

**Annual Report  
For  
Fiscal Year Ended June 30, 2015**



Port Commission of the City and County of San Francisco

Issued: February 29, 2016

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**I. Introduction**

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

The Port Commission of the City and County of San Francisco (“Port”) hereby provides its annual disclosure report for the fiscal year ended June 30, 2015 prepared in accordance with the Continuing Disclosure Certificates dated February 3, 2010 and May 29, 2014.

**II. Port Revenue Bonds**

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

<i>Continuing Disclosure Certificate</i>	<i>Issue Name</i>	<i>Original Par Amount</i>	<i>Outstanding Par Amount</i>
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	\$14,220,000	\$14,220,000
February 3, 2010	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Taxable)	\$22,430,000	\$19,100,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt)	\$19,880,000	\$19,880,000
May 29, 2014	Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Taxable)	\$2,795,000	\$2,150,000

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

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

Series 2010B Bonds (Taxable)

<u>CUSIP Numbers</u>		
<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2016	\$795,000	797679 AQ0
3/1/2017	835,000	797679 AR8
3/1/2018	885,000	797679 AS6
3/1/2019	940,000	797679 AT4

Series 2010B Bonds (Taxable)  
Continued

CUSIP Numbers

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<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2020	\$995,000	797679 AU1
3/1/2025	6,070,000	797679 AV9
3/1/2030	<u>8,580,000</u>	797679 AW7
	\$19,100,000	

Series 2014A Bonds (AMT Tax-Exempt)

CUSIP Number

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

Series 2014B Bonds (Federally Taxable)

CUSIP Numbers

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<u>Maturity Date</u>	<u>Principal Amount</u>	<u>CUSIP No.</u>
3/1/2016	\$430,000	797679 BH9
3/1/2017	430,000	797679 BJ5
3/1/2018	440,000	797679 BK2
3/1/2019	450,000	797679 BL0
3/1/2020	<u>400,000</u>	797679 BM8
	\$2,150,000	

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**III. Other Non-Reportable Obligations**

<u>Issue Name</u>	<u>Original Par Amount</u>	<u>Balance as of Report Issuance Date</u>	<u>Final Maturity</u>
Certificates of Participation*	\$37,700,000	\$33,335,000	2043
California Department of Boating & Waterways Loan	\$3,500,000	\$2,244,079	2029
MOU with the San Francisco Public Utilities Commission**	\$1,144,549	\$64,493	2016

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

\*\* Memorandum of Understanding with the San Francisco Public Utilities Commission (SFPUC) whereby the Agency advanced funds to the Port to construct and install certain energy efficiency projects at various Port facilities.

#### IV. Port of San Francisco, Debt Service Coverage

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues <sup>1</sup>					
Maritime	\$12,848	\$14,992	\$14,861	\$15,989	\$18,398
Real Estate & Asset Management	57,681	60,471	61,388	66,562	74,731
Interest Income <sup>2</sup>	962	1,084	848	765	786
Other Revenue <sup>3</sup>	1,960	1,771	5,263	3,187	2,166
Total Revenues	<u>\$73,451</u>	<u>\$78,318</u>	<u>\$82,360</u>	<u>\$86,503</u>	<u>\$96,081</u>
Operating Expenses <sup>1</sup>					
Operations & Maintenance <sup>4</sup>	<u>\$55,268</u>	<u>\$60,856</u>	<u>\$63,760</u>	<u>\$61,195</u>	<u>\$63,487</u>
Total Operating Expenses	<u>\$55,268</u>	<u>\$60,856</u>	<u>\$63,760</u>	<u>\$61,195</u>	<u>\$63,487</u>
Net Revenues <sup>5</sup>	\$18,183	\$17,462	\$18,600	\$25,308	\$32,594
Debt Service on Bonds <sup>6</sup>	\$2,843	\$2,845	\$2,846	\$2,847	\$4,171
Net Revenue Coverage on Bonds <sup>6</sup> (times)	<b>6.40</b>	<b>6.14</b>	<b>6.54</b>	<b>8.89</b>	<b>7.81</b>
Debt Service on Subordinate Obligations <sup>7</sup>	\$427	\$427	\$474	\$3,359	\$3,179
Net Revenue Coverage on Bonds and Subordinate Obligations <sup>7</sup> (times)	<b>5.56</b>	<b>5.34</b>	<b>5.60</b>	<b>4.08</b>	<b>4.43</b>

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

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

<sup>3</sup> The revenues reported for Fiscal Year 2012-13 reflect the following: a) a \$1,310,000 payment in lieu of rent received from the City pursuant to an MOU in which the City agreed to compensate the Port for lost rent resulting from the City's hosting of the 34th America's Cup yacht races, and b) a \$1,878,000 increase in the amount of fees and Port expense recoveries received by developers in connection with contract negotiations for future development projects.

<sup>4</sup> Operations & Maintenance Expenses excludes non-cash OPEB expenses, and accretion expenses, pursuant to the Bond Indenture.

<sup>5</sup> Higher Net Revenues reported for Fiscal Years 2013-14 and 2014-15 are largely due to a combination of strong revenue growth achieved across most of the Port's Real Estate and Maritime business lines; and, in Fiscal Year 2013-14, significantly lower professional services and other contract related expenses.

<sup>6</sup> Represents debt service and Net Revenue coverage on the 2010 and 2014 Port revenue bonds.

<sup>7</sup> Includes the following subordinated obligations: a loan from the California Department of Boating and Waterways, a loan from the SF Public Utilities Commission, and certificates of participation issued by the City on behalf of the Port. The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinated Bonds or other subordinate obligations.

Source: Port of San Francisco

## V. Major Port Operating Revenues

<b>Major Port Operating Revenues <sup>1</sup></b>				
<b>June 30, 2015</b>				
	<u>Annualized Revenue <sup>2</sup></u>		<u>Square Footage <sup>3</sup></u>	
<b>Real Estate</b>				
Industrial	\$20,434,187	25.3 %	9,824,733 <sup>4</sup>	48.0 %
Ground Lease	12,421,170	15.3	3,081,925	15.1
Restaurant & Retail	11,630,746	14.4	369,505	1.8
Parking	12,539,578	15.6	1,017,739	5.0
Office	5,444,697	6.8	262,819	1.3
Subtotal Real Estate	<u>\$62,470,378</u>	<u>77.4 %</u>	<u>14,556,721</u>	<u>71.2 %</u>
<b>Maritime <sup>5</sup></b>				
Cargo	\$5,181,213	6.5 %	3,606,914	17.6 %
Commercial Fishing	2,332,431	2.9	248,633	1.2
Passenger Cruise	4,605,657	5.7	354,360	1.7
Various Maritime	1,845,589	2.3	667,846	3.3
Harbor Services	1,878,047	2.3	377,187	1.8
Ship Repair	2,309,671	2.9	645,370	3.2
Subtotal Maritime	<u>\$18,152,608</u>	<u>22.6 %</u>	<u>5,900,310</u>	<u>28.8 %</u>
<b>Total</b>	<b>\$80,622,986</b>	<b>100.0 %</b>	<b>20,457,031</b>	<b>100.0 %</b>

<sup>1</sup> Table only includes revenues derived from tenancy and operating agreements. Not included are revenues from miscellaneous sources. Total operating revenue for the fiscal year ending June 30, 2015 was \$95,296,000.

<sup>2</sup> Based on current base rents as of June 30, 2015 and Fiscal Year 2015 percentage rents in excess of base rent amounts. Revenue amounts are net of certain rent credits.

<sup>3</sup> Excludes portion of area in water.

<sup>4</sup> During the fiscal year ended June 30, 2015, the Port added approximately 1 million square feet of leased space to its portfolio of industrial leasing activities. A new lease with PG&E for the installation of a new electric transmission line located on Port property accounted for 509,000 of the increase. The balance reflects the volume of vacant space leased during the year.

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

*Source: Port of San Francisco*

VI. Port of San Francisco Top Ten Tenants and Customers

**PORT OF SAN FRANCISCO**  
**Top Ten Port Tenants and Customers By Revenue**  
**Fiscal Year Ending June 30, 2015**  
**(Revenues in Thousands)**

Tenant Name	Revenue <sup>1</sup>	Percent of Operating Revenue <sup>2</sup>	Use	Expiration
China Basin Ball Park Co.	\$6,160	6.5 %	Ballpark and Related Parking	12/31/2022 <sup>3</sup>
Pier 39 Ltd. Partnership	3,678	3.9	Retail / Entertainment	12/31/2042 <sup>4</sup>
Princess Cruises	3,385	3.5	Passenger Cruises	n/a <sup>5</sup>
Central Parking Systems	3,035	3.2	Parking	Expired <sup>6</sup>
Priority Parking - CA	3,021	3.2	Parking	Expired <sup>7</sup>
BAE Systems - SF Ship Repair, Inc.	2,398	2.5	Ship Repair	4/30/2035
Recology San Francisco	2,145	2.2	Recycling	7/31/2023 <sup>8</sup>
Imperial Parking (U.S.), Inc.	2,115	2.2	Parking	Expired <sup>9</sup>
Ferry Building Investors, LLC	2,058	2.2	Office/Retail	4/9/2067 <sup>10</sup>
Transbay Cable, LLC	<u>1,991</u>	<u>2.1</u>	Utility (Electric Power Transmission)	11/21/2035
Total	\$29,986	31.5 %		

<sup>1</sup> Amounts represent tenant billings net of certain revenue credits and allowances.

<sup>2</sup> Operating revenue for the fiscal year ending June 30, 2015 was \$95,296,000.

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

<sup>4</sup> Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire 3/31/2016.

<sup>5</sup> Princess Cruises does not lease property. Metro Cruises is the Port's stevedoring tenant for its cruise facilities, and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port based on cruise ship call duration and cruise passenger volume generated by Princess Cruises. As many as 12 other cruise lines also pay fees to Metro Cruises and the Port for cruise calls at the Port.

<sup>6</sup> Tenant has multiple leases, all of which are expired, but have continued under holdover provisions. The parking sites are in the process of being rebid.

<sup>7</sup> Tenant had multiple leases, all of which are expired, but have continued under holdover provisions. The parking sites are in the process of being rebid. The sites are currently being managed by Standard Parking pending the selection of a permanent operator. Standard Parking was assigned the temporary management of the lots after Priority terminated its leases effective 10/31/2015.

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

<sup>9</sup> Tenant has multiple leases, all of which are expired, but have continued under holdover provisions. The parking sites are in the process of being rebid.

<sup>10</sup> Expiration date shown is for the primary lease. The tenant's other lease expires 3/31/2023.

Source: Port of San Francisco



VII. Real Estate Leases, Remaining Lease Terms

**PORT OF SAN FRANCISCO**  
**Real Estate Leases**  
**Remaining Lease Terms, as of June 2015**

	<u>Number of Leases</u>		<u>Annualized Revenue<sup>1</sup></u>	
Month-to-Month	169	37.1 %	\$13,247,443	21.2 %
<i>Remaining Term:</i>				
Less than One Year	53	11.7	4,600,110	7.4
One to Five Years	141	31.0	16,210,956	25.9
Five to Ten Years	17	3.7	6,150,156	9.8
Ten to Twenty Years	10	2.2	2,282,233	3.7
Twenty to Thirty Years	29	6.4	12,001,147	19.2
Over Thirty Years	<u>36</u>	<u>7.9</u>	<u>7,978,333</u>	<u>12.8</u>
Total	455 <sup>2</sup>	100.0 %	\$62,470,378	100.0 %

<sup>1</sup> Based on current minimum rents as of June 30, 2015 and Fiscal Year 2015 percentage rents over base rent amounts. Amounts are net of certain rent credits.

<sup>2</sup> This table includes Real Estate leases only. The Port currently has 122 Maritime leases.

*Source: Port of San Francisco*

VIII. Real Estate Top Ten Tenants and Customers

**PORT OF SAN FRANCISCO**  
**Top Ten Real Estate Tenants by Revenue**  
**Fiscal Year ending June 30, 2015**  
**(Revenues in Thousands)**

<b>Tenant Name</b>	<b>Revenue</b> <sup>1,2</sup>	<b>Percent of Real Estate Revenue</b> <sup>3</sup>	<b>Percent of Total Revenue</b> <sup>4</sup>	<b>Use</b>
China Basin Ballpark Company LLC	\$6,160	8.2 %	6.5 %	Ballpark and Related Parking
Pier 39 Limited Partnership	3,678	4.9	3.9	Retail/Entertainment
Central Parking System	3,035	4.1	3.2	Parking
Priority Parking-CA	3,021	4.0	3.2	Parking
Recology San Francisco	2,145	2.9	2.2	Recycling
Imperial Parking (U.S.), Inc.	2,115	2.8	2.2	Parking
Ferry Building Investors, LLC	2,058	2.8	2.2	Office/Retail
Trans Bay Cable LLC	1,991	2.7	2.1	Utility (Power Transmission)
Boudin Properties, Inc.	1,578	2.1	1.6	Restaurants/Retail/Bakery
AMB Pier One, LLC	<u>1,342</u>	<u>1.8</u>	<u>1.4</u>	Office/Retail
Total	\$27,123	36.3 %	28.5 %	

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

<sup>2</sup> Amounts represent tenant billings net of certain revenue credits and allowances

<sup>3</sup> Real Estate revenue for the fiscal year ending June 30, 2015 was \$74,731,000.

<sup>4</sup> Operating Revenues for the fiscal year ending June 30, 2015 was \$95,296,000.

*Source: Port of San Francisco*

IX. Port of San Francisco Historical Results of Operations

<b>PORT OF SAN FRANCISCO</b>					
<b>Historical Results of Operations</b>					
<b>For Fiscal Year Ended June 30,</b>					
<b>(Amounts in Thousands)</b>					
	<b>Audited 2011</b>	<b>Audited 2012</b>	<b>Audited 2013</b>	<b>Audited 2014</b>	<b>Audited<sup>2</sup> 2015</b>
<b>Operating Revenues:</b>					
<b>Maritime</b>					
Cargo	\$5,052	\$5,442	\$4,886	\$4,696	\$4,931
Ship Repair	927	1,706	1,553	1,790	2,045
Harbor Services	1,477	1,964	2,018	2,136	1,996
Cruise	1,903	2,266	2,825	3,396	4,928
Fishing	1,986	2,024	2,012	2,123	2,185
Other Marine	1,490	1,517	1,556	1,842	2,305
Miscellaneous	<u>13</u>	<u>73</u>	<u>11</u>	<u>7</u>	<u>9</u>
<b>Total Maritime</b>	<b>\$12,848</b>	<b>\$14,992</b>	<b>\$14,861</b>	<b>\$15,990</b>	<b>\$18,399</b>
<b>Real Estate &amp; Asset Management</b>					
Commercial/Industrial	\$42,221	\$42,883	\$43,266	\$46,606	\$51,328
Parking	15,105	17,159	17,774	19,724	22,312
Filming & Special Event Revenue	202	203	48	67	717
Miscellaneous	153	226	300	165	374
<b>Total Real Estate &amp; Asset Management</b>	<b>\$57,681</b>	<b>\$60,471</b>	<b>\$61,388</b>	<b>\$66,562</b>	<b>\$74,731</b>
<b>Other Operating Revenues</b>	<b>1,737</b>	<b>1,797</b>	<b>5,263</b>	<b>3,187</b>	<b>2,166</b>
<b>Total Operating Revenues</b>	<b>\$72,266</b>	<b>\$77,260</b>	<b>\$81,512</b>	<b>\$85,739</b>	<b>\$95,296</b>
<b>Operating Expenses</b>					
Operations & Maintenance	\$51,870	\$55,470	\$63,615	\$63,162	\$60,896
Depreciation & Amortization	<u>14,695</u>	<u>15,070</u>	<u>16,367</u>	<u>20,434</u>	<u>22,787</u>
<b>Total Operating Expenses</b>	<b>\$66,565</b>	<b>\$70,540</b>	<b>\$79,982</b>	<b>\$83,596</b>	<b>\$83,683</b>
<b>Operating Income</b>	<b>\$5,701</b>	<b>\$6,720</b>	<b>\$1,530</b>	<b>\$2,143</b>	<b>\$11,613</b>
<b>Other Income &amp; (Expenses)</b>					
Interest & Investment Income	\$1,508	\$2,559	\$24	\$1,236	\$970
Interest Expense	(2,178)	(1,767)	(1,440)	(3,482)	(4,220)
Debt Issuance Cost <sup>1</sup>				(1,650)	0
Gain/(Loss) on Disposal of Assets	10	(7,648)	(5,821)	(153)	(292)
Other	<u>234</u>	<u>9,150</u>	<u>7,565</u>	<u>865</u>	<u>2,144</u>
<b>Total Other Income/(Expense) Net</b>	<b>(\$426)</b>	<b>\$2,294</b>	<b>\$328</b>	<b>(\$3,184)</b>	<b>(\$1,398)</b>
<b>Net Income/(Loss) Before Capital Contribution</b>	<b>\$5,275</b>	<b>\$9,014</b>	<b>\$1,858</b>	<b>(\$1,041)</b>	<b>\$10,215</b>
Capital Grants and Other Contributions	<u>3,027</u>	<u>16,955</u>	<u>25,832</u>	<u>9,721</u>	<u>1,560</u>
<b>Change in Net Assets</b>	<b><u>\$8,302</u></b>	<b><u>\$25,969</u></b>	<b><u>\$27,690</u></b>	<b><u>\$8,680</u></b>	<b><u>\$11,775</u></b>

<sup>1</sup> In FY 2013-14 the Port implemented GASB Statement No. 65. Among other things, the Statement requires that the cost of debt issuance be expensed in the fiscal year incurred, rather than amortized over the life of the associated debt. In accordance with the new GASB Statement, \$1.65 million in cost incurred in the issuance of the Port's Series 2014 Revenue Bonds were expensed in FY 2013-14. The previous years in this table have not been restated to conform with the new accounting requirements.

<sup>2</sup> In 2015 the Port implemented GASB Statement No. 68 (an amendment to GASB Statement No. 27) which is intended to improve the accounting and financial reporting of pension obligations. The previous years in this table have not been restated to conform with the with the new accounting standards. As of July 1 2015, however, the Port did restate its net position by \$30,469. This restatement reduced by \$30,469 the Port's total net position as of July 30, 2015 reported on the Port's balance sheet which is part of the Port's 2015 audited financial statements. For complete details on how to access these statement please refer to Section XI of this Annual Report.

Source: Port of San Francisco

X. Port of San Francisco Historical Operations and Maintenance Expenses

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

	<u>Audited 2011</u>	<u>Audited 2012</u>	<u>Audited 2013</u>	<u>Audited 2014</u>	<u>Audited 2015</u>
Operations & Maintenance					
Personnel Expense	\$30,092	\$32,318	\$32,894	\$33,489	\$29,406
City-Wide Overhead	100	0	0	316	520
Other Current Expenses <sup>1</sup>	2,794	3,355	3,802	4,020	4,202
Professional & Specialized Services	3,454	3,826	4,887	2,770	2,853
Utility Expenses	1,769	2,111	2,040	1,974	2,395
Materials & Supplies	1,462	1,051	1,548	1,635	1,689
Judgments, Claims & Litigation	308	333	427	282	(416) <sup>4</sup>
Office Rent	3,032	2,882	2,892	2,889	2,916
Charges for Use of City Services	14,495	16,395	17,221	15,571	17,097
Other Operating & Maintenance Exp. (net)	214	1,231 <sup>2</sup>	715 <sup>3</sup>	284	234
Operations & Maintenance Exp. - Subtotal	<u>\$57,720</u>	<u>\$63,502</u>	<u>\$66,426</u>	<u>\$63,230</u>	<u>\$60,896</u>
Non-cash credit adjustment for estimated pollution remediation costs	<u>(5,850)</u>	<u>(8,032)</u>	<u>(2,810)</u>	<u>(68)</u>	<u>0</u>
Total Operations & Maintenance Exp.	<u>\$51,870</u>	<u>\$55,470</u>	<u>\$63,616</u>	<u>\$63,162</u>	<u>\$60,896</u>

<sup>1</sup> The reported expense for Fiscal Years 2010-11 through 2013-14 excludes the effect of a credit which represents a noncash adjustment to account for a reduction in estimated future environmental costs. These credits totaled \$5,850,000, \$8,032,000, \$2,810,000 & \$68,000 for Fiscal Years 2010-11 through 2013-14; respectively.

<sup>2</sup> The increase in "other operating and maintenance expenses" for Fiscal Year 2011-12 results from a \$1 million payment to the AC34 Event Authority for the use of plans and design drawings that they developed for repairs to and seismic upgrade of Piers 30-32.

<sup>3</sup> The relatively high "other operating and maintenance expenses" for Fiscal Year 2012-13 reflects \$451,000 in fees paid to the City for the use of their commercial paper program to finance certain Port capital projects.

<sup>4</sup> The credit for "judgements, claim and litigation" reported for Fiscal Year 2014-15 reflects of a large reduction in the reserve of claims and litigation taken at June 30, 2015.

Source: Port of San Francisco

## **XI. Audited Financial Statements of the Port Commission, City and County of San Francisco For the Fiscal Year Ended June 30, 2015.**

For the Port's Audited Financial Statements for Fiscal Year Ended June 30, 2015, please go to the link titled "2015 Audited Financial Statements" located in the Finance & Administration section of the Port's website at [www.sfport.com](http://www.sfport.com).

## **XII. Significant Events**

On November 18, 2015 Standard and Poor's Rating Service (S&P) notified the Port that the firm has raised its long term rating on the Port's revenue bonds from 'A-' to 'A'. The firm stated that the Port's outlook is 'Stable'. Further information can be obtained by viewing the Port's Significant Event filing which is located on the MSBR's EMMA website.

In the report S&P indicated that their rating action reflects their view of the Port's continued very strong debt service coverage and liquidity position, which they believe will be maintained at strong levels for the foreseeable future, despite a recent increase in debt service requirement and a large capital plan.

## **XIII. Other Matters**

### *Infrastructure Financing District •*

Since 2005, Port has been seeking the authority to capture property tax growth to fund public improvements along the San Francisco waterfront. In 2005, the Governor signed into law Senate Bill No. 1085 which authorized the Board of Supervisors ("Board") to form infrastructure financing districts ("IFD") that include Port property and in 2010 Assembly Bill No. 1199 was signed into law which authorized the Port to capture the State's share of property (or possessory interest) tax at Pier 70 (collectively, "Port IFD Law").

In 2012, the Board of Supervisors authorized the formation of Port Infrastructure Financing District #2 ("Port IFD"), encompassing Port property. In 2013, by Resolution 123-13, the Board of Supervisors adopted Guidelines for the Establishment and Use of an Infrastructure Financing District on Port Land.

In July of 2015 the Port entered into a lease with an affiliate of Orton Development, Inc. to rehabilitate, develop and lease six historic buildings along 20<sup>th</sup> Street located within the Port's Pier 70 opportunity area (Pier 70 - Historic Core). In conjunction with this lease, the City, on behalf of the Port, is establishing an Infrastructure Financing District to finance improvements to facilitate the rehabilitation of the Pier 70 - Historic Core and to fund phase 2 of Crane Cove Park, a 9+ acre park being developed that is adjacent to the Pier 70 - Historic Core project.

At its February 23, 2016 meeting, the Board of Supervisors approved of the following pieces of legislation related to the Pier 70 - Historic Core IFD, referred to as Sub-Project Area G-1:

- (i) an ordinance establishing the IFD described above, and adopting the Infrastructure Financing Plan (IFP) for the district;
- (ii) a resolution authorizing the issuance of up to \$25.1 million in Bonds at a later date to be repaid from Tax increment generated by the properties within the IFD; and
- (iii) a resolution approving a memorandum of understanding (MOU) between the Port the City Controller and the Treasurer/Tax Collector . The MOU authorizes and directs the Treasurer/Tax Collector to) levy and collect tax increment in the G-1 sub-project area, as well as any special taxes for a Community Financing District (CFD). The MOU also authorizes and directs the Controller to allocate, budget and appropriate the tax increment to the IFD. A similar commitment with respect to the CFDS, when formed, is also included.

The Pier 70 Historic Core development project is scheduled to be fully built-out and attain financial stabilization in 2021. After financial stabilization, bonds will likely fund a portion of the improvements to be financed by the IFD. These bonds will be solely supported by the tax increment generated by the IFD, and will have no recourse to the Port's Net Revenues (as defined in the Port's Revenue Bond Indenture) which are used to service the Port's revenue bond indebtedness.

*Recent Legislative Activity Affecting Port Property* •

On June 3, 2014 San Francisco voters passed Proposition B, a City statute that requires San Francisco City voter approval of any development on Port property that exceeds the height limits in effect as of January 1, 2014. Proposition B applies to property currently under control of the Port Commission, as well as any property that the Port may acquire in the future. The legislation requires that any future ballot question to increase the height limits on Port property must specify both the existing and proposed height limits. Major development projects at the Port currently under negotiation including planned developments at Seawall Lot 337, Seawall lot 351 and the Pier 70 Waterfront Site contemplate development that will exceed existing height limits, and are subject to the requirements of Proposition B.

The developers of the Pier 70 Waterfront Site, and SWL 337 projects, qualified ballot measures for voter consideration of a height limit increase. At a general election held on November 4, 2014 San Francisco voters approved a height increase from 40 feet to 90 feet for the Pier 70 Waterfront Site project, and on November 3, 2015 voters approved a height increases from one story to between 190 and 240 feet for the SWL 337 project. As a result of these votes, the developers can continue with their current plans for their respective projects. There are no announced plans, at this time, from the developer of the Seawall Lot 351 site to seek voter approval of height limit increases for its proposed development.

*Northern Waterfront Seawall* •

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

The Northern Waterfront Seawall (the seawall) was constructed in sections over a period of 40 years beginning in 1878. Today, the seawall anchors the northern waterfront, providing support to Port's historic bulkhead wharves and buildings, protecting the shoreline against tides and storms, and holding back the filled lands containing vital Port and City infrastructure including The Embarcadero Promenade and Roadway, and key utilities serving large areas of the City. When constructed, the seawall was backfilled with soils subject to liquefaction. No section of the seawall is designed to withstand liquefaction. In a major seismic event, if liquefaction occurs, then specific seawall sections could move vertically downward and/or laterally outward.

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

The information gathering and review and evaluation phase of the earthquake vulnerability study is now complete. Study results are being developed, and will be subject to a third party independent engineering peer review. Port staff anticipates completing this study and presenting the results and recommendations to the Port Commission in the first half of 2016.

*Ten-Year Capital Plan •*

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

The most recent update to the ten year capital plan, approved by the Port Commission on February 10, 2015, identified three types of capital improvements. Improvements are classified as either: i) a capital project needed to maintain the Port's facilities in a state of good repair; ii) a potential seismic improvement; or iii) a planned enhancement to Port facilities. Seismic work is only required where a change in use or a major rehabilitation is taking place consistent with City building code requirements. The 2015 update identified \$1.62 billion in total capital need and \$0.47 billion in conditional seismic costs for a total of \$2.09 billion. The report also shows \$0.37 billion in planned capital enhancements. Shown below, for comparison purposes, are capital improvement totals from the 2014 and 2015 updates:

	millions of \$s	
<u>Type of Improvement</u>	<u>2014 Update</u>	<u>2015 Update</u>
Needed to maintain a state of good repair	\$1,590.5	\$1,622.3
Conditional seismic	<u>464.3</u>	<u>476.3</u>
Subtotal	\$2,054.8	\$2,098.6
Planned enhancements	<u>471.3</u>	<u>365.8</u>
Total	\$2,526.1	\$2,464.4

The largest category of capital improvements (\$1.62 billion), consist of capital projects, deferred maintenance and subsystem renewal work required for Port facilities. Planned enhancements totaling \$0.49 billion include new parks along the waterfront, new infrastructure and maritime improvements.

The 2015 update projects \$854 million in funding will be available over the next ten years to address the Port's capital needs and capital enhancements, including seismic work. Of this amount \$345 million is expected to be derived from internally generated funds consisting of (i) Port capital, (ii) Port revenue bonds and (iii) Port tenant obligations. The remaining \$509 million represents externally generated funding consisting of (i) development project funding, (ii) City and County of San Francisco general obligation bonds, and (iii) local, state and federal grants, including funding from the U.S. Army Corps of Engineers and the Federal Transit Administration. No funding has been identified for the remaining \$1.6 billion in repair and renewal, conditional seismic, and enhancement projects at this time. The Port continues to work to identify additional sources of funds for the unfunded portion of its ten year capital plan.

*San Francisco Redevelopment Agency •*

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

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

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

The MOA is structured so that OCII retains the obligation to repay the revenue bonds that were issued to finance the construction of South Beach Harbor, including the obligation to use pledged tax increment revenues from South Beach Harbor to repay the South Beach Harbor revenue bonds. The Port will assume \$7.1 million in California Division of Boating and Waterways loans that were incurred to finance the construction of South Beach Harbor, plus the SFRDA's unmet public access obligations under a March 1984 permit issued by the San Francisco Bay Conservation and Development Commission for the construction of South Beach Harbor.

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

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

*Miscellaneous •*

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

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

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

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

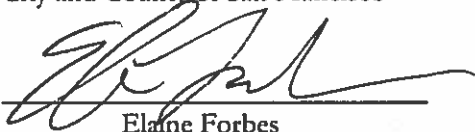
The ratings reflect only the views of the relevant credit rating agency. Generally, the agencies base their ratings on such information and materials and on investigations, studies, and assumptions made by the agencies themselves. Any downward change in or withdrawal of a rating might have an adverse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

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



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

Port Commission of the  
City and County of San Francisco

A handwritten signature in black ink, appearing to read 'E. Forbes', written over a horizontal line.

Elaine Forbes  
Interim Executive Director