

**Annual Report
For
Fiscal Year Ended June 30, 2016**



Port Commission of the City and County of San Francisco

Issued: March 10, 2017

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I. Introduction

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

The Port Commission of the City and County of San Francisco (“Port”) hereby provides its annual disclosure report for the fiscal year ended June 30, 2016 prepared in accordance with the Continuing Disclosure Certificates dated February 3, 2010 and May 29, 2014.

II. Port Revenue Bonds

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

<i>Continuing Disclosure Certificate</i>	<i>Issue Name</i>	<i>Original Par Amount</i>	<i>Outstanding Par Amount</i> †
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	\$14,220,000	\$14,220,000
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Taxable)	\$22,430,000	\$17,470,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt)	\$19,880,000	\$19,880,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Taxable)	\$2,795,000	\$1,290,000

† As of the report issuance date.

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

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

Series 2010B Bonds (Taxable)

<u>CUSIP Numbers</u>		
<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2018	885,000	797679 AS6
3/1/2019	940,000	797679 AT4
3/1/2020	995,000	797679 AU1

Series 2010B Bonds (Taxable)
Continued

CUSIP Numbers

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2025	6,070,000	797679 AV9
3/1/2030	<u>8,580,000</u>	797679 AW7
	\$17,470,000	

Series 2014A Bonds (AMT Tax-Exempt)

CUSIP Number

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

Series 2014B Bonds (Federally Taxable)

CUSIP Numbers

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2018	440,000	797679 BK2
3/1/2019	450,000	797679 BL0
3/1/2020	<u>400,000</u>	797679 BM8
	\$1,290,000	

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III. Other Non-Reportable Obligations

<u>Issue Name</u>	<u>Original Par Amount</u>	<u>Balance as of Report Issuance Date</u>	<u>Final Maturity</u>
Certificates of Participation*	\$37,700,000	\$32,275,000	2043
California Department of Boating & Waterways Loan	\$3,500,000	\$2,113,302	2029
MOU with the San Francisco Public Utilities Commission**	\$1,144,549	\$0	2016

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

** Memorandum of Understanding with the San Francisco Public Utilities Commission (SFPUC) whereby the Agency advanced funds to the Port to construct and install certain energy efficiency projects at various Port facilities. This loan was fully repaid in July, 2016.

IV. Port of San Francisco, Debt Service Coverage

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues ¹					
Maritime	\$14,992	\$14,861	\$15,989	\$18,398	\$21,247
Real Estate & Asset Management	60,471	61,388	66,562	74,731	75,790
Interest Income ²	1,084	848	765	786	803
Other Revenue ³	<u>1,771</u>	<u>5,263</u>	<u>3,187</u>	<u>2,166</u>	<u>2,695</u>
Total Revenues	<u>\$78,318</u>	<u>\$82,360</u>	<u>\$86,503</u>	<u>\$96,081</u>	<u>\$100,535</u>
Operating Expenses ¹					
Operations & Maintenance ^{4,5}	<u>\$60,818</u>	<u>\$63,760</u>	<u>\$61,195</u>	<u>\$63,496</u>	<u>\$67,230</u>
Total Operating Expenses	<u>\$60,818</u>	<u>\$63,760</u>	<u>\$61,195</u>	<u>\$63,496</u>	<u>\$67,230</u>
Net Revenues ⁶	\$17,500	\$18,600	\$25,308	\$32,585	\$33,305
Debt Service on Bonds ⁷	\$2,845	\$2,846	\$2,847	\$4,171	\$4,176
Net Revenue Coverage on Bonds ⁷ (times)	6.15	6.54	8.89	7.81	7.98
Debt Service on Subordinate Obligations ⁸	\$427	\$474	\$3,359	\$3,179	\$3,076
Net Revenue Coverage on Bonds and Subordinate Obligations ⁸ (times)	5.35	5.60	4.08	4.43	4.59

¹ Revenues and expenses were determined in accordance with the Master Bond Indenture dated February 1, 2010. For all years, the amounts were derived from financial reports which have been audited, adjusted for the elements discussed in footnotes 2 and 4.

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

³ The revenues reported for fiscal year 2013 reflect the following: a) a \$1,310,000 payment in lieu of rent received from the City pursuant to an MOU in which the City agreed to compensate the Port for lost rent resulting from the City's hosting of the 34th America's Cup yacht races, and b) a \$1,878,000 increase in the amount of fees and Port expense recoveries received by developers in connection with contract negotiations for future development projects.

⁴ Operations & Maintenance Expenses excludes non-cash OPEB expenses, and accretion expenses, pursuant to the Bond Indenture. Fiscal years 2015 and 2016 also exclude non-cash credits of \$4,600,000 and \$3,887,000; respectively, from the implementation of GASB 68, a new accounting standard that revises the requirements for the accounting and financial reporting of pension obligations.

⁵ Excludes credits of \$8,032,000; \$2,810,000 and \$68,000 in fiscal years 2012, 2013, and 2014; respectively, against operating expenses resulting from a change in estimate for future environmental remediation costs.

⁶ Higher Net Revenues reported for fiscal years 2014 and 2015 are largely due to a combination of strong revenue growth achieved across most of the Port's Real Estate and Maritime business lines; and, in 2014, significantly lower professional services and other contract related expenses.

⁷ Represents debt service and Net Revenue coverage on the 2010 and 2014 Port revenue bonds.

⁸ Includes the following subordinated obligations: a loan from the California Department of Boating and Waterways, a loan from the SF Public Utilities Commission, and certificates of participation issued by the City on behalf of the Port. The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinated Bonds or other subordinate obligations.

Source: Port of San Francisco

V. Major Port Operating Revenues

Major Port Operating Revenues ¹				
June 30, 2016				
	<u>Annualized Revenue ²</u>		<u>Square Footage ³</u>	
Real Estate				
Industrial	\$19,526,452 ⁴	23.2 %	8,810,350	45.0 %
Ground Lease	11,730,411	14.0	3,082,015	15.7
Restaurant & Retail	11,223,432	13.4	364,201	1.9
Parking	13,276,951	15.8	1,167,473	5.9
Office	6,648,465	7.9	286,635	1.5
Subtotal Real Estate	<u>\$62,405,711</u>	<u>74.3 %</u>	<u>13,710,674</u>	<u>70.0 %</u>
Maritime ⁵				
Cargo	\$5,399,563	6.4 %	3,647,652	18.6 %
Commercial Fishing	2,419,216	2.9	247,184	1.3
Passenger Cruise	7,525,943	9.0	354,360	1.8
Various Maritime	1,908,856 ⁴	2.3	618,568	3.1
Harbor Services	1,786,705	2.1	375,987	1.9
Ship Repair	2,525,551	3.0	645,370	3.3
Subtotal Maritime	<u>\$21,565,834</u>	<u>25.7 %</u>	<u>5,889,121</u>	<u>30.0 %</u>
Total	\$83,971,545	100.0 %	19,599,795	100.0 %

¹ Table only includes revenues derived from tenancy and operating agreements. Not included are revenues from miscellaneous sources. Total operating revenue for the fiscal year ending June 30, 2016 was \$99,733,000.

² Based on current base rents as of June 30, 2016 and Fiscal Year 2016 percentage rents in excess of base rent amounts. Revenue amounts are net of certain rent credits.

³ Excludes portion of area in water.

⁴ Includes \$3.89 million in lease revenues generated from excursion operators. The leases are managed by Real Estate and classified as Real Estate revenues. Various Maritime revenues includes \$280 thousand in landing, dockage and other vessel-related fees generated by these operators. revenues and included in the Various Maritime business activity line.

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

Source: Port of San Francisco

VI. Port of San Francisco Top Ten Tenants and Customers

PORT OF SAN FRANCISCO
Top Ten Port Tenants and Customers By Revenue
Fiscal Year Ending June 30, 2016
(Revenues in Thousands)

Tenant Name	Revenue ¹	Percent of Operating Revenue ²	Use	Expiration
China Basin Ball Park Co.	\$6,207	6.2 %	Ballpark and Related Parking	12/31/2022 ³
Princess Cruises	4,341	4.3	Passenger Cruises	n/a ⁴
Central Parking Systems	4,292	4.3	Parking	Expired ⁵
Pier 39 Ltd. Partnership	3,746	3.8	Retail / Entertainment	12/31/2042 ⁶
Imperial Parking (U.S.), Inc.	2,345	2.3	Parking	Expired ⁷
Recology San Francisco	2,107	2.1	Recycling	7/31/2023 ⁸
BAE Systems - SF Ship Repair, Inc.	2,084	2.1	Ship Repair	4/30/2035 ⁹
Hornblower Yachts	2,054	2.1	Excursions	Expired ¹⁰
Transbay Cable, LLC	1,991	2.0	Utility (Electric Power Transmission)	11/21/2035
Hanson Aggregates Mid-Pacific, Inc.	<u>1,851</u>	<u>1.9</u>	Sand and Aggregate, Maritime Support	8/31/2018 ¹¹
Total	\$31,018	31.1 %		

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

² Operating revenue for the fiscal year ending June 30, 2016 was \$99,733,000.

³ Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire 3/31/2017 and 12/21/2022.

⁴ Princess Cruises does not lease property. Pacific Cruise Ship Terminals is the Port's stevedoring operator for its cruise facilities, and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port based on cruise ship call duration and cruise passenger volume generated by Princess Cruises. As many as 14 other cruise lines also pay fees to Pacific Cruise Ship Terminals and the Port for cruise calls at the Port.

⁵ Tenant had multiple leases, all of which are expired, but have continued under holdover provisions. The parking sites were rebid and a new operator has been selected by the Port Commission. The final lease arrangement with the new operator is pending.

⁶ Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire 8/31/2021.

⁷ Tenant has multiple leases. The tenant's primary lease primary lease has expired, but has continued under holdover provisions. The tenant's other leases expire 11/30/17 and 11/30/2018.

⁸ Tenant has two leases. Expiration date shown is for the primary lease. The tenant's other lease expires 7/31/2019.

⁹ On December 30, 2016 the ship repair leasehold was transferred from BAE Systems to Puglia Engineering, Inc. All terms of the current lease remain in effect and are remain unchanged.

¹⁰ Tenant has multiple leases, and a landing rights agreement. The tenant's primary lease has expired, but has continued under holdover provisions. The tenant's other leases expire 12/31/17. The landing rights agreement expires 12/31/30.

¹¹ Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire 2/28/2019.

Source: Port of San Francisco

VII. Real Estate Leases, Remaining Lease Terms

PORT OF SAN FRANCISCO
Real Estate Leases
Remaining Lease Terms, as of June 2016

	<u>Number of Leases</u>		<u>Annualized Revenue¹</u>	
Month-to-Month	218	47.0 %	\$17,297,468	27.1 %
<i>Remaining Term:</i>				
Less than One Year	59	12.7	10,835,730	17.0
One to Five Years	100	21.6	6,706,126	10.5
Five to Ten Years	15	3.2	6,654,012	10.5
Ten to Twenty Years	30	6.5	8,420,496	13.2
Twenty to Thirty Years	8	1.7	7,915,275	12.4
Over Thirty Years	<u>34</u>	<u>7.3</u>	<u>5,939,311</u>	<u>9.3</u>
Total	464 ²	100.0 %	\$63,768,418	100.0 %

¹ Based on current minimum rents as of June 30, 2016 and Fiscal Year 2016 percentage rents over base rent amounts. Amounts are net of certain rent credits.

² This table includes Real Estate leases only. The Port currently has 126 Maritime leases.

Source: Port of San Francisco

VIII. Real Estate Top Ten Tenants and Customers

PORT OF SAN FRANCISCO
Top Ten Real Estate Tenants by Revenue
Fiscal Year ending June 30, 2016
(Revenues in Thousands)

Tenant Name	Revenue ^{1,2}	Percent of Real Estate Revenue ³	Percent of Operating Revenue ⁴	Use
China Basin Ballpark Company LLC	\$6,207	8.2 %	6.2 %	Ballpark and Related Parking
Central Parking System	4,292	5.7	4.3	Parking
Pier 39 Limited Partnership	3,746	4.9	3.8	Retail/Entertainment
Imperial Parking (U.S.), Inc.	2,345	3.1	2.4	Parking
Recology San Francisco	2,107	2.8	2.1	Recycling
Trans Bay Cable LLC	1,991	2.6	2.0	Utility (Power Transmission)
Ferry Building Investors, LLC	1,760	2.3	1.8	Office/Retail and Related Parking
Boudin Properties, Inc.	1,677	2.2	1.7	Restaurants/Retail/Bakery
AMB Pier One, LLC	1,343	1.8	1.3	Office/Retail
Affordable Storage	<u>1,237</u>	<u>1.6</u>	<u>1.2</u>	Storage
Total	\$26,705	35.2 %	26.8 %	

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

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

³ Real Estate revenue for the fiscal year ending June 30, 2016 was \$75,790,000.

⁴ Total Port Operating Revenues for the fiscal year ending June 30, 2016 was \$99,733,000.

Source: Port of San Francisco

IX. Port of San Francisco Historical Results of Operations

PORT OF SAN FRANCISCO					
Historical Results of Operations					
For Fiscal Year Ended June 30,					
(Amounts in Thousands)					
	Audited	Audited	Audited	Audited	Audited
	2012	2013	2014	2015	2016
Operating Revenues:					
Maritime					
Cargo	\$5,442	\$4,886	\$4,696	\$4,931	\$5,281
Ship Repair	1,706	1,553	1,790	2,045	2,543
Harbor Services	1,964	2,018	2,136	1,996	1,768
Cruise	2,266	2,825	3,396	4,928	7,663
Fishing	2,024	2,012	2,123	2,185	2,062
Other Marine	1,517	1,556	1,842	2,305	1,779
Miscellaneous	73	11	7	9	151
Total Maritime	\$14,992	\$14,861	\$15,990	\$18,399	\$21,247
Real Estate & Asset Management					
Commercial/Industrial	\$42,883	\$43,266	\$46,606	\$51,328	\$53,519
Parking	17,159	17,774	19,724	22,312	21,504
Filming & Special Event Revenue	203	48	67	717	252
Miscellaneous	226	300	165	374	515
Total Real Estate & Asset Management	\$60,471	\$61,388	\$66,562	\$74,731	\$75,790
Other Operating Revenues	1,797	5,263	3,187	2,166	2,696
Total Operating Revenues	\$77,260	\$81,512	\$85,739	\$95,296	\$99,733
Operating Expenses					
Operations & Maintenance ¹	\$55,470	\$63,615	\$63,162	\$60,896	\$64,896
Depreciation & Amortization	15,070	16,367	20,434	22,787	21,924
Total Operating Expenses	\$70,540	\$79,982	\$83,596	\$83,683	\$86,820
Operating Income	\$6,720	\$1,530	\$2,143	\$11,613	\$12,913
Other Income & (Expenses)					
Interest & Investment Income	\$2,559	\$24	\$1,236	\$970	\$884
Interest Expense	(1,767)	(1,440)	(3,482)	(4,220)	(4,656)
Debt Issuance Cost ²			(1,650)	0	
Gain/(Loss) on Disposal of Assets	(7,648)	(5,821)	(153)	(292)	1,676
Other	9,150	7,565	865	2,144	177
Total Other Income/(Expense) Net	\$2,294	\$328	(\$3,184)	(\$1,398)	(\$1,919)
Net Income/(Loss) Before Capital Contribution	\$9,014	\$1,858	(\$1,041)	\$10,215	\$10,994
Capital Grants and Other Contributions	16,955	25,832	9,721	1,560	24,081
Change in Net Position	<u>\$25,969</u>	<u>\$27,690</u>	<u>\$8,680</u>	<u>\$11,775</u>	<u>\$35,075</u>

¹ In 2015 the Port implemented GASB Statement No. 68 (an amendment to GASB Statement No. 27) which is intended to improve the accounting and financial reporting of pension obligations. Reported expenses for Fiscal Years 2014-15 and 2015-16 includes non-cash credits of \$4,600,000 and \$3,887,000; respectively, from the implementation of this standard. The previous years in this table have not been restated to conform with the new accounting standard.

² In 2014 the Port implemented GASB Statement No. 65. Among other things, the Statement requires that the cost of debt issuance be expensed in the fiscal year incurred, rather than amortized over the life of the associated debt. In accordance with the new GASB Statement, \$1.65 million in cost incurred in the issuance of the Port's Series 2014 Revenue Bonds were expensed in FY 2013-14. The previous years in this table have not been restated to conform with the new accounting requirements because the change was not material.

Source: Port of San Francisco

X. Port of San Francisco Historical Operations and Maintenance Expenses

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

	<u>Audited 2012</u>	<u>Audited 2013</u>	<u>Audited 2014</u>	<u>Audited 2015</u>	<u>Audited 2016</u>
Operations & Maintenance					
Personnel Expense ¹	\$29,634	\$30,228	\$31,454	\$32,006	\$33,180
City-Wide Overhead	0	0	316	520	571
Other Current Expenses ²	3,355	3,802	4,020	4,202	3,932
Professional & Specialized Services	3,826	4,887	2,770	2,853	4,192
Utility Expenses	2,111	2,040	1,974	2,395	2,146
Materials & Supplies	1,051	1,548	1,635	1,689	1,468
Judgments, Claims & Litigation ³	333	427	282	(416)	(306)
Office Rent	2,882	2,892	2,889	2,916	2,832
Charges for Use of City Services	16,395	17,221	15,571	17,097	19,124
Other Operating & Maintenance Exp. (net) ⁴	<u>1,231</u>	<u>715</u>	<u>284</u>	<u>234</u>	<u>91</u>
Operations & Maintenance Exp. - Subtotal	<u>\$60,818</u>	<u>\$63,760</u>	<u>\$61,195</u>	<u>\$63,496</u>	<u>\$67,230</u>
Non-cash adjustments for:					
(i) pensions pursuant to GASB 68				(4,600)	(3,887)
(ii) estimated pollution remediation cost	(8,032)	(2,810)	(68)		
(iii) Other Post Employment Benefits (OPEB)	<u>2,684</u>	<u>2,666</u>	<u>2,035</u>	<u>2,000</u>	<u>1,553</u>
Total Operations & Maintenance Exp.	<u>\$55,470</u>	<u>\$63,616</u>	<u>\$63,162</u>	<u>\$60,896</u>	<u>\$64,896</u>

¹ The reported expenses for Fiscal Years 2014-15 and 2015-16 excludes non-cash credits of \$4,600,000 and \$3,887,000; respectively, resulting from the implementation of GASB 68; a new accounting standard that revises the requirements for the accounting and reporting of pension obligations.

² The reported expense for Fiscal Years 2011-12 through 2013-14 excludes the effect of a credit which represents a non-cash adjustment to account for a reduction in estimated future environmental costs. These credits totaled \$8,032,000, \$2,810,000 and \$68,000 for Fiscal Years 2011-12 through 2013-14; respectively.

³ The credits for "judgements, claim and litigation" reported for Fiscal Years 2014-15 and 2015-16 reflect large reductions in the reserve of claims and litigation taken at June 30, 2015, and June 30, 2016; respectively.

⁴ The relatively high "other operating and maintenance expenses" reported for Fiscal Years 2011-12 and 2012-13 reflect the following:
- For FY 2011-12; a \$1.0 million payment made to the AC34 Event Authority for the use of plans and design drawings that they developed for repairs to and seismic upgrade of Piers 30-32.
- For Fiscal Year 2012-13; \$451,000 in fees paid to the City for the use of their commercial paper program to finance certain Port capital projects.

Source: Port of San Francisco

XI. Audited Financial Statements of the Port Commission, City and County of San Francisco For the Fiscal Year Ended June 30, 2016.

For the Port's Audited Financial Statements for Fiscal Year Ended June 30, 2016, please go to the link titled "2016 Audited Financial Statements" located in the Finance & Administration section of the Port's website at www.sfport.com.

XII. Significant Events

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

XIII. Other Matters

Municipal Debt Policy •

In 2009 the Port Commission adopted the Port's first municipal debt policy ("debt policy"). The purpose of the policy is to provide comprehensive guidelines to Port staff for the issuance and management of the Port Commission's bonds and other debt obligations.

In 2016 Port staff revised and updated the Port's debt policy to make the policy consistent with existing state and federal laws, including state legislation and Board of Supervisors actions related to the formation of Infrastructure Financing districts. The updated debt policy was adopted by the Port Commission at its November 15, 2016 meeting.

Among other things, the updates to the policy:

- (i) Clearly distinguishes those debt instruments that are Port obligations, and repayable primarily from Port Harbor Fund revenues from those issuances that are issued by a special district and repayable primarily from taxes levied on land within the district. The updated policy also makes clear that Port Harbor Funds will not be pledged to repay any special district issued debt.
- (ii) Provides clear standards for City issued debt and special district issued debt, such as a community facilities district or an infrastructure financing district, to fund improvements located on land within the Port's jurisdiction.
- (iii) Expands the set of circumstances for which the use of private placements is considered appropriate. The updated debt policy now allows for the use of privately placed debt in those situations where the cost of the privately placed debt will be lower than the cost of a public offering.
- (iv) Includes a new requirement for the Port to provide disclosure obligation training to Port Commissioners and Port staff involved in the drafting, review and approval of debt offerings. This is designed to ensure that the Port remains in compliance with its contractual initial and continuing disclosure obligations described in Securities and Exchange Commission Rule 15c2-12 and related rules.
- (v) Includes new internal control procedures stating that proceeds from debt issues used to finance capital improvements will be held by a third-party trustee, and that the Port will submit requests to the trustee for reimbursement of its eligible expenses. These procedures were added to bring the Port's Debt policy in compliance with California Code Section 8855(i), recently signed legislation by the Governor that is intended to ensure that proceeds from debt issuances are used for their intended purpose.

To view a copy of the updated debt policy, please go to the link titled “Port Debt Policy 2016” located in the Finance & Administration section of the Port’s website at www.sfport.com.

Infrastructure Financing Districts •

Since 2005 the Port has pursued State and local legislative changes which were designed to increase the funding options available to address the Port’s deferred maintenance needs and other capital requirements, and to expand the range and profitability of uses on Port property. One focus of the Port’s effort has been pursuing the authority to use to capture property tax growth to fund public improvements along the San Francisco waterfront using the infrastructure finance district financing mechanism. This will allow the Port to address portions of its deferred maintenance backlog (discussed in more detail in the Ten Year Capital Plan section of this report) by using this land secured financing tool.

In 2005 the Governor signed into law Senate Bill No. 1085 which authorized the Board of Supervisors (“Board”) to form an infrastructure financing district (“IFD”) covering Port property. Among other things, the legislation:

- (i) Authorizes the use of an IFD for urban waterfront areas in addition to undeveloped or underdeveloped areas;
- (ii) Makes clear that publically-owned property subject to the tidelands trust for commerce, navigation and fisheries, including filled tidelands, may be included in IFDs;
- (iii) Enumerates additional examples of improvements that qualify for IFDs, including seismic upgrades, historic preservation, environmental remediation, utility improvements, and the structural repair or construction of seawall, piers and wharves.

In 2012 the Board authorized the formation of Infrastructure Finance District No. 2 consisting of the entire waterfront area under Port jurisdiction (all the Port area) and designated an initial eight proposed project areas within this IFD. The first of these project areas was established by the Board in 2016 for the historic properties located along 20th Street in the Pier 70 area that currently are being rehabilitated and developed by Orton Development (referred to as Sub-Project Area G-1).

The Port, along with developers by Forest City, and Seawall Lot 337 Associates (an affiliate of the San Francisco Giants) is currently working on the establishment of project area districts for properties located within the Pier 70 area known as the ‘Waterfront Site’, and one for the seawall lot 337 and Pier 48 properties; respectively. The current schedule calls for the Waterfront Site project area to be in place by the end for 2017, with the seawall lot 337 and Pier 48 project area following shortly thereafter.

The three IFD project areas are expected to issue debt in the future— infrastructure financing district and/or community financing district bonds, however, the amount and timing of these issuances has not be determined at this time. This debt, when issued, will be an obligation of the relevant IFD project area, secured by the properties and by tax increment and special tax revenues generated within project area. This debt will not be secured by Port harbor fund revenues, in accordance with the Port’s Municipal Debt Policy.

Northern Waterfront Seawall •

The Port’s facilities are in a seismically active zone, and a significant earthquake in the area is probable sometime within the next 30 years. Such an event would have a major impact on the Port’s facilities and infrastructure; including its Northern Waterfront Seawall, a three mile retaining wall that runs from Fisherman’s Wharf in the north to Mission Creek in the south.

The Northern Waterfront Seawall (the seawall) was constructed in sections over a period of 40 years beginning in 1878. Today, the seawall anchors the Northern Waterfront, providing support to Port’s historic bulkhead wharves and buildings. The seawall provides flood and wave protection to Downtown San Francisco and stabilizes hundreds of acres of filled land which contains vital Port and City infrastructure including The Embarcadero Promenade and

Roadway, and key utilities serving large areas of the City. When constructed, the seawall was built on top of, and backfilled with, soils subject to liquefaction. No section of the seawall or the filled land behind the seawall was designed to withstand liquefaction. In a major seismic event, if liquefaction occurs, specific seawall sections could move vertically downward and/or laterally outward.

In 2014 the Port initiated an earthquake vulnerability study of its seawall to better understand how the infrastructure would perform in an earthquake, predict damage, and develop a plan to improve its performance. Objectives of the study included a comprehensive review and evaluation of the seawall and the related geotechnical conditions, assessment of the earthquake vulnerability, prediction of damage and economic impacts from a range of seismic events, development of conceptual mitigation alternatives, and recommendations for further action and/or study.

Results of the study, which were published in July 2016, show that the seawall requires significant improvements to withstand a major earthquake and to address flood risk from sea level rise. The study puts the estimated cost of significantly improving the seismic performance of the entire three miles of the Northern Seawall and the associated waterfront at \$2 to 3 billion. Incorporating adaptation measures to address sea level rise is expected to increase the cost to as much as \$5 billion.

The Port Commission has approved a two-pronged approach to addressing the needed improvements that entails initiating a Seawall Resiliency project to: (a) plan and complete improvements needed to address the most immediate life safety and high priority upgrades of the seawall (currently estimated to cost approximately \$500 million); and (b) define requirements for subsequent phases needed for a resilient seawall.

Given the importance to the City of the lands and infrastructure that the seawall protects, the City is working with the Port to identify and ensure funding for the Seawall Resiliency project. The City has established an Executive Steering Committee to oversee the multi-phase project. The Committee, which meets quarterly, is comprised of senior City officials and executives from private industry and various public agencies. The City also established a Seawall Finance Working Group to explore and secure funding for this project. Members of the Group include the City Risk Manager, the Director of the Controller's Office of Public Finance, an official from the Mayor's Office of Economic and Workforce Development, members from the Port, the City's Capital Planning department, and the Mayor's office, and a member of the public with investment banking experience.

The City and its agencies are contributing \$6 million in funding toward the cost of planning and preparing a preliminary design for construction of the first phase of the Seawall Resiliency Program. This is being combined with \$3 million in Port funds allocated for this work. Additionally, in January, 2017 the Mayor announced that the City will ask voters to approve a \$350 million general obligation bond in November 2018 to finance these improvements. The current program schedule calls for the construction of these improvements to be completed by 2025.

Ten-Year Capital Plan •

On April 25, 2006 the San Francisco Port Commission adopted a ten-year capital plan for the Port. The purpose of the plan is to identify the major maintenance and capital improvement needs of the Port's facilities, prioritize capital projects, and identify potential funding sources. The maintenance and improvements identified within the plan will bring the facilities up to current building code standards, including seismic requirements. Currently, every two years the Port prepares an update to its ten year capital plan.

The most recent update to the ten year capital plan, approved by the Port Commission on January 10, 2017, identified three types of capital improvements. Improvements are classified as either: i) a capital project needed to maintain the Port's facilities in a state of good repair; ii) a potential seismic improvement; or iii) a planned enhancement to Port facilities. Seismic work is only required where a change in use or a major rehabilitation is taking place consistent with City building code requirements. The 2017 update identified \$1.49 billion in total capital need and \$0.56 billion in conditional seismic costs for a total of \$2.05 billion. The report also shows \$1.23 billion in planned capital enhancements. Shown below, for comparison purposes, are capital improvement totals from the 2015 and 2017 updates:

millions of \$s		
<u>Type of Improvement</u>	<u>2015 Update</u>	<u>2017 Update</u>
Needed to maintain a state of good repair	\$1,622.3	\$1,492.2
Conditional seismic	<u>476.3</u>	<u>561.7</u>
Subtotal	\$2,098.6	\$2,053.9
Planned enhancements	<u>365.8</u>	<u>\$1,226.8</u>
Total	\$2,464.4	\$3,280.7

The largest category of capital improvements (\$1.49 billion), consist of capital projects, deferred maintenance and subsystem renewal work required for Port facilities. Planned enhancements totaling \$1.23 billion include new parks along the waterfront, new infrastructure, new developments in the Northeast, Central and Southern Waterfronts, and improvements to the Northern Seawall and maritime facilities.

The reduction in the investment needed to maintain the Port’s facilities in a state of good repair reported in the 2017 update reflects deferred maintenance work completed by Port and its tenants over the last two years, and the decision by the Port to remove some structures at Pier 70 that no longer provide utility to the Port and whose renewal and rehabilitation are not economically justifiable. Significant cost savings are realized by the decision to demolish certain structures there.

The significantly higher capital enhancements costs reported in the 2017 update is largely due to costs for projects that have been either newly identified or for which cost estimates were available for the first time and included in the 2017 update. The largest of these is a \$500 million project to improve the earthquake resiliency of the Port’s Northern Seawall. Other key enhancement projects include: (i) a new ferry landing at Mission Bay, (ii) a dinner-theatre and hotel development project, (iii) an affordable family housing, and (iv) improvements to the National Park Service Alcatraz embarkation site located in the Northeast Waterfront.

The 2017 update projects \$1.31 billion in funding will be available over the next ten years to address the Port’s capital needs and capital enhancements, including seismic work. Of this amount, \$337 million is expected to be derived from internally generated funds consisting of (i) Port capital, (ii) Port revenue bonds and (iii) Port tenant obligations. The remaining \$977 million represents externally generated funding consisting of (i) development project funding, (ii) City and County of San Francisco general obligation bonds, and (iii) local, state and federal grants.

As published, the 2017 update indicates \$1.97 billion in repair and renewal, conditional seismic, and enhancement projects for which no funding has been identified. Subsequent to the development of the 2017 update, the Mayor announced that the City will ask the voters to approve a \$350 million general obligation bond to fund the first phase of improvements to the Northern Seawall, thereby reducing to \$1.62 billion the portion of the Port’s ten year capital plan for which no funding has been identified. The Port continues to work to identify sources of funds for this portion of its ten year capital plan.

To view the complete 2017 update to the Port’s ten year capital plan, please go to the link titled “Port Commission Approved Ten-Year Capital Plan FY 2017-18 to 2026-27” located in the Finance & Administration section of the Port’s website at www.sfport.com.

San Francisco Redevelopment Agency •

The San Francisco Redevelopment Agency (SFRDA) was one of 400 redevelopment agencies in the State of California. The SFRDA was founded in 1948 and operated to revitalize deteriorated areas of the City and County of San Francisco. SFRDA’s activities generally functioned in designated redevelopment areas, known as project areas. The SFRDA was a major tenant of the Port. Under long term ground leases with the Port, the SFRDA operated the Port’s Pier 40 facility, and the adjacent 700 slip marina harbor, together known as South Beach Harbor. In addition, the SFRDA developed seawall lots and other Port property in the Central Waterfront with a park, housing, restaurant and retail projects.

Through a series of State legislative and court actions, the State's redevelopment agencies, including the SFRDA, were dissolved effective February 1, 2012 and their activities, including the eventual wind-down of their operations, were taken over by successor agencies. The successor agency for the SFRDA is known as the Office of Community Investment and Infrastructure (the OCII).

The Port is currently managing and operating the South Beach Harbor (SBH) marina and related facilities on behalf of OCII. The Port has negotiated a Memorandum of Agreement (MOA) with OCII to terminate the ground leases between the Port and SFRDA and transfer the SFRDA assets to the Port.

Under the approved MOA OCII retained the obligation to repay the revenue bonds that were issued to finance the construction of South Beach Harbor, including the obligation to use pledged tax increment revenues from South Beach Harbor to repay the South Beach Harbor revenue bonds (the final payment on these bonds was made in December 2016). The Port will assume \$7.1 million in California Division of Boating and Waterways loans that were incurred to finance the construction of South Beach Harbor, plus the SFRDA's unmet public access obligations under a March 1984 permit issued by the San Francisco Bay Conservation and Development Commission for the construction of South Beach Harbor.

In addition to the above, the MOA and associated transfer of the assets from OCII to the Port is conditioned upon the Port Commission formally designating South Beach Harbor project area as a Special Facility under the provisions of the Port's Master Revenue Bond indenture, due to a conflict in the security provisions of the SBH bonds and the Port's revenue bonds. In connection with this designation, the Port has prepared and, upon the completion of the last few outstanding conditions needed to execute the MOA, will file a report with the Port's Revenue Bond Trustee. The report will demonstrate that the Port has satisfied the tests required to designate South Beach Harbor as a Special Facility, along with an opinion of Bond Counsel related to the SBH bonds issued by the SFRDA.

The MOA has been approved by the commissions of both the Port and OCII, OCII's Oversight Board, and the California State Department of Finance. Port staff is working to obtain approval from California Department of Boating and Waterways needed to execute the MOA.

Miscellaneous •

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

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

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

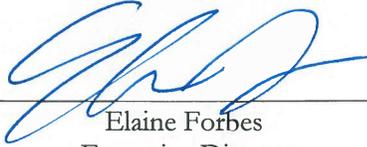
In the case of Standard & Poor's
Standard and Poor's Ratings Services
55 Water Street
New York, NY 10041

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

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

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

Port Commission of the
City and County of San Francisco



Elaine Forbes
Executive Director

3/9/2017