousands)

	Port (excluding South Beach Harbor) 2023	South Beach Harbor 2023	Total 2023	Port (excluding South Beach Harbor) 2022	South Beach Harbor 2022	Total 2022
Assets						
Current assets:						
Unrestricted:						
Cash and investments held in City Treasury	$ 324,068	$ 12,880	$ 336,948	$ 180,482	$ 11,247	$ 191,729
Cash held outside of City Treasury	5	-	5	5	-	5
Receivables, net	23,790	363	24,153	37,032	310	37,342
Current lease receivables	37,737	4,226	41,963	40,275	4,196	44,471
Accrued interest receivable	2,323	-	2,323	207	-	207
Accrued interest receivable related to leases	3,078	10	3,088	2,483	8	2,491
Materials and supplies	1,875	-	1,875	1,950	-	1,950
Prepaid charges and advances	176	-	176	176	-	176
Total unrestricted current assets	393,052	17,479	410,531	262,610	15,761	278,371
Restricted:						
Cash and investments held in City Treasury	58,333	353	58,686	31,480	333	31,813
Cash and investments held outside of City Treasury	5,402	-	5,402	5,278	-	5,278
Total restricted current assets	63,735	353	64,088	36,758	333	37,091
Total current assets	456,787	17,832	474,619	299,368	16,094	315,462
Noncurrent assets:						
Capital assets:						
Nondepreciable	116,503	929	117,432	118,588	793	119,381
Depreciable, net	296,281	16,531	312,812	306,761	17,277	324,038
Intangible lease assets	62,728	2	62,730	65,150	3	65,153
Capital assets, net	475,512	17,462	492,974	490,499	18,073	508,572
Unrestricted other noncurrent assets	2,249	-	2,249	2,445	-	2,445
Long-term lease receivables	454,637	8,484	463,121	467,975	10,921	478,896
Long-term accrued interest receivable related to leases	469	-	469	309	-	309
Net pension assets	-	-	-	20,800	-	20,800
Advance to other City Fund	-	-	-	369	-	369
Total noncurrent assets	932,867	25,946	958,813	982,397	28,994	1,011,391
Total assets	1,389,654	43,778	1,433,432	1,281,765	45,088	1,326,853
Deferred outflows of resources						
Deferred outflows of resources from refunding of debt	148	-	148	157	-	157
Deferred outflows of resources related to pension	14,987	-	14,987	12,024	-	12,024
Deferred outflows of resources related to other postemployment benefits (OPEB)	5,702	-	5,702	4,821	-	4,821
Total deferred outflows of resources	20,837	-	20,837	17,002	-	17,002

Supplemental Schedule - Combining Statements of Net Position (Continued)

June 30, 2023 and 2022

(dollar amounts in thousands)

	Port (excluding South Beach Harbor) 2023	South Beach Harbor 2023	Total 2023	Port (excluding South Beach Harbor) 2022	South Beach Harbor 2022	Total 2022
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	$ 6,290	$ 63	$ 6,353	$ 5,243	$ 35	$ 5,278
Accrued interest payable	961	208	1,169	1,007	220	1,227
Accrued interest payable leases	135	-	135	138	-	138
Accrued payroll	2,607	88	2,695	2,092	81	2,173
Accrued vacation and sick leave pay	1,798	20	1,818	1,658	15	1,673
Accrued workers' compensation	611	-	611	495	-	495
Estimated claims payable	225	-	225	100	-	100
Current maturities of long-term obligations	2,703	309	3,012	3,325	296	3,621
Pollution remediation obligations	1,350	-	1,350	1,913	-	1,913
Unearned rents and advance payments	3,813	135	3,948	3,203	127	3,330
Rent credits due to tenants	2,564	-	2,564	2,760	-	2,760
Current lease liabilities	1,553	2	1,555	1,518	2	1,520
Lessee and other deposits	11,156	353	11,509	10,508	333	10,841
Total current liabilities	35,766	1,178	36,944	33,960	1,109	35,069
Noncurrent liabilities:						
Accrued vacation and sick leave pay	1,657	27	1,684	1,705	28	1,733
Accrued workers' compensation	2,272	-	2,272	2,052	-	2,052
Estimated claims payable	405	-	405	400	-	400
Long-term obligations - net of current maturities	65,639	4,724	70,363	68,559	5,034	73,593
Pollution remediation obligations	9,575	-	9,575	7,770	-	7,770
Net pension liability	21,192	-	21,192	-	-	-
Net OPEB liability	30,862	-	30,862	31,617	-	31,617
Long-term lease liabilities	65,881	-	65,881	67,435	1	67,436
Rent credits due to tenants	40,758	-	40,758	42,454	-	42,454
Unearned grants	84,784	-	84,784	-	-	-
Total noncurrent liabilities	323,025	4,751	327,776	221,992	5,063	227,055
Total liabilities	358,791	5,929	364,720	255,952	6,172	262,124
Deferred inflows of resources						
Deferred inflows of resources related to pensions	4,830	-	4,830	50,968	-	50,968
Deferred inflows of resources related to OPEB	6,573	-	6,573	7,190	-	7,190
Deferred inflows of resources related to leases	497,668	14,824	512,492	520,095	17,431	537,526
Total deferred inflows of resources	509,071	14,824	523,895	578,253	17,431	595,684
Net position						
Net investment in capital assets	300,773	12,311	313,084	308,397	12,733	321,130
Restricted for capital projects	47,811	-	47,811	21,269	-	21,269
Unrestricted	194,045	10,714	204,759	134,896	8,752	143,648
Total net position	$ 542,629	$ 23,025	$ 565,654	$ 464,562	$ 21,485	$ 486,047

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Supplemental Schedule - Combining Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2023 and 2022

(dollar amounts in thousands)

	Port (excluding South Beach Harbor) 2023	South Beach Harbor 2023	Total 2023	Port (excluding South Beach Harbor) 2022	South Beach Harbor 2022	Total 2022
Operating revenues:						
Commercial and industrial	$ 66,288	$ 27	$ 66,315	$ 64,270	$ 192	$ 64,462
Parking	21,160	111	21,271	20,516	125	20,641
Cruise	10,382	-	10,382	5,248	-	5,248
Cargo	7,028	-	7,028	6,440	-	6,440
Fishing	2,559	-	2,559	2,407	-	2,407
Harbor services	2,537	4,857	7,394	1,879	4,550	6,429
Other maritime	5,721	393	6,114	5,562	130	5,692
Other	7,560	44	7,604	9,557	75	9,632
Total operating revenues	123,235	5,432	128,667	115,879	5,072	120,951
Operating expenses:						
Personal services	35,235	1,753	36,988	29,021	1,518	30,539
Contractual services	20,883	400	21,283	17,533	203	17,736
Utilities	4,715	395	5,110	3,555	356	3,911
Materials and supplies	1,011	178	1,189	1,105	155	1,260
Depreciation and amortization	24,416	856	25,272	22,431	853	23,284
General and administrative	2,103	17	2,120	2,971	11	2,982
Services provided by other City departments	27,584	246	27,830	25,319	56	25,375
Pollution remediation	1,242	-	1,242	(647)	-	(647)
Other	2,202	(52)	2,150	710	100	810
Total operating expenses	119,391	3,793	123,184	101,998	3,252	105,250
Operating income (loss)	3,844	1,639	5,483	13,881	1,820	15,701
Nonoperating revenues (expenses):						
Interest and investment income	13,821	129	13,950	6,899	114	7,013
Operating grants and transfers	22,028	-	22,028	14,281	-	14,281
Settlement revenue	3,238	-	3,238	-	-	-
Loss from lease terminations	(135)	-	(135)	-	-	-
Gain from capital assets disposal	1	-	1	3	-	3
Interest expense	(4,302)	(228)	(4,530)	(4,466)	(241)	(4,707)
Other revenues	203	-	203	-	-	-
Other contributions	-	-	-	(183)	-	(183)
Total net nonoperating revenues (expenses)	34,854	(99)	34,755	16,534	(127)	16,407
Change in net position before capital contributions	38,698	1,540	40,238	30,415	1,693	32,108
Capital contributions:						
Other contribution	-	-	-	3,829	-	3,829
Grants from government agencies and other contributions	39,369	-	39,369	423	-	423
Change in net position	78,067	1,540	79,607	34,667	1,693	36,360
Net position, beginning of the year	464,562	21,485	486,047	429,895	19,792	449,687
Net position, end of the year	$ 542,629	$ 23,025	$ 565,654	$ 464,562	$ 21,485	$ 486,047