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, 2017 and 2016

Certified
Public
Accountants

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Port Commission, City and County of San Francisco (City), Port of San Francisco (Port), an enterprise fund of the City, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2017 and 2016, 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.

Macias Gini & O'Connell LLP
101 California Street, Suite 1825
San Francisco, CA 94111

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Port enterprise fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Francisco, California
October 23, 2017

Introduction

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

The Port is a self-supporting enterprise department of the City and County of San Francisco (City) and its financial statements are included in the City's basic financial statements. Only the accounts of the Port are included in the financial statements that follow. The Port Commission is responsible for seven and one-half miles of waterfront property, which was transferred in trust from the State of California to the City in 1969. The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Additional information concerning the Port's organization and the basis of presentation for this financial report is contained in Note 1 and Note 2 to the financial statements (pages 26 to 30).

Financial Statement Overview

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

The statements of revenues, expenses and changes in net position present information that show 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. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected rents from tenants and earned and unused vacation leave).

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 26 to 62 of this report.

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

Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015	2017-2016 Change	2016-2015 Change
Current and other assets	$ 208,502	$ 191,839	$ 152,032	$ 16,663	$ 39,807
Capital assets	427,742	430,850	444,105	(3,108)	(13,255)
Total assets	636,244	622,689	596,137	13,555	26,552
Deferred outflows of resources	20,916	6,467	5,555	14,449	912
Current liabilities	26,505	23,454	24,788	3,051	(1,334)
Noncurrent liabilities	238,705	210,874	209,459	27,831	1,415
Total liabilities	265,210	234,328	234,247	30,882	81
Deferred inflows of resources	2,210	7,158	14,850	(4,948)	(7,692)
Net position:					
Net investment in capital assets	298,928	304,396	315,037	(5,468)	(10,641)
Restricted	24,365	26,152	6,511	(1,787)	19,641
Unrestricted	66,447	57,122	31,047	9,325	26,075
Total net position	$ 389,740	$ 387,670	$ 352,595	$ 2,070	$ 35,075

Changes in Net Position (in thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015	2017-2016 Change	2016-2015 Change
Revenues:					
Operating revenues	$ 113,353	$ 99,733	$ 95,296	$ 13,620	$ 4,437
Nonoperating revenues	5,288	2,737	3,114	2,551	(377)
Capital contributions	1,822	24,081	1,560	(22,259)	22,521
Total revenues	120,463	126,551	99,970	(6,088)	26,581
Expenses:					
Operating expenses	114,075	86,820	83,683	27,255	3,137
Nonoperating expenses	4,318	4,656	4,512	(338)	144
Total expenses	118,393	91,476	88,195	26,917	3,281
Change in net position	2,070	35,075	11,775	(33,005)	23,300
Net position, beginning of year	387,670	352,595	340,820	35,075	11,775
Net position, end of the year	$ 389,740	$ 387,670	$ 352,595	$ 2,070	$ 35,075

Financial Analysis

Total net position at June 30, 2017 of $389,740,000 was $2,070,000 higher than the net position at June 30, 2016. This follows increases of $35,075,000 at the end of 2016 and $11,775,000 at the end of 2015. Net position is reported after required adjustments to record pension obligations and related items. The City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (collectively, "GASB 68") as of July 1, 2014. As permitted by the transition provisions of these statements when restatement of all prior periods is not practical, the cumulative effect of applying this accounting change was reported as a restatement of beginning position as of July 1, 2014 (a $30,469,000 decrease). As discussed in greater detail in Note 10, the Port's net pension liability increased in 2017 to $51,608,000 from $21,291,000. Because the earlier measurement date allowed for the net pension liability and period-to-period actuarial changes, the accounting rules require the reporting of certain deferred outflows of resources and deferred inflows of resources, separate from assets and liabilities. Deferred outflows of resources related to pensions increased in 2017 to $20,916,000 from $6,467,000 and deferred inflows of resources related to pensions decreased in 2017 to $2,210,000 from $7,158,000. A summary of the elements reported as deferred outflows/inflows of resources related to pensions is presented in Note 10 (page 46).

The largest portion of the Port's net position is represented by the net investment in capital assets: 77% at June 30, 2017, 79% at June 30, 2016, and 89% at June 30, 2015. This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of debt attributable to the acquisition, construction or improvement of those assets. The total net investment in capital assets ($298,928,000 at June 30, 2017) does not represent funds accessible for future spending. The resources needed to pay outstanding debt used to acquire capital assets must be provided from other sources (i.e. other Port assets or operating revenues). Capital assets are not normally sold to liquidate liabilities. The remaining portion of net position at June 30, 2017 consists of $24,365,000 restricted for specific capital project expenditures and $66,447,000 that is unrestricted and available to meet future capital requirements and ongoing obligations. Capitalized project expenditures were at a modest level in recent years. There was a net decrease to capital assets in 2017 of $3,108,000, which compares to a net decrease of $13,255,000 in 2016 and a net increase of $4,332,000 in 2015. The funding for the acquisition and construction of capital assets (largely facility improvements) is reflected in the sources and uses of working capital and changes to liabilities and other obligations. Grants and other capital contributions also fund certain capital projects. In 2016, cash inflows from capital financing sources, including $21,699,000 (net of $88,000 administrative costs) of proceeds from City general obligation bonds for waterfront parks and open space projects, and from operations exceeded outflows.

The net increase in noncurrent liabilities of $27,831,000 in 2017 is principally due to the increases of $30,317,000 in the Net Pension Liability and $2,220,000 in the Other Postemployment Benefits Obligation (OPEB) offset by scheduled long-term debt payments, amortization of rent credits and other changes. The net increase in noncurrent liabilities of $1,415,000 in 2016 consists principally of increases in the Net Pension Liability ($4,717,000) and OPEB ($1,553,000) offset by scheduled long-term debt payments, amortization of rent credits and smaller certain changes to other accrued liabilities. The moderate increase/decrease changes in current liabilities as of June 30, 2017 and 2016 are reflective of the volume of in-progress capital project work and related accrued obligations at the end of each year.

Operating revenues increased in 2017 and 2016 and supported current operation and maintenance expenses before depreciation. Capital contribution revenues generally fluctuate with the level of capital grant revenues realized from grant-funded construction activities. In recent years, capital contribution revenues have also included City direct contributions for certain projects and general obligation bond proceeds allocated to fund Port open space and park improvement projects. Expenses outside of normal operations are typically reported in the nonoperating revenues and expenses section, including any costs for pier removal, demolition work and other asset disposition costs and any associated gains and losses from those capital events. Information concerning significant variances and nonrecurring items is included in the more detailed discussion that follows.

The statements of revenues, expenses and changes in net position on page 23 presents the Port's operating revenues in more detail by industry revenue types. Operating revenues for the year ended June 30, 2017 increased $13,620,000 or 13.7%, which compares to an increase of $4,437,000 or 4.7% for the year ended June 30, 2016. Property rentals across all revenue types for the year ended June 30, 2017 posted a net increase of $753,000 comprised of an increase of $1,814,000 in minimum or base rentals offset by a decrease of $1,061,000 in percentage rents. Parking-related revenues, which include lots leased to parking operators, parking stalls, parking meters on Port streets, and fine revenues collected by the City on Port property, remain a strong source of income. One parking lot agreement terminated early in the 2016 fiscal year, resulting in a net year-to-year decrease in parking revenue derived from certain monthly minimum guaranteed rents. Parking meter revenues for on-street parking increased in recent years due to some expansion of metered parking and certain pricing adjustments, including the implementation of higher parking rates for special events.

The James R. Herman Cruise Terminal at Pier 27 opened in September 2014 and the Port has benefited from a good volume of cruise calls and the higher fees and charges assessed for the utilization of the new facilities. Cruise revenues of $7,406,000 for 2017 are $257,000 less than 2016 revenues. Comparatively, 2016 was higher than 2015 by $2,735,000. There were 77, 80 and 76 passenger cruise calls in 2017, 2016 and 2015, respectively. Princess Cruises continues a year-round schedule with several vessels sailing from San Francisco. Participation income is also received by the Port for special events, parking and other activities occurring at this facility.

In 2017, the Port and Pasha Automotive Services (PAS) entered into a 15-year agreement to activate the Pier 80 marine terminal. The agreement allows for the import and export of vehicles by ship at Pier 80, with on-terminal automobile preparation and detailing services. In this first year, PAS received 17 ships at Pier 80, shipping over 15,000 vehicles. Under the agreement, PAS is also in position to manage any project, breakbulk cargo or vessel lay berthing. This agreement added approximately $614,000 to Cargo revenues. The balance of the 2017 increase is derived from existing cargo facility tenants who had new or amended agreements and certain scheduled rent increases.

Ship Repair saw a decrease in 2017 due to increased competition and other factors. A new operator purchased the Pier 70 drydock business, commencing operations in January 2017 and shortly thereafter initiated litigation to rescind the sale and ultimately abandoned the leasehold (Note 17). The Port is in the process of seeking a new shipyard operator. The increase in Fishing revenue is derived from a general rate increase and the addition of permanent berth holders.

Other operating revenues include construction and event permit fees, developer or other one-time transaction fees, and expense recoveries realized or realizable from major development projects. These revenues fluctuate from year to year since they are largely derived from construction activities on Port

property and the timing of specific project transactions. In 2017, the Port received participation income of approximately $6.0 million from the sale and transfer of The Piers project (a development project completed in 2006 at Piers 1½-3-5). As discussed in Note 17, the Port and the former shipyard operator arrived at a $4.9 million settlement to support maintenance and repairs in the shipyard.

Capital grants and other contributions usually consist of funds from federal, state and local grant agencies, which provide funding for several of the Port's capital projects. This revenue source fluctuates based on grant funds availability and the capital work actually in progress at the Port. In 2016, the Port received $13.2 million of proceeds from the City's issuance of 2012 Clean and Safe Neighborhood Parks General Obligation Bonds and $8.5 million in final proceeds from the earlier 2008 parks bond. The $21.7 million in total general obligation bond proceeds represent the majority of the 2017 decrease (and the 2016 increase) in capital contribution revenues.

Total expenses of $118,393,000 (condensed summary on page 4) for 2017 represent a $26,917,000 increase from 2016. Comparatively, 2016 was higher than 2015 by $3,281,000. The statements of revenues, expenses and changes in net position on page 23 presents the Port's operating and nonoperating expenses in greater detail. Information concerning significant variances and nonrecurring items is presented in the more detailed discussion that follows. Operating expense changes in 2017 and 2016 are highlighted below:

	Increase / (Decrease)	
	2017	**2016**
Personal services	$ 17,152,000	$ 1,440,000
Contractual services	5,765,000	917,000
Utilities	687,000	(249,000)
Materials and supplies	385,000	(221,000)
Depreciation and amortization	2,267,000	(863,000)
General and administrative	287,000	(208,000)
Services provided by other City departments	(115,000)	2,027,000
Pollution remediation	(24,000)	188,000
Other	851,000	106,000

Salary and mandatory fringe benefit costs, pursuant to collective bargaining arrangements, continue to rise. Year-to-year cost fluctuations can be attributed to various factors, including headcount changes, retirement (Note 10) and healthcare (Note 11) plan expenses, temporary salaries, and changes in the amount of capitalized labor (i.e. labor captured as part of capital improvement work and excluded from operating expenses). The full-time equivalent headcount at June 30, 2017 was 249 versus 236 in 2016. The largest portion of the expense variance in 2017 personal services is for pension costs, as adjusted pursuant to GASB 68. The net pension expense in 2017 is a $14,853,000 increase over 2016. Comparatively, the increase in 2016 was $3,000. Accounting rules have moved to require the more accurate recognition of the costs of retirement programs, including the future cost of retiree benefits other than pensions (i.e. retiree medical benefits or "OPEB"). Prior to GASB 68, pension expense was recorded based on actuarially determined funding contribution levels. Commencing 2015 with the implementation of GASB 68, pension expense reflects the change in the net pension liability and related deferred outflows/inflows of resources. The City allocates pension elements proportionately to departments based on the level of contributions made. More detailed information concerning pensions is in Note 10 beginning on page 43. The City allocates the annual OPEB required contribution computed by

consulting actuaries proportionately to departments based on the current payroll costs of covered employees. This is the final year that the accounting and financial reporting for OPEB follows a funding-based model pursuant to GASB 45. In 2018, the City will be required to implement GASB 75 which requires a broader approach, similar to the GASB 68 accounting and financial reporting model for pensions, that focuses on the effects of all transactions and events that create or modify the obligations for OPEB.

The level of contractual services recorded as operating expense fluctuates with the volume of project-related activities and the work phase of these projects. Total contractual services expenses in 2017 were $5,765,000 more than 2016 expenditures. Preliminary conceptual design work, feasibility analyses, environmental investigations, hazardous material removal and demolition costs are typically expensed when incurred. The Real Estate and Development Division has been actively working with some major development projects that are at important stages of exclusive negotiation and entitlement processes. Professional and other contractual service costs are also incurred to support or supplement Port staff work on these project activities.

Utility costs were higher in 2017. Shoreside power usage at Pier 27 increased: 42 cruise ships plugged in versus 32 in 2016. Related pass-through recoveries for this power usage are reported among cruise revenues. Tenancy changes at Piers 70 and 80 increased power usage and together with rate increases added to 2017 utility costs. Actual utility costs in 2016 were fairly comparable to 2015. The 2016 credit variance is derived from accrued recoveries due from two tenants following the resolution of certain questions concerning utilization level, metering and billing. Materials and supplies fluctuate with the type and volume of maintenance and repair work performed during the fiscal year. In 2017, a large maintenance project commenced to implement a new monitoring system at each of the Port's 42 sewer pump stations. The majority of the increase in General and Administrative expense in 2017 is due to a higher indirect cost allocation from the City. The increase in Other Expenses reflects the change in estimates pertaining to general liability claims (Note 18) for which the costs increased $154,000 in 2017 versus a decrease of $304,000 in 2016 and the purchase of 44 replacement "Big Belly" trash receptacles.

Total service reimbursements to other City departments were $19,009,000 in 2017, a net decrease of $115,000 over 2016. This follows a $2,027,000 increase in 2016 over 2015. In 2004, the Port Commission adopted the findings of a nexus study that analyzed the balance of payments between the Port and City. That study established a record of certain past expenditures and provided a systematic means for determining the balance of payments for future periods. The Port and City continue to evaluate and refine the methodologies used for the reimbursement and allocation of direct and indirect costs. A nexus study update is scheduled in 2018. City direct services are generally settled through the City's interdepartmental work order process. The interdepartmental expense line fluctuates greatly with the volume of project-related activities. The additional costs incurred in 2016 were largely attributable to supplemental services procured from the Department of Public Works for services or projects at Port facilities, from Parking and Traffic for the operation and maintenance of on-street parking program as well as parking enforcement, and from the Police Department for traffic management at the cruise terminal.

Pollution remediation obligations are covered in the environmental matters section of the Contingencies footnote (Note 17). The increased variances in pollution remediation expense for 2017 and 2016 are due to the more recent evaluation and re-estimate of the accrued costs.

Nonoperating revenues and expenses, other than interest income and expense, tend to fluctuate widely based on largely nonrecurring transaction activities or events. Investments are reported at fair value and

the corresponding change in fair value reported along with interest and investment income. Operating grants consist of financial assistance received from various agencies for noncapital purposes, like special studies, disaster response training, and environmental investigations. This grant category also covers the funding from the Federal Railroad Administration for rebuilding the Quint Street Lead, a freight rail spur track that is jointly owned by the two major railroad companies that serve the Port. Reimbursable grant expenditures of $2,721,000 and $49,000 were incurred in 2017 and 2016, respectively. In 2017, the San Francisco Municipal Transportation Agency and Planning Department each contributed $500,000 to the Seawall Resiliency Project ($1.0 million total), supporting required technical studies, engineering feasibility analysis, and communications to engage stakeholders and the public.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets as of June 30, 2017 and 2016, respectively, were $427.7 million and $430.9 million, net of accumulated depreciation. Principal capital assets include land, certain street and road improvements, pier promenades, pier substructure, buildings and related improvements, vehicles, equipment and furniture. More information concerning the Port's capital assets can be found in Note 6 on pages 35-36 of this report.

Significant project appropriations cover capital projects planned and in-progress, including the pending expenditure of the debt issuances discussed below and the general obligation bond proceeds allocated to open space and park projects along the waterfront. As of June 30, 2017, the budget file indicates over $111 million in appropriations for Port capital projects. The Port had firm purchase and contract commitments at June 30, 2017 of approximately $13.7 million for various capital projects.

Major capital asset related events of 2017 included the following:

- ***Pier 31 Roof and Structural Repair.*** This $7.2 million project provides for new roofing and structural improvements to adequately support and protect the new roofing system at Piers 29½ and 31. Piers 29½ and 31 are a contributing resource within the San Francisco Embarcadero Historic District listed in the National Register of Historic Places. The work scope included selective demolition of building elements, hazardous material abatement, shoring, repair of structural framing, roofing and roofing elements, windows, ladders and painting. This completed project will contribute to the Port's ability to develop a long-term lease, deepening the Port's revenue base as well as rehabilitating an important historic resource in the Embarcadero Historic District.
- ***Security improvements.*** Security improvements through the installation and deployment of closed-circuit television (CCTV) and integrated access control/intrusion detection systems at key Port facilities continue in phases, largely based on priority and available funding. In 2017, $1.3 million of such improvements were completed (Piers 23, 45 and 50). Also completed was $0.7 million of lighting and fencing improvements (Piers 31 and 94). Funding is largely from the Port Security Grant Program segment of the Department of Homeland Security's Infrastructure Protection Program. A 25% match from Port funds (or other nonfederal source) is typically required. These improvements assist the Port in complying with the security mandates applicable to facilities regulated under the Maritime Transportation Act of 2002.

Through a federal grant the Port is making improvements to the Quint Street Lead, a freight rail spur track connecting the Peninsula corridor mainline with the Port of San Francisco cargo terminals and rail yard, located on the south side of Islais Creek. The mainline is owned and operated by the Peninsula Corridor

Joint Powers Board primarily for Caltrain commuter rail. The Quint Street Lead is jointly owned by BNSF Railway and Union Pacific Railroad and is not a Port capital asset. These improvement costs are consequently charged to operations and the associated federal funding is recorded as nonoperating revenue ($2.72 million). This project was completed in 2017 for a total cost of $3.89 million.

Major capital asset related events of 2016 included the following:

- ***Pier 35 Building and Roof.*** This $2.2 million project provided for the upgrade of two elevators and essential water intrusion work (roofing, flashing, window and door weather stripping repairs) in several areas in the Pier 35 bulkhead and the shed building. Pier 35 is a historic building, which serves as the Port's secondary cruise terminal and has office tenants in the bulkhead building.
- ***Pier 49, Wharf J1 Under-Pier Sewer Replacement***. This $1.1 million project's scope included the replacement of all existing under-pier gravity main and branch sewer lines serving six Port tenant restaurants at Pier 49 Wharf J1. The sewer system under Wharf J1 had exceeded its constructed useful life. Plumbing modifications added over the years created a complex piping system which became difficult to operate and maintain. This replacement of the sewer system provides reliable service to the affected Port tenants and protects the environment. Completion of this project also fulfills the objective in the Port's Ten-year Capital plan to maintain under-pier utility infrastructure in a "state of good repair" to protect the San Francisco Bay
- ***Security Improvements.*** In 2016, $3.9 million of security improvements (CCTV and integrated access control/intrusion systems) were completed. Current funding is largely from the Port Security Grant Program segment of the Department of Homeland Security's Infrastructure Protection Program. This federal funding expands on the fiber optic security network build-out initially funded by the California Port & Maritime Security Grant Program in 2007 and 2008.
- ***Water Taxi Dock at Pier 15.*** The Exploratorium completed construction of a water taxi dock for the Port off the south apron of Pier 15. In accordance with the development lease, the new $0.6 million dock is owned by the Port. The dock provides pier access for water taxis that operate in the San Francisco Bay.
- ***Bayview Gateway.*** The opening of the Bayview Gateway was celebrated with a ribbon-cutting ceremony on September 18, 2015. It is a one-acre passive green open space at the intersection of Cargo Way and Third Street near Pier 90. Its location provides a welcoming gateway to the Bayview Community with new landscaping containing drought-tolerant plants and fruit-bearing trees, plaza areas, open access to the waterfront, and improved pedestrian amenities. Its design also intends to reflect the natural and cultural history of the neighborhood and to be compatible with the Port's cargo and maritime industrial operations. There is a new walkway along Islais Creek between the Third Street and Illinois Street bridges, and places for picnicking and enjoying the view of the *Bayview Rise* art mural. Sustainable design is carried through the open space with locally sourced construction and landscape materials, and a drainage system that processes and retains 100% of the site's storm-water runoff. The Bayview Gateway project was funded with $4.6 million from the 2008 Clean and Safe Neighborhood Parks General Obligation Bond. A future phase for the open space will bring public art to the corner of Third Street and Cargo Way.

Debt Administration

Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 37-41 of this report. As of June 30, 2017, the Port had long-term debt obligations of $87,248,000 including $2,567,000 that is due during the next fiscal year. Total debt outstanding consists of $52,860,000 in

revenue bonds, $32,275,000 in certificates of participation, and $2,113,000 in a loan that is secured by specified revenue sources.

The Port issued no new debt in 2017 and 2016. The 2014 revenue bonds were issued with long-term credit ratings of "A1", "A-" and "A" from Moody's Investors Services, Standard & Poor's Ratings Services (S&P) and Fitch Ratings, respectively. In November 2015, S&P raised its Port bond credit rating to "A", giving recognition to the Port's continued strong debt service coverage and liquidity position. Ratings from the other two national credit agencies did not change. In 2017, S&P and Fitch Ratings affirmed the Port's "A" bond credit rating.

Economic and Other Factors

Economy

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

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

Other factors

Resiliency is a key strategic goal for the Port and the City. There are mounting threats from natural disasters and aging infrastructure. The Port's three-mile seawall, constructed over 100 years ago, is the foundation of the City's edge, protecting businesses and transportation and enabling them to thrive. With the threat of earthquakes and predicted sea level rise, the seawall must be upgraded and improved to continue to function today and for generations to come. A significant citywide collaborative effort has been mobilized to develop resilience and adaptation strategies that support necessary seismic repairs to the seawall and protect the Port and City from flood risk due to rising sea levels from climate change. The planning for certain leasing and development projects must consider these longer term issues. Through the budget process for fiscal 2017, the Port and City have identified and committed $8 million over two years to advance technical studies and engineering feasibility of seawall repairs, engage stakeholders and the public in decision-making, seek sources of funding, and conduct project environmental review.

Seawall Resiliency Project. The Seawall Resiliency Project is a major City and Port effort to improve safety and resilience of the historic Embarcadero waterfront. The Project's objective is to plan, design,

and implement the most critical improvements over the next decade, and, along with the Waterfront Land Use Plan, provide the framework for ensuring a disaster resilient waterfront by 2040, a major goal of the City's Resilient San Francisco Plan. The focus is on making certain improvements before disaster strikes – those improvements that will save lives, reduce suffering, support disaster response and recovery efforts, and help protect the waterfront. Additional improvements will be required over the next several decades to more fully address seismic risk and sea level rise. The seawall and adjoining marginal wharf that run along The Embarcadero from Fisherman's Wharf southwest to Mission Bay constitute the City's primary flood control system along the Bay waterfront. A recent earthquake vulnerability study indicates that most of the waterfront is highly susceptible to earthquake damage associated with seawall movement and localized failure of the bulkhead. The Embarcadero waterfront is built over weak and potentially liquefiable soils, making it highly susceptible to earthquake induced settlement and lateral spreading. In addition, the weight of the seawall and fill has slowly consolidated the underlying Bay mud causing many areas to settle over the years resulting in compromised flood protection. The completed study is available on the Port's website: https://sfseawall.com/about.

Sea Level Rise. One of the more publicized impacts of global warming is the predicted acceleration of sea level rise, which has been measured in San Francisco Bay for over 140 years. Between 1900 and 2000, the level of the Bay increased by seven inches; and now, depending on which end of the range of projected temperature increases comes about, the California Climate Action Team found that the water levels in San Francisco Bay could rise an additional five inches to three feet, or nearly one meter by the end of this century. More recent analyses indicate that even higher sea level rise may occur from warming oceans which could lead to a 55-inch rise in 100 years, or higher depending upon the rate at which glaciers and other ice sheets on land melt. Port facilities would be impacted by a sea level rise of 16 inches, a possible level projected to occur by 2050, by occasional flooding of some of the Port's facilities. A rise of 55 inches is expected to cause frequent flooding of the majority of the Port's facilities including The Embarcadero waterfront roadway. Many other areas of San Francisco, outside Port jurisdiction, are also expected to be subject to flooding with a 55-inch sea level rise. Therefore, it is expected that adaptation measures would need to be constructed to protect Port facilities if sea level rises significantly. Upcoming major development projects will test different defenses against this growing threat from the bay, including a plan to raise certain site levels above the projected flood zone.

Ten-year capital plan. City Administrative Code Section 3.20 requires a Ten-Year Capital Plan (Capital Plan) that is updated every two years, alternating with the City's current biennial budget process. The Capital Plan distinguishes between renewal work and enhancements. Renewal work returns an existing facility to its original state of good repair whereas enhancements improve or increase asset performance. The most recent version of the Capital Plan, adopted by the Port Commission in January 2017, identifies $1.5 billion required to cover deferred maintenance and subsystem renewals on Port facilities. This amount represents the anticipated cost over the next ten years for deferred maintenance and capital renewal work required on Port facilities in order to maintain such facilities in a state-of-good-repair. Facility condition surveys, performed or managed by Port Engineering staff, are used to identify, and prioritize, immediately required maintenance projects that preserve and extend the economic life of the Port's productive assets. An additional $1.8 billion has been identified for enhancements. The enhancement category tabulates separately $493.5 million for the new Seawall Resiliency Project, $561.7 million for conditional seismic work, and $733.3 million for other improvements.

The Capital Plan, as initially adopted and submitted to the City, identifies only $1.3 billion in funding sources that will be available during the ten-year period. The anticipated sources include a mix of Port capital funds, private sector development project funding, City general obligation bond proceeds for parks and open space, tenant contributions pursuant to improvement and maintenance obligations required

under existing leases, and Federal, State and local grants. Subsequently during the City approval process for the Capital Plan, the City announced its intent to seek voter approval in 2018 for a $350 million general obligation bond to fund the first phase of improvements to the Northern Seawall. Including this additional funding source, the updated Capital Plan projects that approximately $582 million will be applied towards state-of-good-repair projects and approximately $1,082 million will be applied towards enhancement projects.

Development projects have been and will continue to be a significant driver for certain waterfront improvements. In the ten-year period of the current plan, development project funding is projected to be $732.7 million. The realization of this funding is highly dependent on approval of the development projects themselves. A significant change in the real estate market or a dramatic change in the political climate vis-à-vis waterfront development are significant risks that impact the funding strategy assumed in the plan. Development projects that are identified in the plan may change, be delayed, or cancelled.

The Port has also moved to commit more internal resources to address capital requirements. In 2012, the Port Commission adopted a capital budget expenditure funding policy that designates a minimum percentage set aside of annual operating revenues to fund capital projects. Pursuant to this policy since 2013, the Port has set aside a minimum of 20% of operating revenue each year in its operating budget to fund capital expenditures. The designation for capital expenditures steps up to 25% of annual operating revenues in 2018. The Port has met or exceeded its capital funding target in its budget every year since adopting the capital funding policy and anticipates meeting the specified threshold funding level in each of the ten years captured in the Capital Plan. It is also the Port's practice to allocate one-time and surplus revenues to capital expenditures, which contributed to record levels of capital budget appropriations in fiscal 2017 and 2016.

While the updated Plan projects $1.7 billion in capital investments over the next ten years, at the end of that period the Port will still face a backlog of $0.9 billion for renewal work and $0.15 billion in enhancements, plus potentially another $0.6 billion in conditional seismic work. The Seawall Resiliency Project is a major current addition to the inventory of unfunded enhancement needs. There are projects for which the Port (1) does not expect to 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. Several funding options may exist to address unmet needs: new public-private partnership development projects, new Port debt, general obligation bonds, grant opportunities, and infrastructure financing districts. Each new funding option requires substantial staff time to develop and implement as well as support from policy makers; and, in the case of potential development projects, the support of the California State Lands Commission and the San Francisco Bay Conservation and Development Commission.

Legislative efforts. Since 2005, the Port has pursued State and local legislative changes which were designed to increase the funding options available to address the Port's future capital requirements and to expand the range and profitability of uses on Port property. A major focus of the Port's current federal and State legislative program is towards securing funding for the Seawall Resiliency Project and shoreline improvements to address sea level rise. Enactment of legislation requires a significant amount of favorable political will and cooperation among a variety of legislative and regulatory bodies. The Port has been successful in obtaining authority to: (i) capture the State and local share of certain property tax increment revenues that would otherwise be paid to the State and local entities, and (ii) form Infrastructure Finance Districts (IFD) and issue IFD bonds against incremental property tax revenues to provide financing for the public portion of several public private development projects in which the Port is currently involved. For certain benefits to be fully realized by the Port, further regulatory and

additional legislative approvals will be required. The Port has also received funding from two City general obligation bond measures approved by the voters to fund several Port waterfront parks and open space projects.

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

The activation of project or sub-project areas within the contemplated Port IFD will occur as entitled development activities progresses in the future. 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 an initial eight proposed project areas within this IFD. In June 2013, the Board of Supervisors adopted by resolution the "Guidelines for the Establishment and Use of Infrastructure Financing Districts on Project Areas on Land under Jurisdiction of the San Francisco Port Commission." In November 2015, the Board of Supervisors adopted a second amendment to the Resolution of Intention to Establish IFD under which the City declared its intention to establish Sub-Project Area G-1 (Pier 70 - Historic Core) within the Pier 70 district. Following all the necessary public process and proceedings and by passage of Ordinance No. 27-16 in March 2016, the Board of Supervisors formed and established the IFD and approved the related Infrastructure Financing Plan for the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco).

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

City voters may also avail themselves of the initiative process, whereby a proposal for a new ordinance or charter amendment is placed on the ballot by a petition with the required number of signatures. The Port's properties are the subject of Proposition B passed by the San Francisco electorate on June 3, 2014. Proposition B requires voters' approval prior to any development on Port property that exceeds the height limits in effect as of January 1, 2014. Proposition B applies to property currently under the control of the Port Commission, as well as any property that the Port may acquire in the future. Proposition B requires that any future ballot question to increase height limits on Port property must specify both the existing and proposed height limits. Two projects currently under negotiation for development at the Port

contemplate vertical development that will exceed existing height limitations and are subject to the requirements of Proposition B. The developer of the Pier 70 Waterfront Site, through ballot measure Proposition F, received voter approval for its project's increase in height limits on November 4, 2014. The developer for a second project (Mission Rock) through ballot measure Proposition D received voter approval for its project's increase in height limits on November 3, 2015.

Waterfront Land Use Plan. The Port of San Francisco Waterfront Land Use Plan was initially adopted by the Port Commission in 1997, defining acceptable uses, policies and land use information applicable to all properties under the Port's jurisdiction. Developed through a lengthy public planning process, the Waterfront Plan has enabled the Port Commission, the City and the community to jointly define locations for new public-private partnership projects, coordinated with major public open space, maritime and historic preservation improvements along the waterfront.

In 2015, the Port initiated a comprehensive public process to update the Waterfront Plan. Port staff completed a comprehensive review of the Waterfront Plan. The review report documents 120 major Port development and capital project accomplishments since 1997, analyzes development projects that were initiated but were not completed to glean lessons learned, and makes preliminary recommendations to the public and the Port Commission about issues that should be considered in updates to the Waterfront Plan. With formation of the Waterfront Plan Working Group and seven Specialty Advisory Teams, the Waterfront Plan Update public process began in October 2015. The update process is organized into three parts: (1) orientation and analysis of Portwide issues; (2) policy discussions and recommendations on Portwide issues; and (3) focused planning and policy recommendations for Northeast and South Beach waterfront subareas. The project timeline anticipates that the public review process will conclude with final policy recommendations by the end of 2017. Recommendations endorsed by the Working Group in Part 2 and Part 3 of the planning process will guide necessary amendments to the Waterfront Plan. Many recommendations in Part 2 call for new goals and policies and/or significant revisions to the 1997 Waterfront Plan. The Port staff work to draft amendments to the Waterfront Plan is anticipated to occur in 2018. Additional information can be found in summary reports: "Overview of the Port of San Francisco" at this link, Waterfront Plan Update Part 1 Summary and "Part 2 Summary Report – Working Group Subcommittee Recommendations" at this link, Waterfront Plan Update Part 2 Summary.

Previously in July 2000, the Port and the San Francisco Bay Conservation and Development Commission (BCDC) agreed to amend the Port's Waterfront Land Use Plan and BCDC's San Francisco Bay Plan to create consistent plans for the waterfront area between the Hyde Street Pier and China Basin ("San Francisco Waterfront Special Area Plan"). Among other things, this amendment commits the Port to expend up to $30 million over a twenty-year period for the removal of certain piers and the construction of major public plazas and other public access improvements. As of June 30, 2017, $46.6 million has been expended for projects under the Special Area Plan, including five pier removals (Piers ½, 24, 34, 36 and 64) and construction of the Brannan Street Wharf and the Cruise Terminal Plaza.

The 1997 Waterfront Land Use Plan identifies a number of waterfront development opportunity areas where commercial development is encouraged as a part of mixed-use developments that also include maritime, open space and public access uses. Such projects are generally undertaken as public-private partnerships, in which the Port enters into a development agreement and a long-term lease with a private developer, who is often selected through a Request for Proposals (RFP) process. Active development activities include:

Pier 70 Area
Pier 70 is located on San Francisco's Central Waterfront, an approximately 65-acre site, generally between 18th and 22nd Streets, east of Illinois Street. For over 150 years, some portion of the site has been

in use for ship building and repair or steel production, as well as for other supporting heavy industrial uses. As discussed in more detail in Note 17, the Port completed an environmental investigation and risk assessment of the project area. Findings from the completed risk assessment do not indicate any immediate need for soil or groundwater remediation. Following a three-year community planning process, the Port Commission endorsed the Pier 70 Master Plan in May 2010. The Plan balances sustained ship repair, historic preservation, new waterfront parks and new development. It identifies over 3 million square feet of new building potential and 700,000 square feet of buildings to be rehabilitated. On April 17, 2014, the National Park Service approved the Port's nomination for the Union Iron Works Historic District at Pier 70 and listed the district in the National Register of Historic Places.

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

Waterfront Site – This project area requires significant infrastructure investment and new land use approvals to redeploy a largely vacant portion of Pier 70 for new uses in new buildings, alongside three historic buildings which 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, in June 2013, added its endorsement of the term sheet and, in accordance with the Administrative Code, Chapter 29, determined the proposed development fiscally feasible. Following the passage of Proposition F in 2014, site zoning is allowed to a height limit of 90 feet. The land use program for the Waterfront site, as defined within the proposed Pier 70 Special Use District amendments to the Planning Code, allows for the development of approximately 1,100 to 2,150 new residential units, and between 1 million and 2 million gross square feet of commercial and office space, as well as small-scale manufacturing, retail, neighborhood services, waterfront parks and public infrastructure. The project team is pursuing project entitlements which are currently anticipated to be secured in fall of 2017, including certification of the Final Environmental Impact Report. Construction is anticipated to commence by mid-2018. The Port Commission approved the project at its September 26, 2017 meeting. The process for review and final approval by the Board of Supervisors commences in October 2017.

Crane Cove Park – Crane Cove Park will be a major new Blue Greenway waterfront park located in the Central Waterfront generally between 19th and Mariposa Streets east of Illinois Street, in the Union Iron Works National Historic District at Pier 70. The Port completed the masterplan for this 9-acre park in 2013 and the overall budget is estimated at $60.0 million. This project will be phased as funding is secured. Funding for this first phase is $31.5 million. The first stage of Phase 1 construction commenced in late 2016. Bid options are being evaluated for the balance of Phase 1 work. Park features include: interpretation of the historic slipway and gantry cranes, a grand entrance plaza, a large green, a public beach with access for human powered boats, landscaping, historic artifacts, a renovated Building 49 containing restrooms and space for park uses.

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

In September 2010, the Port entered into an ENA with Seawall Lot 337 Associates, LLC for the mixed-use development of Seawall Lot No. 337 (SWL 337) and the adjacent Pier 48. Pursuant to the ENA, the

developer submitted its Revised Proposal in March 2012 which contemplates a flexible mixed-use development at the site balancing residential, office, retail, exhibition and parking uses distributed over a network of city blocks – with expectation that the combination of uses will evolve to meet market demands and to reflect community and regulatory concerns, and be responsive to certain requirements to ensure mixed-use diversity. In March 2013, the Port Commission endorsed a non-binding term sheet describing the fundamental negotiated elements and proposed financial terms for the lease and development of the project site and, in May 2013, the Board of Supervisors added its endorsement of the term sheet and also found the proposed development fiscally feasible under the Administrative Code, Chapter 29. In November 2014, the Port Commission approved an Amended and Restated ENA affording the developer additional time to accomplish the additional steps required as a result of Proposition B (June 2014). With the passage of Proposition D in 2015, the developer obtained voter approval of the project's proposed maximum building heights. The project team is pursuing project entitlements which are currently anticipated to be secured by the fall of 2017, including certification of the Final Environmental Impact Report and all transaction documents. Infrastructure design for the project's first phase is scheduled to commence in the first half of 2018, with construction anticipated to begin by the end of 2018.

Fire Station #35 Expansion at Pier 22½

The proposed Fire Station #35 (FS#35) project at Pier 22½ consists of construction of a new two-level, approximately 16,000 square feet fireboat station behind the existing fire station. The new structure will rest on a new pier, which also provides mooring for two fire boats and a small craft. Access to the new pier from Embarcadero will be provided by a ramp located south of the existing FS#35. The existing shed and portions of the existing Pier 22½ will be demolished. Funding for construction of and the move to the new facility will be provided by the City's 2014 Earthquake Safety and Emergency Response bond. The new facility will improve the City's capacity for meeting current and future demands for water rescue and emergency-response services. San Francisco Public Works is managing the project on behalf of the Fire Department, in partnership with the Port. Selection of a design-build team has been completed. The preliminary schedule indicates a two-year construction period commencing in early 2019.

Alcatraz Embarkation

The Pier 31½ marginal wharf is currently the embarkation point for visitors to Alcatraz Island, a major tourist destination run by the National Park Service (NPS). The Port and NPS are working together to transform the site, which was constructed for relatively short-term use (about 10 years), into a world class embarkation site leasable for up to 50-year agreement. The long-term designation of the site as the entry to Alcatraz facilitates a high investment level, supporting visitor amenities and interpretation for a high-quality visitor experience on the island. The proposed project includes: (1) renovation of the interiors of the Piers 31 and 33 bulkheads (approximately 18,000 square feet of gross leasable area); (2) improvements to 43,000 square feet of marginal wharf for a pedestrian-only area with public open space, passenger queueing, and site circulation; (3) addition of a second new float to increase ferry capacity; (4) improvements to 13,200 square feet of support, storage, and parking area within the Pier 31 and Pier 33 sheds; and (5) repairs to the substructure of the Pier 31½ marginal wharf. The Port Commission and the Board of Supervisors endorsed a Term Sheet for the project in 2016. NPS and its partner the Golden Gate National Parks Conservancy are seeking entitlements for the proposed project. Both the entitlements and transaction document approvals are anticipated at the end of 2017. Construction will be phased with multiple parties performing the work under different leases with different start dates. The schedule anticipates that construction will commence on a portion of the site in 2018, with the completion of all improvements by 2024.

Pier 38 Bulkhead Rehabilitation
The Port issued a RFP in November 2012 seeking a development partner to rehabilitate the Pier 38 bulkhead building and limited shed improvements for re-occupancy and potentially qualifying the developer to redevelop the entire facility over the long-term. The Port Commission subsequently passed a resolution requiring a community planning process before consideration of any development of the full pier. In December 2013, a selection was made for the bulkhead rehabilitation project and, in May 2015, the Port Commission authorized a 25-year lease for Pier 38. Subsequent to this authorization, the developer determined that additional seismic retrofits are needed prior to making an investment and re-tenanting the space. The Port and developer were subsequently unable to devise a feasible project to support the additional seismic costs. The Port intends to consider interim leasing alternatives and to issue a new request for interest for this facility in the future.

Seawall Lot 322-1 Development for Affordable Housing
In March 2014, the Port Commission approved a Memorandum of Understanding (MOU) between the Port and the Mayor's Office of Housing and Community Development (MOHCD) regarding a joint effort to pursue the feasibility of improving Seawall Lot 322-1 with an affordable housing development. Port staff pursued and secured enabling legislation that added this site to designated seawall lots that may, under specified conditions, be leased for non-trust uses. Such uses might include affordable housing at an effective rent that is below fair market value. This would entitle the Port to apply the value of the associated rent credits or the waived or deferred rents as an offset against fees or other exactions or obligations that would be triggered by commercial development activities on Port property, including those on Pier 70. MOHCD selected a private development partner in August 2016. The development team is seeking entitlements for its proposed development and funding commitments. The team is negotiating transaction documents with the Port and plans to seek project approvals in late 2017 or early 2018. Construction start is expected in 2019 and occupancy is expected to commence in 2021.

Seawall Lots 323 and 324
In September 2015, the Port Commission approved an ENA with Teatro ZinZanni and a financial partner, operating together as TZK Broadway, LLC, ("TZK") for the lease and development of Seawall Lots 323 and 324 for a dinner-theater, a maximum 200-room, 40-foot high boutique hotel and an approximately 7,500 square foot privately financed public park, and ancillary uses. Previously in May 2015, the Board of Supervisors approved the exemption of TZK from the competitive bidding policy set forth in Administrative Code Section 2.6-1. In April 2016, the Port Commission endorsed a non-binding term sheet listing transaction terms and conditions for continuing to move the project forward. The Board of Supervisors added its endorsement of the term sheet in July 2016. This project is not subject to the fiscal feasibility determination required under Administrative Code, Chapter 29 because it does not require any funding from the Port or the City. The development team is seeking entitlements for its proposed development and funding commitments. The team is negotiating transaction documents with the Port and plans to seek project approvals in late 2017 or early 2018. Construction start is expected in early 2019 and full operations are expected to commence in 2020.

Downtown Ferry Terminal Expansion
The San Francisco Bay Area Water Emergency Transportation Authority (WETA) is expanding and improving facilities at the existing ferry terminal in downtown San Francisco. The project will add ferry gates, improve pedestrian circulation and ferry patron boarding, enhance emergency response capabilities, and accommodate anticipated increases in ferry ridership. The project contemplates construction of two new ferry gates and four new berths, landside pedestrian circulation improvements, installation of amenities such as weather-protected areas for queuing, and covering of the current "lagoon" area south of

the Ferry Building. This covered area will enhance emergency response capabilities and serve as a new public plaza in the heart of the Ferry Building Area. The new gates and amenities will support projects currently under development to provide new ferry service to Richmond, Treasure Island, and other locations, as well as efforts to enhance existing services. Construction commenced June 2017 and completion is expected by the end of 2018.

Mission Bay Ferry Landing
The proposed Mission Bay Ferry Terminal will provide regional ferry service to and from the Mission Bay neighborhood, one of the fastest growing neighborhoods in San Francisco, as well as the Dogpatch, Potrero Hill, Pier 70, and the Central Waterfront neighborhoods. The Mission Bay Ferry Terminal Project will provide capability to berth two ferry boats simultaneously and may include a nearby water taxi landing. It is currently estimated that the ferry terminal will have the capacity to handle up to 10,000 passengers per day. The terminal is essential to alleviate current regional transportation overcrowding, and provide transportation resiliency in the event of an earthquake, BART or Bay Bridge failure, or other unplanned events. The Port is leading the project, with the support of the Mayor's Office, Office of Economic and Workforce Development, WETA, and consulting design teams. The City and WETA will need to secure funding for construction of the proposed ferry terminal. Total project costs are estimated to exceed $43.0 million. The project timeline anticipates that construction will be completed in 2022.

Park projects
The City's ten-year capital plan programs periodic general obligation bond measures for park projects. Recent park bond issues, Clean and Safe Neighborhood Parks, have included allocations to parks and open space projects on Port property: $34.5 million approved in November 2012 and $33.5 million in February 2008. Port projects funded by the 2012 bond issue include the Northeast Wharf Plaza, Agua Vista Park, Crane Cove Park, Fisherman's Wharf Plaza, Pier 70 Parks, Warm Water Cove Park and improvements to Islais Creek. Projects funded in part by the 2008 bond issue include a promenade at Pier 43½ in Fisherman's Wharf; the Brannan Street Wharf Park in South Beach; Bayfront Park in the China Basin area; and, in the Southern Waterfront, Crane Cove Park, Warm Water Cove Park, Islais Creek, Bayview Gateway, and improvements to Heron's Head Park. Significant project completions include the Cruise Terminal Plaza fronting the James R. Herman Cruise Terminal at Pier 27, Brannan Street Wharf, Pier 43 Bay Trail Link (including promenade work), improvements to Heron's Head Park and the Bayview Gateway. Through June 30, 2017 approximately $70.6 million has been expended for park projects, including $43.2 million from the park bonds and $27.4 million from other funds.

Requests for Information

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

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Statements of Net Position
June 30, 2017 and 2016
(dollar amounts in thousands)

	2017	2016
Assets		
Current assets:		
Unrestricted:		
Cash and investments, held in City Treasury (Note 3)	$ 146,019	$ 131,012
Cash held outside of City Treasury (Note 3)	5	5
Receivables, net (Note 4)	11,758	5,503
Accrued interest receivable	245	179
Materials and supplies	1,592	890
Prepaid charges and advances (Note 5)	223	253
Total unrestricted current assets	159,842	137,842
Restricted:		
Cash and investments, held in City Treasury (Note 3)	34,748	41,955
Cash and investments outside of City Treasury (Note 3)	10,144	10,555
Total restricted current assets	44,892	52,510
Total current assets	204,734	190,352
Noncurrent assets:		
Capital assets (Note 6):		
Nondepreciable	119,237	119,488
Depreciable, net	308,505	311,362
Capital assets, net	427,742	430,850
Unrestricted other noncurrent assets (Note 7)	3,768	1,487
Total noncurrent assets	431,510	432,337
Total assets	636,244	622,689
Deferred outflows of resources -		
Deferred outflows of resources related to pensions (Note 10)	20,916	6,467

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, 2017 and 2016
(dollar amounts in thousands)

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,746	$ 3,207
Payable to the City General Fund	100	-
Accrued interest payable	1,580	1,618
Accrued payroll	1,612	1,284
Accrued vacation and sick leave pay (Note 8)	1,285	1,295
Accrued workers' compensation (Notes 8 and 18)	461	416
Estimated claims payable (Notes 8, 17 and 18)	775	625
Current maturities of long-term obligations (Note 8)	2,567	2,456
Current portion of loan from City department (including accrued interest payable of $0 and $1, respectively) (Notes 8 and 14)	-	65
Pollution remediation obligations (Notes 8 and 17)	231	60
Prepaid rents and advance payments	2,326	2,107
Rent credits due to tenants	2,566	2,132
Lessee and other deposits	8,256	8,189
Total current liabilities	26,505	23,454
Noncurrent liabilities:		
Accrued vacation and sick leave pay (Note 8)	882	896
Accrued workers' compensation (Notes 8 and 18)	2,445	2,311
Estimated claims payable (Notes 8, 17 and 18)	350	350
Long-term obligations - net of current maturities (Note 8)	86,377	89,006
Pollution remediation obligations (Notes 8 and 17)	11,211	10,969
Net pension liability (Note 10)	51,608	21,291
Other postemployment benefits obligation (Note 12)	23,864	21,644
Prepaid rents, advance payments and other liabilities	14,369	14,757
Rent credits due to tenants	47,599	49,650
Total noncurrent liabilities	238,705	210,874
Total liabilities	265,210	234,328
Deferred inflows of resources -		
Deferred inflows of resources related to pensions (Note 10)	2,210	7,158
Net position		
Net investment in capital assets	298,928	304,396
Restricted for capital projects	24,365	26,152
Unrestricted	66,447	57,122
Total net position	$ 389,740	$ 387,670

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, 2017 and 2016
(dollar amounts in thousands)

	2017	2016
Operating revenues (Note 9):		
Commercial and industrial	$ 54,510	$ 53,519
Parking	21,900	21,504
Cruise	7,406	7,663
Cargo	6,248	5,281
Ship repair	1,398	2,543
Fishing	2,402	2,062
Harbor services	1,827	1,768
Other maritime	1,739	1,779
Other	15,923	3,614
Total operating revenues	113,353	99,733
Operating expenses:		
Personal services	47,998	30,846
Contractual services	11,660	5,895
Utilities	2,833	2,146
Materials and supplies	1,853	1,468
Depreciation and amortization	24,191	21,924
General and administrative	4,345	4,058
Services provided by other City departments (Note 14)	19,009	19,124
Pollution remediation (Note 17)	242	266
Other	1,944	1,093
Total operating expenses	114,075	86,820
Operating income (loss)	(722)	12,913
Nonoperating revenues (expenses):		
Interest and investment income	1,502	884
Operating grants and transfers	3,786	177
Dispositions, net (Note 14)	(56)	1,676
Interest expense	(4,262)	(4,656)
Total net nonoperating revenues (expenses)	970	(1,919)
Change in net position before capital contributions	248	10,994
Capital contributions -		
Grants from government agencies and other contributions	1,822	24,081
Change in net position	2,070	35,075
Net position, beginning of the year	387,670	352,595
Net position, end of the year	$ 389,740	$ 387,670

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

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016
(dollar amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Cash received from tenants for rent	$ 74,154	$ 74,384
Cash received from customers and others	28,578	22,917
Deposits received from tenants and customers	835	949
Cash paid to employees for services	(30,074)	(28,706)
Cash paid to employee retirement system	(4,455)	(4,293)
Cash paid to suppliers for goods and services	(21,029)	(16,985)
Cash paid to City for services	(18,629)	(19,212)
Customer deposits returned	(778)	(1,269)
Net cash provided by operating activities	28,602	27,785
Cash flows from noncapital financing activities:		
Contribution from other City Departments	1,000	-
Operating grants	2,624	310
Net cash provided by noncapital financing activities	3,624	310
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(17,123)	(6,801)
Dredging	(3,098)	(869)
Payments of long-term debt	(2,521)	(2,478)
Interest and debt issue cost payments on long-term debt	(4,688)	(4,789)
Capital contribution from City - proceeds from Parks Bond	-	21,787
Capital grants received	644	694
Other capital contributions	550	1,215
Proceeds from City for jurisdiction transfer of Daggett Street	-	1,675
Proceeds from insurance for damaged equipment	-	9
Proceeds from sale of equipment and materials	2	2
Net cash provided by (used in) capital and related financing activities	(26,234)	10,445
Cash flows from investing activities:		
Interest and investment income	1,436	830
Net cash provided by investing activities	1,436	830
Change in cash and cash equivalents	7,428	39,370
Cash and cash equivalents, beginning of year	183,223	143,853
Cash and cash equivalents, end of year	$ 190,651	$ 183,223

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, 2017 and 2016
(dollar amounts in thousands)

	2017	2016
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (722)	$ 12,913
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	24,191	22,120
Change in allowance for doubtful accounts	188	(28)
Net effects of (increase) decrease in:		
Receivables	(5,653)	(823)
Tenant deposits held outside City Treasury	39	30
Materials and supplies	(129)	(133)
Prepaid charges, advances and other assets	(2,251)	(52)
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	1,085	(568)
Accrued payroll	328	181
Accrued vacation and sick leave pay	(24)	(29)
Accrued workers' compensation	179	(55)
Estimated claims payable	150	(431)
Pollution remediation obligations	413	255
Other postemployment benefits obligation	2,220	1,553
Rent credits, prepaid rent and other liabilities	(2,332)	(3,261)
Net pension liability and related deferred outflows/inflows of resources	10,920	(3,887)
Net cash provided by operating activities	$ 28,602	$ 27,785
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	$ 1,908	$ 1,354
Tenant improvements financed by rent credits	613	241
Water taxi dock improvement contributed by tenant	-	634
Reclassification of construction improvement materials to inventory	573	-
Capitalized interest	326	32
Asset disposals and abandoned capital improvement projects	(58)	(10)
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	$ 146,019	$ 131,012
Restricted	34,748	41,955
Cash and investments held outside City Treasury		
Unrestricted	5	5
Restricted	10,144	10,555
Cash and equivalents	190,916	183,527
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	(265)	(304)
Total cash and cash equivalents	$ 190,651	$ 183,223

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 its operation, development, and maintenance. Commission members are appointed by the Mayor and confirmed by the Board of Supervisors for fixed terms of four years. The Port is an integral part of the City, and the accompanying financial statements are included in the City's basic financial statements.

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

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

2. Significant Accounting Policies

Basis of Accounting

The Port's financial statements are prepared using the economic resources measurement focus and the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred. In accordance with GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position presents the residual difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as the net position. Net position is reported in three broad components, as applicable – net investment in capital assets; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net position, all Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net position.

Cash Equivalents

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

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

2. Significant Accounting Policies (Continued)

Capital Assets (continued)
Depreciation expense is calculated using the straight-line method over the following estimated useful lives of the assets:

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

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

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

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

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

Restricted Net Position
Restricted net position, as defined in GASB Statement No. 63, consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. A liability relates to restricted assets if the asset results from a resource flow that also results in recognition of a liability or if the liability will be liquidated with the restricted assets reported. Assets are considered restricted when constraints on consumption or use are imposed by third parties or enabling legislation.

2. Significant Accounting Policies (Continued)

Operating Revenues and Expenses

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

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

Capital Contributions

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

Effects of New Pronouncements

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

In 2016, the City adopted GASB Statement No. 72 *Fair Value Measurement and Application* (GASB 72). GASB 72 requires the City to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The statement also contains note disclosure requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements. For those investments held with the City

2. Significant Accounting Policies (Continued)

Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at the City-wide level. However, such disclosure is not required at the department level for those investments held at the City Treasury.

The City's adoption of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and early adoption of GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No.73*, did not have a material impact on the Port's financial statements.

The City and Port are currently analyzing their accounting practices to determine the potential impact on the financial statements of certain new accounting standards pronouncements issued by the GASB, including GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB 75), GASB Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, and GASB Statement No. 87, *Leases* (GASB 87). The Port anticipates that the implementation of GASB 75 and GASB 87 will have a material impact on the Port's financial statements.

GASB 75 updates the standards for recognizing and measuring OPEB liabilities, associated deferred outflows of resources, deferred inflows of resources, and expenses. GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 75 is required for periods beginning after June 15, 2017 and is effective for the City's fiscal year ending June 30, 2018. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessor (like the Port) is required to recognize, for each lease, a lease receivable and a deferred inflow of resources. The lease receivable is measured at the present value of lease payments expected to be received during the term of the lease. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Interest revenue is recognized on the lease receivable and inflow of resources (revenue) is recognized from the deferred inflows of resources in a systematic and rational manner over the term of the lease. Lessors do not derecognize the asset underlying the lease. To allow adequate time for financial statement preparers to plan for the transition and its implementation, the accounting change for leases is required by the fiscal year ending June 30, 2021. For the transition, leases should be converted ("recognized and measures") using the facts and circumstances that exist at the beginning of the period of implementation, or the beginning of the earliest period restated.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Investments

The Port's cash and investments at June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Cash and investments in City Treasury	$ 146,019	$ 131,012
Cash outside of City Treasury - imprest fund	5	5
Restricted assets:		
Cash and investments in City Treasury	34,748	41,955
Cash and investments outside of City Treasury:		
Cash and investments held by fiscal agents	9,879	10,251
Lessee deposits	265	304
	$ 190,916	$ 183,527

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, 2017 and 2016. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee, established under California Government Code Sections 27130 to 27137, is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The provisions of the City's investment policy also address interest rate risk, credit risk, and concentration of credit risk and provides for additional restrictions related to investments.

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

3. Cash and Investments (Continued)

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

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

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

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by federal deposit insurance by pledging authorized securities as collateral. The market value of pledged securities must equal at least 110 percent of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. The investment policy states that mortgage-backed collateral will not be accepted. At June 30, 2017 and 2016, all of the banks with funds deposited by the Treasurer secure those deposits with sufficient collateral. The following table shows the maturity of the City's pooled investments by duration:

	Investment maturities (in months)			
	Under 1	**1-6**	**6-12**	**12-60**
FY 2017	20.1%	21.2%	18.0%	40.7%
FY 2016	18.4%	23.2%	20.3%	38.1%

At June 30, 2017 and 2016, the City's pooled investments have a weighted average maturity of 1.29 years and 1.02 years, respectively.

3. Cash and Investments (Continued)

Cash and Investments Outside of City Treasurer's Pool

Cash and investments outside of the City Treasurer's Pool consist of cash, cash equivalents and money market mutual funds. These amounts are exempt from the accounting pronouncement for fair value measurement. 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.

At June 30, 2017 and 2016, cash and investments held by fiscal agents consisted of (in thousands):

	2017	2016
Reserve accounts:		
Cash equivalents - U.S. Bank commercial paper	$ 3,972	$ 3,949
Money market mutual fund	2,827	2,825
Project accounts -		
Money market mutual fund	2,941	3,300
Debt service and other accounts -		
Cash equivalents - U.S. Bank commercial paper	139	177
	$ 9,879	$ 10,251

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

Investments held by the bond trustee consist of the trustee bank's open commercial paper (no term). The trustee bank's commercial paper has a Standard & Poor's rating of A-1+ and a Moody's rating of P-1 at June 30, 2017 and 2016. Investments held by the COP fiscal agent consist of a money market fund, with weighted average maturity of 34 days and 26 days at June 30, 2017 and 2016, respectively. The money market fund has a Standard & Poor's rating of AAAm and a Moody's rating of Aaa-mf at June 30, 2017 and 2016.

4. Receivables

Receivables consisted of the following June 30, 2017 and 2016 (in thousands):

	2017	2016
Accounts receivable from tenants and customers	$ 5,478	$ 4,145
Less allowance for doubtful accounts	(741)	(553)
Accounts receivable, net	4,737	3,592
Settlement proceeds from former tenant (Note 17)	4,900	-
Grants receivable	1,192	402
Other	929	1,509
	$ 11,758	$ 5,503

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

5. Prepaid Charges and Advances

The Port and United States Army Corps of Engineers (USACE) periodically enter into cost-sharing agreements for the USACE to carry out local work that is in the federal interest. Under these cost-sharing arrangements, the Port is typically required to pay an estimated cost share in advance to the USACE. Unexpended advances available to the USACE to apply to future project costs represent all of the Prepaid Charges and Advances at June 30, 2016. The account balance at June 30, 2017 is for prepaid rent.

6. Capital Assets

A summary of changes in capital assets for years ended June 30, 2017 and 2016 are as follows (in thousands):

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

6. Capital Assets (Continued)

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	19,315	8,006	13,415	13,906
Total capital assets, not being depreciated	124,897	8,006	13,415	119,488
Capital assets, being depreciated:				
Facilities and improvements	566,792	12,197	8,833	570,156
Machinery and equipment	24,705	323	68	24,960
Intangible assets	2,264	-	-	2,264
Dredging	5,201	869	2,911	3,159
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	29,115	895	-	30,010
Total capital assets, being depreciated	630,856	14,284	11,812	633,328
Less accumulated depreciation for:				
Facilities and improvements	280,511	17,313	8,833	288,991
Machinery and equipment	13,680	1,395	58	15,017
Intangible assets	1,698	259	-	1,957
Dredging	3,311	1,574	2,911	1,974
Waterfront Land Use Plan	2,409	165	-	2,574
Infrastructure	10,039	1,414	-	11,453
Total accumulated depreciation	311,648	22,120	11,802	321,966
Total capital assets, being depreciated, net	319,208	(7,836)	10	311,362
Capital assets, net	$ 444,105	$ 170	$ 13,425	$ 430,850

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, 2017 and 2016. The cost of fully depreciated assets still in use was approximately $175,335,000 and $171,631,000 at June 30, 2017 and 2016, respectively. The Port received proceeds from sales of equipment and materials of $2,000 in 2017 and 2016. Total interest expense was $4,588,000 and $4,688,000 for fiscal years 2017 and 2016, of which $326,000 and $32,000 was capitalized, respectively.

7. Other Assets

Other unrestricted noncurrent assets represent the long-term portion of lease or other agreement obligations from tenants and customers.

8. Bonds, Loans and Other Payables

The changes in bonds, loans and other payables for the years ended June 30, 2017 and 2016 are as follows (in thousands):

	July 1, 2016	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2017	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 54,125	$ -	$ 1,265	$ 52,860	$ 1,325
Certificates of participation	33,335	-	1,060	32,275	1,105
Net of premiums/discounts:					
For issuance premiums	1,969	-	71	1,898	-
For issuance discounts	(211)	-	(9)	(202)	-
Total bonds payable	89,218	-	2,387	86,831	2,430
Other payables:					
Loan payable	2,244	-	131	2,113	137
Loan from City department	64	-	64	-	-
Accrued vacation and sick leave pay	2,191	1,480	1,504	2,167	1,285
Accrued workers' compensation (Note 18)	2,727	612	433	2,906	461
Estimated claims payable (Note 18)	975	154	4	1,125	775
Pollution remediation obligations (Note 17)	11,029	497	84	11,442	231
Long-term obligations	$ 108,448	$ 2,743	$ 4,607	$ 106,584	$ 5,319

	July 1, 2015	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2016	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 55,350	$ -	$ 1,225	$ 54,125	$ 1,265
Certificates of participation	34,355	-	1,020	33,335	1,060
Net of premiums/discounts:					
For issuance premiums	2,041	-	72	1,969	-
For issuance discounts	(220)	-	(9)	(211)	-
Total bonds payable	91,526	-	2,308	89,218	2,325
Other payables:					
Loan payable	2,369	-	125	2,244	131
Loan from City department	172	-	108	64	64
Accrued vacation and sick leave pay	2,220	1,442	1,471	2,191	1,295
Accrued workers' compensation (Note 18)	2,782	538	593	2,727	416
Estimated claims payable (Note 18)	1,406	27	458	975	625
Pollution remediation obligations (Note 17)	10,774	267	12	11,029	60
Long-term obligations	$ 111,249	$ 2,274	$ 5,075	$ 108,448	$ 4,916

8. Bonds, Loans and Other Payables (Continued)

Annual debt service requirements for all bonds and loans outstanding as of June 30, 2017 are as follows (in thousands):

Fiscal Year Ending	Revenue Bonds		Certificates of Participation		State Loan Payable		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 1,325	$ 2,849	$ 1,105	$ 1,629	$ 137	$ 95	$ 2,567	$ 4,573
2019	1,390	2,786	1,160	1,574	143	89	2,693	4,449
2020	1,455	2,718	1,215	1,516	149	82	2,819	4,316
2021	1,530	2,644	1,280	1,455	156	76	2,966	4,175
2022	1,625	2,550	1,340	1,391	163	69	3,128	4,010
2023-2027	9,795	11,075	4,600	6,107	931	227	15,326	17,409
2028-2032	11,435	7,452	5,005	4,960	434	29	16,874	12,441
2033-2037	11,330	4,580	6,450	3,512	-	-	17,780	8,092
2038-2042	10,475	1,732	8,220	1,744	-	-	18,695	3,476
2043-2044	2,500	156	1,900	95	-	-	4,400	251
Total	$ 52,860	$ 38,542	$ 32,275	$ 23,983	$ 2,113	$ 667	$ 87,248	$ 63,192
Remaining interest rates	2.20% - 7.408%		4.75% - 5.25%		4.5%			

8. Bonds, Loans and Other Payables (Continued)

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

In May 2014, the Port issued $22,675,000 in revenue bonds in two series; an AMT tax-exempt series (Series 2014A) and a taxable series (Series 2014B). Series 2014A included serial and term bonds totaling $19,880,000 with coupon rates ranging from 3.00% to 5.00% and maturities from March 2020 to March 2044. Series 2014B included serial bonds totaling $2,795,000 with coupon rates ranging from 0.55% to 3.00% and maturities from March 2015 through March 2020. Series 2014A bonds with scheduled maturities on or after March 2025 are subject to redemption as a whole or in part at the sole option of the Port at any time on or after March 2025 at redemption prices specified in the Indenture. Bonds with scheduled maturities on or before March 2024 are not subject to optional redemption prior to their maturity. Under terms of the Indenture the Port is required to deposit in a debt service reserve fund with a bond trustee, amounts equal to the Series 2014A reserve requirement and to the Series 2014B reserve requirement. The Series 2014A reserve requirement is an amount equal to the lesser of: a) the maximum annual debt service with respect to the Series 2014A bonds, b) 125% of the average annual debt service on the Series 2014A bonds, c) 10% of the outstanding principal amount of the Series 2014A bonds, or d) the sum of $650,615, which is the initial deposit into the reserve fund, plus any amounts available to be transferred from the Series 2014B reserve account pursuant to the Indenture. Funds on deposit in the Series 2014A reserve fund are only for the benefit of the Series 2014A bondholders. The Series 2014B reserve requirement is an amount equal to the maximum annual debt service on the Series 2014B bonds. Funds on deposit in the Series 2014B reserve fund are only for the benefit of the Series 2014B bondholders. At June 30, 2017, the Port was in compliance with these reserve requirements.

In February 2010, the Port issued $36,650,000 in revenue bonds in two series; a non-AMT tax-exempt series (Series 2010A) and a taxable series (Series 2010B). Series 2010A consists of a term bond totaling $14,220,000 maturing March 2040 with a coupon rate of 5.125%. Series 2010B, original issue total of $22,430,000, has serial and term bonds of $19,855,000 outstanding at June 30, 2014 with remaining coupon rates ranging from 4.95% to 7.408% and remaining maturities from March 2015 through March 2030. Bonds with scheduled maturities on or after March 2021 are subject to redemption as a whole or in part at the sole option of the Port at any time on or after March 2020 at redemption prices specified in the Indenture. Bonds with scheduled maturities on or before March 2020 are not subject to optional redemption prior to their maturity. Under terms of the indenture the Port is required to deposit in a debt service reserve fund with a bond trustee, an amount equal to the Series 2010A reserve requirement plus the Series 2010B reserve requirement. The Series 2010A reserve requirement is an amount equal to the lesser of: a) the maximum annual debt service with respect to the Series 2010A bonds, b) 125% of the average annual debt service on the Series 2010A bonds, c) 10% of the outstanding principal amount of the Series 2010A bonds, or d) $728,775, which is the initial deposit into the reserve fund. Funds on deposit in the Series 2010A reserve fund are only for the benefit of the Series 2010A bondholders. At June 30, 2017, the Port was in compliance with the Series 2010A reserve fund requirement.

8. Bonds, Loans and Other Payables (Continued)

The Series 2010B reserve requirement is an amount equal to the maximum annual debt service on the Series 2010B bonds. Funds on deposit in the Series 2010B reserve fund are only for the benefit of the Series 2010B bondholders. At June 30, 2017, the Port was in compliance with the Series 2010B reserve fund requirement. At June 30, 2016, the Port was required to have $2,119,000 in the Series 2010B reserve account, which amount is $23,000 greater than the fair value of the investment assets held in the fund. Prior to June 30, 2016, the trustee bank, based on its calculations, transferred such funds from the reserve fund to the interest debt service fund and requested a smaller interest debt service payment from the Port. Subsequent to June 30, 2016, the Port deposited sufficient funds into the 2010B reserve account to comply with this Indenture requirement.

The Port has pledged future net revenues to repay the Revenue Bonds. Annual principal and interest payments through 2044 are expected to require less than 11% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $91,402,000. The principal and interest payments made in 2017 were $4,169,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $38,959,000. The principal and interest payments made in 2016 were $4,176,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $33,304,000.

While revenue bonds are outstanding, the Port may not create liens on its property essential to its operations, dispose of any property essential to maintaining operating activity at a level necessary for it to meet its covenants, including its covenant to maintain net revenue coverage. The Port also is required to maintain specified insurance or qualified self-insurance. The Port is not required to carry earthquake insurance. Covenants of the Indenture include that the Port will manage its business operations, establish and maintain rentals, fees and charges for the use of Port property and for services provided by the Port so that the net revenue, as defined in the Indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. At June 30, 2017, the Port was in compliance with such bond covenants.

The revenue bonds are subject to an arbitrage rebate requirement. Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 21, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that earnings from the investment of tax-exempt bond proceeds that exceed related interest costs on the bonds must be remitted to the federal government on the fifth anniversary of each bond issue. There was no cumulative arbitrage liability with respect to the revenue bonds as of June 30, 2017 and 2016.

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

8. Bonds, Loans and Other Payables (Continued)

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

The Port has entered into a loan agreement with the California Department of Boating and Waterways (Cal Boating) for $3,500,000 to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and interest accrues at a rate of 4.5% per annum on the unpaid balance over 30 years. The project was completed in 2002 and annual payments commenced on August 1, 2002. The loan is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $2,780,000. Annual principal and interest payments were $232,000 in 2017 and 2016 and pledged harbor revenues were $117,000 and $141,000 for the years ended June 30, 2017 and 2016, respectively.

The San Francisco Public Utilities Commission (SFPUC) advanced funds to the Port to construct certain energy efficiency projects at identified Port facilities. The Port is committed to repay such advances over a four year period after project completion with interest at 3.5% per annum. Contract work for recommended lighting retrofits was completed in 2009 ($728,000) and for the heat, ventilating, and air conditioning and refrigeration portion of the project in 2012 ($417,000). The final loan payment was made in July 2016.

9. Operating Revenues – Property Rentals

Certain property rental agreements specify rental payments based on a percentage of tenant sales, subject to a minimum amount. For the years ended June 30, 2017 and 2016, property rental revenues were comprised as follows (in thousands):

	2017	2016
Minimum rentals, all revenue types	$ 61,303	$ 59,489
Percentage rentals	17,681	18,742
Total	$ 78,984	$ 78,231

9. Operating Revenues – Property Rentals (Continued)

The future minimum rent revenues under noncancellable operating leases having terms in excess of one year as of June 30, 2017 are as follows (in thousands):

Year Ending June 30	
2018	$ 43,279
2019	38,589
2020	33,865
2021	30,873
2022	27,785
2023-2027	98,619
2028-2032	83,220
2033-2037	72,471
2038-2042	47,794
2043-2047	38,841
2048-2052	27,889
2053-2057	18,683
2058-2062	16,694
2063-2067	12,630
2068-2072	4,941
2073-2077	4,291
Total	$ 600,464

Property subject to operating leases and property held for lease at June 30, 2017 and 2016 consisted of the following (in thousands):

	2017	2016
Land	$ 53,184	$ 52,616
Facilities and improvements at cost, net of accumulated depreciation	155,148	150,488
Total	$ 208,332	$ 203,104

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

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

9. Operating Revenues – Property Rentals (Continued)

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

10. Retirement Plan

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

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

	2017	2016
Valuation Date	June 30, 2015 updated to June 30, 2016	June 30, 2014 updated to June 30, 2015
Measurement Date	June 30, 2016	June 30, 2015
Measurement Period	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015

The City is an employer of the Plan with a proportionate share of 94.22% as of the June 30, 2016 measurement date and 93.90% as of the June 30, 2015 measurement date. The Port's allocation percentage was determined based on the Port's employer contributions divided by the City's total employer contributions for each measurement period. The Port's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Port's allocated percentage. The Port's allocation of the City's proportionate share was approximately 0.94% as of the June 30, 2016 measurement date and 0.98% as of the June 30, 2015 measurement date.

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

10. Retirement Plan (Continued)

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

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

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

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

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

10. Retirement Plan (Continued)

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

Funding and Contribution Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal years 2017 and 2016 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, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.90% to 21.40% and based on the July 1, 2014 actuarial report, the required employer contribution rate for fiscal year 2016 was 18.30% to 22.80%

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in the years ended June 30, 2016 and 2015 (measurement periods) was $496.3 million and $556.5 million, respectively. The Port's allocation of employer contributions for the 2016 measurement period was $4,845,000 and for the 2015 measurement period was $5,555,000.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $5.48 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Port's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 (reporting years) was $21,291,000 and $51,608,000, respectively. During the measurement year 2015-16, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the years ended June 30, 2017 and 2016, the City's recognized pension expense including amortization of deferred outflows/inflows related pension items was $1.81 billion and $0.11 billion, respectively. The Port's allocation of pension expense including amortization of deferred outflows/inflows related pension items for 2017 and 2016 was $15,811,000 and $958,000, respectively. Pension expense increased significantly, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred outflows/inflows.

10. Retirement Plan (Continued)

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

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

At June 30, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions were the following (in thousands):

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,845	$ -
Differences between expected and actual experience	-	1,452
Change in assumptions	1,590	413
Net difference between projected and actual earnings on pension plan investments	-	5,217
Change in proportionate share	32	76
	$ 6,467	$ 7,158

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

Year Ending June 30	Deferred Outflows (Inflows) of Resources
2018	$ 2,033
2019	2,033
2020	5,555
2021	4,194
2022	-
Thereafter	-

10. Retirement Plan (Continued)

Actuarial Assumptions - A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of measurement dates June 30, 2016 and 2015 is provided below. Refer to the July 1, 2015 and 2014 actuarial valuation reports for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

	2017	2016
Valuation Date	June 30, 2015 updated to June 30, 2016	June 30, 2014 updated to June 30, 2015
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Expected Rate of Return	7.5%	7.5%
Municipal Bond Yield	2.85% as of June 30, 2016 Bond Buyer 20-Bond-GO Bond Index June 30, 2016	3.85% as of June 30, 2015 Bond Buyer 20-Bond-GO Bond Index July 2, 2015
Discount Rate	7.50% as of June 30, 2016	7.46% as of June 30, 2015
Administrative Expenses	0.60% of payroll as of June 30, 2016	0.45% of payroll as of June 30, 2015

Basic COLA	June 30, 2016	June 30, 2015
All Miscellaneous and all New Plans	2.00%	2.00%
Old Police & Fire pre 7/1/75 Retirements	2.70%	3.00%
Old Police & Fire, Charters A8.595 & A8.596	3.30%	4.00%
Old Police & Fire, Charters A8.559 & A8.585	4.40%	5.00%

Mortality rates for active members and healthy annuitants in the July 1, 2015 actuarial valuation report were based upon the adjusted Employee and Healthy Annuitant CALPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale. Mortality rates for active members in the July 1, 2014 actuarial valuation report were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

Discount Rate – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as of June 30, 2015 (measurement date) and 7.50% as of June 30, 2016 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2016 was 7.50% and as of June 30, 2015 was 7.46%. 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, 2015 actuarial valuation. 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.

10. Retirement Plan (Continued)

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

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

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

	1996 - Prop C	Before 11/06/96 or after Prop C
2018	0.750%	0.000%
2023	0.750%	0.220%
2028	0.750%	0.322%
2033	0.750%	0.370%
2038 and thereafter	0.750%	0.375%

10. Retirement Plan (Continued)

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2093 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2016 is 7.50%.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.1%
Fixed Income	20.0%	1.1%
Private Equity	18.0%	6.3%
Real Assets	17.0%	4.3%
Hedge Funds/Absolute Returns	5.0%	3.3%

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

10. Retirement Plan (Continued)

June 30, 2016 (measurement year) ($000's)		
1% Decrease Share of NPL @ 6.50%	Allocated Share of NPL @ 7.50%	1% Increase Share of NPL @ 8.50%
$ 81,783	$ 51,608	$ 26,650

June 30, 2015 (meaurement year) ($000's)		
1% Decrease Share of NPL @ 6.46%	Allocated Share of NPL @ 7.46%	1% Increase Share of NPL @ 8.46%
$ 47,082	$ 21,291	$ (338)

11. Health Service System

Health care benefits for Port employees, retired employees and surviving spouses are financed by beneficiaries and by the City principally through the City and County of San Francisco Health Service System. The annual contribution to the City health plan is determined by Charter provision based on similar contributions made by the ten most populous counties in California. The Port's payments for all health care benefits amounted to approximately $4,836,000, $4,406,000, and $4,340,000 in fiscal years 2017, 2016, and 2015, respectively.

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

12. Other Postemployment Benefits (OPEB)

Plan Description – The City provides health care benefits for Port employees, retired employees and surviving spouses through the City's Health Service System.

Funding Policy - The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other Postemployment Benefits (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related costs to the Port for the years ended June 30, 2017 and 2016, based upon its percentage of City-wide payroll costs, is presented below. Included in the Port's payments for all health care benefits amounts are approximately $1,508,000, $1,369,000, and $1,354,000, for fiscal years 2017, 2016, and 2015, respectively, to provide postemployment benefits for retired employees in the City Health Service System, largely on a pay-as-you-go basis.

12. Other Postemployment Benefits (OPEB) (Continued)

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

	2017	2016
Annual required contribution	$ 3,209	$ 2,759
Interest on Net OPEB Obligation	872	876
Adjustment to annual required contribution	(353)	(713)
Annual OPEB cost (expense)	3,728	2,922
Contribution made	(1,508)	(1,369)
Increase in net OPEB obligation	2,220	1,553
Net OPEB obligation - beginning of year	21,644	20,091
Net OPEB obligation - end of year	$ 23,864	$ 21,644

Proposition B, passed by the voters on June 3, 2008, increased the years of service required to qualify for employer-funded retiree health benefits for City employees who were hired on or after January 10, 2009. Employees hired before January 10, 2009, become eligible to participate in the retirement health care system after five years of service and the employer pays 100% of the contribution. For employees hired after January 10, 2009, employer contributions do not begin until an employee has completed ten years of service. Employer contributions begin at 50% after ten years of service, become 75% after fifteen years of service and 100% only after twenty years of service. Proposition B also required that a separate Retiree Health Care Trust Fund (RHCTF) be created to pay for the City's future costs related to retiree health care. The trust fund is funded by employer and employee contributions for employees hired on or after January 10, 2009. New employees contribute up to 2% of their pre-tax pay and employers contribute 1%.

In 2011, the voters passed Proposition C which requires all employees hired on or before January 9, 2009 to contribute 0.25% of pay to the RHCTF commencing July 1, 2016. These required contributions increase annually by 0.25% to a maximum of 1.0% of pay. The employer is required to contribute an equal amount.

Proposition A, passed by the voters in 2013, prohibits withdrawals from the RHCTF until sufficient funds are set-aside to pay for all future retiree healthcare costs as determined by an actuarial study. Limited withdrawals prior to accumulating sufficient funds will be permitted only if annually budgeted retiree health care costs rise above 10% of payroll expenses, and will be limited to no more than 10% of the RHCTF balance. Revisions to Proposition A funding limitations and requirements requires the recommendation of the City Controller and an external actuary and if approved by the RHCTF Board, approval by two-thirds majority of the Board of Supervisors and the Mayor.

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

13. Redevelopment Agency

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

A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the Agency held leasehold interests to certain Port properties. Prior to AB1484, it was planned for the Port to resume management and control on July 1, 2012 of its property, including the leasehold improvements completed by the Agency. The Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, have negotiated a memorandum of agreement covering the termination of Port agreements and providing for the transfer of certain assets and operations of the Rincon Point South Beach Project to the Port. While the agreement has been approved by the Port and Successor Agency governing commissions, the Oversight Board to the Successor Agency and the California State Department of Finance in 2015, the agreement is executory pending the completion of all closing conditions. At June 30, 2017, discussions continue with Cal Boating concerning terms for the Port to assume certain loans that financed the South Beach Harbor project. The Agency and the City were co-borrowers for these Cal Boating loans.

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

14. Related Party Transactions

The Port receives services from, and provides services to, various City departments that are categorized in the various operating expense line items in the statements of revenues, expenses and changes in net position. The Port continues to evaluate its payments to the City's General Fund and various City departments for services that support activities within the Port area and refine the methodologies used for the allocation of City direct and indirect costs. In fiscal year 2017, services provided by other City departments included $2,695,000 of insurance premiums and $612,000 in workers' compensation expense. In fiscal year 2016, services provided by other City departments included $2,903,000 of insurance premiums and $538,000 in workers' compensation expense.

Services provided by City departments include: fireboat operations and maintenance from the Fire Department, legal and litigation-related services from the City Attorney's Office, street cleaning, direct and contractual services from the Department of Public Works, services provided by the City Purchaser, contract compliance review services by the City Administrator's Contract Monitoring Division, security services from the Police Department, risk management consulting services through the City Risk Manager, parking enforcement services and parking meter system maintenance and collection services from and through the San Francisco Municipal Transportation Agency (SFMTA), communications and network services from the Department of Technology and real estate services from the Department of Real Estate. Charges for electrical

14. Related Party Transactions (Continued)

service provided by the SFPUC, included in utilities on the statements of revenues, expenses and changes in net position, were $2,113,000 and $1,558,000 in fiscal years 2017 and 2016, respectively. Rental revenues from City departments included in operating revenues were approximately $2,435,000 and $2,263,000 in fiscal years 2017 and 2016, respectively.

In November 2012, the City voters passed Proposition B, approving a $195 million General Obligation Bond known as the 2012 San Francisco Clean and Safe Neighborhood Parks Bond. After deductions for issue costs, this bond allocates $34.5 million for parks and open spaces on Port property. Previously in February 2008, the City voters approved an earlier bond issue for park and open space projects that included $33.5 million for waterfront projects. Since these bonds are a citywide obligation, the proceeds received by the Port are recorded as capital contributions. In February 2016, the Port received $13.2 million of proceeds from the 2012 bond and $8.5 million from the 2008 bond for waterfront projects. No amounts were received in fiscal year 2017.

In connection with the planning phase of the Seawall Resiliency Project which commenced July 2016, the Port received $500,000 from SFMTA and $500,000 from the Planning Department in support of the project.

In 2012, the Port and the SFPUC entered into a memorandum of understanding (MOU) to facilitate the installation of a shore side power system at the Pier 70 ship repair facility. Among other things, the SFPUC committed to provide the Port a project rebate of $1.5 million, or a pro-rata amount, based on a pre-established threshold for metered electricity consumption by the shoreside power system during the first ten years of operation. A prorated rebate amount of $324,000 has been accrued at June 30, 2017 and $295,000 has been accrued at June 30, 2016 as a noncurrent receivable, a component of unrestricted other noncurrent assets. Pursuant to a previous MOU, the SFPUC advanced funds to provide for the design and construction of certain energy efficiency projects at identified Port facilities. With the anticipation that retrofit costs will be recovered through future energy cost savings, the advances are being repaid over a four year period after project completion, with interest at 3.5% per annum. The final loan payment was made in July 2016.

Pursuant to an MOU dated August 31, 2015, a jurisdiction transfer from the Port to the San Francisco Real Estate Division of property commonly known as Daggett Street was completed to facilitate an open space improvement in connection with an adjacent residential development project. Daggett Street, located within the former tide and submerged lands of Mission Bay, was subject to the public trust for commerce, navigation and fisheries and is among the trust properties transferred to the City pursuant to the Burton Act. This jurisdiction transfer is consistent with the provisions of Senate Bill 815 (State statutes of 2007, Chapter 660), allowing for the termination of the public trust on certain street fragments and their sale or transfer out of Port ownership for fair market value subject to certain conditions, which have been met for Daggett Street. In fiscal year 2016 and in connection with all secured approvals, the Port received a transfer fee of $1,675,000.

The Port and SFMTA entered into an MOU dated January 25, 2001 which granted the SFMTA the right to use an approximately 17-acre portion of certain Port property (within an area commonly known then as the Western Pacific Railroad Yard) for permitted uses, as defined therein. Pursuant to the MOU, SFMTA paid to the Port $29.7 million in 2001 for the perpetual

14. Related Party Transactions (Continued)

use and future jurisdictional transfer of this property, subject to the satisfaction of various conditions. With the jurisdiction transfer conditions satisfied and the necessary approvals in place, the Board of Supervisors in July 2017 approved the interdepartmental jurisdictional transfer of this property from the Port Commission to the SFMTA for no additional consideration. The transfer price of $29.7 million paid in 2001 was the estimated fair market value determined by an independent appraisal at the time it was paid.

15. Operating Lease Commitment

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

Year Ending June 30	
2018	$ 2,680
2019	2,680
2020	2,680
2021	2,680
2022	2,680
2023-2027	13,402
2028-2032	13,402
2033-2037	13,402
2038-2042	13,402
2043-2047	13,402
2048-2052	13,402
2053-2057	13,402
2058-2062	13,402
2063-2065	5,584
Total	$ 126,200

The master lease was amended in fiscal year 2016, allowing the master tenant an option to extend the lease term for an additional 15 years. Among other things, the provisions include a grant to the Port, as sub-lessee, a one-time early termination right in 2031, and if such termination is not exercised, a 15-year extension option, for a term coterminous with the master lease, if the master lease is also extended. The Port has an option to purchase the leasehold premises at a price equal to the present value of the remaining base rent due from the Port to the master tenant, effective through the expiration date of the sublease. Rental payments totaled $2,702,000 in fiscal year 2017 and $2,817,000 in fiscal year 2016.

16. Commitments

Development and Capital Projects

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

16. Commitments (Continued)

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

The San Francisco Clean and Safe Neighborhood Parks Bond general obligation bond issue in 2012 included $34.5 million and in 2008 $33.5 million of funding allocated for parks and open space projects on Port property. Certain of these projects are in progress at June 30, 2017.

Under an agreement (The San Francisco Waterfront Special Area Plan) with the San Francisco Bay Conservation and Development Commission (BCDC), finalized in 2001, the Port committed to fund and expend up to $30.0 million over a 20-year period for pier removal, construction of parks and plazas and other public access improvements in the Northern Waterfront. Through June 30, 2017, $46.6 million has been expended for projects under the agreement. In addition to project work funded and managed directly by the Port, the deck and pilings that form the valley between Piers 15 and 17 and a portion of non-historic sheds were removed as part of the construction work completed by The Exploratorium project (Note 9).

Purchase Commitments
The Port had firm purchase and contract commitments at June 30, 2017 for approximately $13.7 million for capital projects and $3.2 million for general operations.

17. Contingencies

Litigation
The Port is a defendant in various lawsuits and claims that arise during the normal course of business, most deal with personal injury or property damage resulting from accident or fire and are covered by insurance. When the likelihood of an unfavorable outcome is probable, accrued liabilities will include, at a minimum, the aggregate amount of deductibles under applicable insurance policies. There are 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.

In December 2016, the Port's shipyard operator entered into a purchase and sale agreement that transferred to another corporate entity all assets of and interests in the shipyard at Pier 70 (including the Port lease) effective January 2017. The Port consented to the transfer on December 30, 2016. In February 2017, the new operator gave notice of imminent closure as a result of legal disputes with the prior operator concerning the condition of the shipyard facilities and equipment. Based on a negotiated agreement operations continued through the end of May 2017, at which time the new operator abandoned the leasehold. The new operator initiated litigation in San Francisco to rescind the sale and recover damages from the seller and

17. Contingencies (Continued)

seeks rescission of the lease assignment and declaratory relief from the Port. Mediation discussions led to a partial settlement between the Port and the former shipyard operator. The Port Commission approved the settlement agreement in July 2017. Under the settlement agreement, the Port received from the former operator a $4.9 million payment in August 2017 to support maintenance and repairs in the shipyard. As part of the settlement, the Port assigned to the former operator all of the Port's claims against the new operator, other than those relating to a $769,000 letter of credit provided by the new operator to secure the lessee-operator's obligations under the Port lease. In September 2017, the new operator's San Francisco lawsuit against the former operator and the Port was stayed in favor of litigation filed by the former operator in New York. The new operator will re-file its claims against the old operator as counterclaims in the New York action. The Port is not presently a party to the New York action.

Grants

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

Redevelopment Agency's South Beach Harbor Project Obligations

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

Under BCDC Permit Amendment No. 17 for the South Beach Harbor Project, certain public access and other improvements must be completed by December 31, 2017. Construction estimates prepared by a Port consultant in 2014 indicate that this uncompleted work would cost approximately $7.9 million, including certain structural repairs, soft costs and recommended contingencies. The Port is working with the water recreation community to develop an alternative public access improvement proposal for BCDC consideration. An extension of time will also be sought to complete the necessary public access improvements. Port management believes that the alternate proposal will provide significant public access improvements that are relevant to the project area and at lower cost.

Environmental

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

17. Contingencies (Continued)

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 future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and, if necessary, accrues a liability. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

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

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

Yosemite Slough – In 2012, the United States Environmental Protection Agency (USEPA) identified the Port as a property owner for much of a site known as Yosemite Slough. Yosemite Slough is within a noncontiguous parcel, located south of Hunter's Point, covered by the Burton Act (Note 1). USEPA has determined that the Slough mud is contaminated due to past waste disposal in and around the Slough, past discharges from three City-owned combined sewer system outfalls, and surface discharges into the Slough. The principal contaminants of concern in the Slough sediments are poly-chlorinated biphenyls (PCBs), and lead. The San Francisco Public Utilities Commission (SFPUC) was previously identified by USEPA as one of approximately seventy potentially responsible parties (PRPs) and, together with other PRPs, since 2008 has been working with USEPA to cooperatively address the necessary cleanup. While this cleanup project is considered noncritical, USEPA is using federal Superfund Law (the Comprehensive Environmental Response, Compensation and Liability Act) to guide the cleanup of the contaminated sediment. The USEPA Action Memorandum, issued in March 2014, indicates that this project is not presently listed on or proposed for the National Priority List. Because the Superfund law imposes joint and several liability for cleanup costs, a mediation process is underway to apportion liability for those costs among the PRPs. This process will likely not conclude until 2018. SFPUC continues to be the lead agency representing the City on the site cleanup.

17. Contingencies (Continued)

Pier 39 Sediment – A Port marina tenant is authorized under the Port's maintenance dredging permit to perform as-needed dredging, maintaining boat access to its berths. Sediment analysis conducted in 2011 by the tenant indicated that unacceptably high concentrations of polyaromatic hydrocarbons (PAH) are present in sediment at Pier 39. In its last approval in 2014 of the Port's ten-year maintenance dredging permit issued, the RWQCB included a request for technical report(s) characterizing the extent and evaluating the potential water quality impact of PAHs in sediment at Pier 39. In 2015, the Port completed certain sediment sampling and found that the sediment at Pier 39 contains PAHs from a variety of sources, including urban runoff, creosote, and soot, but also exhibits a pattern of individual compounds that make up the suite of PAHs characteristic of a "manufactured gas plant" (MGP) related source. PG&E and its predecessor entities formerly operated an MGP on Beach Street, within two blocks of Pier 39 and at what would have historically been the waterfront. PG&E has executed a reimbursement agreement with the RWQCB and is voluntarily undertaking the requested investigation to more fully characterize the nature and extent of PAH contamination throughout the marina. To the extent PAH contamination in sediment may not be fully attributable to former MGP operations; the Port may become liable for additional investigation or remediation. As the information available to date is preliminary, assessment of the likelihood of and the extent of Port's potential liability cannot reasonably be made at this time. The Port recently engaged its consultants to perform certain additional work, including potential analysis of split samples and potential chemometric analysis. This contract phase is estimated to cost $272,000, of which $80,000 has been expended. At June 30, 2017, $192,000 has been accrued.

Fuel Pipelines **–** During a PG&E pipeline removal at Pier 90 in 2007, remediation contractors encountered extensive subsurface petroleum contamination within an area previously occupied by a tank farm owned by predecessors to the ExxonMobil Corporation (ExxonMobil). In accordance with State law, Port staff notified the RWQCB of the petroleum release and performed sampling and site forensics. The Port notified ExxonMobil concurrent with the required regulatory notification. After ExxonMobil's initial failure to respond, it subsequently agreed to perform an environmental investigation at the Pier 90 site and has completed several phases of investigation. Ongoing groundwater monitoring is finding high concentrations of petroleum dissolved in groundwater and separate-phase petroleum floating on top of the groundwater in a localized area within the area investigated. ExxonMobil is developing a plan for groundwater remediation to address this condition. To date ExxonMobil continues to perform all requested investigation and monitoring under a voluntary site cleanup agreement with the City and County Department of Public Health. ExxonMobil however also continues to assert that multiple parties are responsible for petroleum contamination observed at the site. If future investigation enables ExxonMobil to conclusively demonstrate that some portion of the subsurface contamination in the Pier 90 vicinity is not attributable to its historic operations at that location, and another responsible party cannot be identified, then the Port could be liable for costs to investigate and/or remediate such "orphan" contamination. The risk of such liability to the Port is low and the potential financial liability cannot be reasonably estimated at this time.

17. Contingencies (Continued)

Pier 70 **–**This 65-acre site has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Much of the site was owned and/or occupied by the U.S. Navy or its contractors for at least 60 years. A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. Fifteen acres remain occupied by an on-going ship repair facility. Environmental conditions exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70. In 2007, the Port completed a site investigation of a small portion of Pier 70: an approximately 17-acre area along the northeast shoreline. This investigation found that the soil and sediment are contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that do not pose a hazard to human health or the environment under existing conditions, but will require removal or capping of surface soil before development of the area for public access and recreation.

With funding from a federal grant, the Port proceeded in fiscal year 2009 with a contract to investigate soil and groundwater conditions throughout the site, including the fifteen-acre portion leased to the Port's ship repair tenant and in fiscal year 2011 the Port proceeded with a contract to survey many of the historic buildings for hazardous building materials, such as lead and asbestos. Findings indicate that soil throughout the Pier 70 site contains metals, naturally-occurring asbestos, and petroleum hydrocarbons at concentrations that do not require imminent remediation, but will require removal or capping of surface soil in connection with development of the area for public access and recreation. The investigation also found oily residue in the soil and groundwater by the ship repair tenant's leasehold area and contamination from the adjacent former manufactured gas plant site that has migrated beneath a small area in the southeast portion of Pier 70.

The environmental investigation included a human health risk assessment and an ecological assessment to evaluate potential risks associated with contaminants present at the site. The risk assessment found that site user contact with the soil could pose a potential health risk under certain exposure scenarios. The risk assessment did not find significant risk associated with current site uses. The site investigation and risk assessment do not indicate any immediate need for soil or groundwater remediation, although further evaluation of measures that would reduce or eliminate potential risks associated with contaminants under anticipated future uses is warranted. The final report of the findings of the site investigation and risk assessment was issued in January 2011. The grant-funded work included a feasibility study to evaluate potential remedial action; a remedial action plan, indicating preferred remedial action and the means of implementation at Pier 70; and a risk management plan, including institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impacts to the environment. It is anticipated that future development will likely cover existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil.

The 2011 investigation work reduced the uncertainty regarding the nature and extent of contamination, potential need for remediation, and costs associated with implementation of a risk management plan. In 2012, the Port completed a feasibility study to evaluate potential remedial actions, and developed a Remedial Action Plan (RAP), for implementing the recommended

17. Contingencies (Continued)

Pier 70 (continued) – alternative. The RAP consists of capping site soils and establishing institutional controls to reduce or eliminate human health risks related to contamination to be managed on-site. The Port developed next the Risk Management Plan, which establishes institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impact to the environment. The Risk Management Plan specifies how future development, operation, and maintenance 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 RWQCB approved the Risk Management Plan in January 2014.

Previous investigation of the northeast shoreline of Pier 70, in an area for development as the future "Crane Cove Park", found that near-shore sediment is contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation.

The total accrued cost for pollution remediation at Pier 70 is approximately $11.0 million at June 30, 2017 and 2016. The net local share of the grant funded work, $39,000 and $43,000 as of June 30, 2017 and 2016, respectively, is accrued as a current net obligation of the Port. Federal grant reimbursements are recorded as the qualifying grant-funded expenditures are incurred by the Port.

Hazardous building materials, such as lead-based paint, asbestos, and mercury and/or PCBs in certain electrical equipment, will have to be abated during the course of rehabilitation of any historic building. Hazardous building materials abatement is very roughly estimated to be 20% of the total construction cost of building rehabilitation. In an effort to reduce the development uncertainties, the Port will use a portion of the federal grant for an assessment (identification and quantification) of hazardous building materials to enable rehabilitation or demolition of buildings and other structures within the site.

Sewer Management Plan – The Port manages a wastewater collection system that is subject to a State permit. This permit requires the Port to prepare a sanitary sewer management plan (SSMP) that must be updated and approved by the Port Commission every five years. The Port last updated its SSMP in 2010. In January 2017, the San Francisco Bay Regional Water Quality Control Board (Water Board) issued a notice of violation (NOV) to the Port for failure to certify the SSMP within the required period and other violations of the permit. The Port has corrected the violations and updated the SSMP to incorporate improvements to the program. In August 2017, the Port Commission approved the updated SSMP and the Water Board accepted the Port's completion report.

Underground Storage Tanks – The Port's property includes sites where underground storage tanks (USTs) have been removed, and soil and/or groundwater contamination with petroleum has been identified. At the request of the City and County of San Francisco Department of Public Health Local Oversight Program (LOP), which implements RWQCB regulations applicable to USTs in San Francisco, the Port investigated contamination at all the UST sites. Port management expects that the LOP will agree to close these sites. At June 30, 2016, an additional

17. Contingencies (Continued)

$17,000 was accrued for monitoring well destruction and other expected closure costs. No required work is outstanding at June 30, 2017.

Other **–** Environmental conditions on Port property variously include asbestos and lead paint removal and oil contamination. The Port may be required to perform certain clean-up work if it intends to develop or lease such property, or at such time as may be 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 these risks cannot be reasonably made at this time. In 2017, a completed project for roof and related structural improvements at Pier 31 included costs for hazardous material abatement of $423,000 and for lead paint containment of $128,000, both pursuant to a site-specific hazardous material abatement work plan. In 2016, a completed project for building and roof improvements at Pier 35 included costs for lead abatement of $122,000 and asbestos abatement of $103,000.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2017 and 2016, is as follows (in thousands):

	Environmental Remediation	Miscellaneous Compliance	Total
Environmental liabilities at July 1, 2015	$ 10,703	$ 71	$ 10,774
Current year claims and changes in estimates	266	1	267
Vendor payments	-	(12)	(12)
Environmental liabilities at June 30, 2016	$ 10,969	$ 60	$ 11,029
Environmental liabilities at July 1, 2016	$ 10,969	$ 60	$ 11,029
Current year claims and changes in estimates	242	255	497
Vendor payments	-	(84)	(84)
Environmental liabilities at June 30, 2017	$ 11,211	$ 231	$ 11,442

18. Risk Management

Insurance – General and Workers' Compensation

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

More specifically, the Port carries the following insurance (listed coverage limits and related deductible amounts are effective July 1, 2017): (i) marine general liability coverage of $100.0 million, subject to a deductible of $100,000 per occurrence; (ii) hull and machinery liability coverage of $1.1 million, subject to a deductible of $100,000 per occurrence; (iii) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1.0 billion and a deductible of $750,000 per occurrence ($150,000 per occurrence for the Port's cargo cranes); and (iv) public officials and employee liability coverage

18. Risk Management (continued)

Insurance (continued)

of $5.0 million, subject to a deductible of $50,000 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution, and data processing equipment. In addition to the above, the Port requires its tenants, licensees, and contractors on all contracts to carry commercial general liability insurance in various amounts naming the Port Commission and the City as additional insured parties. Tenants whose operations pose a significant environmental risk are also required to post an environmental oversight deposit and an environmental performance deposit.

Losses from workers' compensation claims of Port employees, the deductible portion of insured losses, and losses from other uninsured risks must be funded by current revenues or reserves. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. The administration of workers' compensation, including estimates of recorded and incurred but not reported claims, is provided by the City. The workers' compensation liability as of June 30, 2017 and 2016 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, 2017 and 2016. The Port's General Counsel and management have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Port and to arrive at an estimate of the amount or range of potential loss to the Port. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The estimate for claims liability depends on complex factors, such as inflation, changes in legal doctrines, newly discovered information and historical damage awards. Claims are reevaluated periodically to consider such factors and recent claims settlement trends (including frequency and amount of pay-outs). The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The general liability reserve is included in estimated claims payables.

Changes in the reported liability reserves for June 30, 2017 and 2016 resulted from the following activity (in thousands):

	General Liability		Workers' Compensation	
	2017	2016	2017	2016
Beginning of year	$ 975	$ 1,406	$ 2,727	$ 2,782
Current year claims & changes in estimate	154	(304)	612	538
Settlements	(4)	(127)	(433)	(593)
End of year	$ 1,125	$ 975	$ 2,906	$ 2,727