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, 2015 and 2014

MGO Certified Public Accountants

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

For the Years Ended June 30, 2015 and 2014

Table of Contents

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, 2015 and 2014, 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, 2015 and 2014, 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.

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, 2015 and 2014, 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.

Also as discussed in Note 2 to the financial statements, effective July 1, 2014, the Port adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* Effective July 1, 2012, the Port adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Port's proportionate share of the net pension liability and the schedule of employer contributions 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 30, 2015, 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

Walnut Creek, California
October 30, 2015

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 18 to 23 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 24 to 28).

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 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 24 to 61 of this report.

The following is a presentation of certain condensed financial information derived from the financial statements. As discussed further in the Effects of New Pronouncements section of Note 2 (page 27), a restatement adjustment as of July 1, 2014 was posted to implement required changes to accounting and reporting for pensions.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2015 and 2014

Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30, 2015	June 30, 2014	June 30, 2013	2015-2014 Change	2014-2013 Change
Current and other assets	$ 152,032	$ 151,355	$ 135,786	$ 677	$ 15,569
Capital assets	444,105	439,773	409,032	4,332	30,741
Total assets	596,137	591,128	544,818	5,009	46,310
Deferred outflows of resources	5,555	-	-	5,555	-
Current liabilities	24,788	39,020	61,249	(14,232)	(22,229)
Noncurrent liabilities	209,459	180,819	120,960	28,640	59,859
Total liabilities	234,247	219,839	182,209	14,408	37,630
Deferred inflows of resources	14,850	-	-	14,850	-
Net position:					
Net investment in capital assets	315,037	312,572	319,829	2,465	(7,257)
Restricted	6,511	16,389	27,139	(9,878)	(10,750)
Unrestricted	31,047	42,328	15,641	(11,281)	26,687
Total net position	$ 352,595	$ 371,289	$ 362,609	$ (18,694)	$ 8,680

Changes in Net Position (in thousands)

	Year Ended June 30, 2015	2014	2013	2015-2014 Change	2014-2013 Change
Revenues:					
Operating revenues	$ 95,296	$ 85,739	$ 81,520	$ 9,557	$ 4,219
Nonoperating revenues	3,114	1,401	5,789	1,713	(4,388)
Capital contributions	1,560	9,721	25,832	(8,161)	(16,111)
Total revenues	99,970	96,861	113,141	3,109	(16,280)
Expenses:					
Operating expenses	83,683	83,596	79,165	87	4,431
Nonoperating expenses	4,512	4,585	6,260	(73)	(1,675)
Total expenses	88,195	88,181	85,425	14	2,756
Change in net position	11,775	8,680	27,716	3,095	(19,036)
Net position, beginning of the year as restated	340,820	362,609	334,893	(21,789)	27,716
Net position, end of the year	$ 352,595	$ 371,289	$ 362,609	$ (18,694)	$ 8,680

Financial Analysis

Total net position at June 30, 2015 of $352,595,000 was $18,694,000 lower than the net position at June 30, 2014. This follows an increase of $8,680,000 at the end of 2014. The 2015 net position is reported after required adjustments to record pension obligations and related items pursuant to a new accounting rule (see Note 2, Effects of New Pronouncements). 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 this statement when restatement of all prior periods is not practical, the cumulative effect of applying this accounting change is reported as a restatement of beginning position as of July 1, 2014. Without the pension related adjustments, net position in 2015 increased by $7,175,000. Also because of 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 ($5,555,000 for employer contributions subsequent to the measurement date) and deferred inflows of resources ($14,850,000 for assumption differences and changes), separate from assets and liabilities.

Capital asset investments continue to represent the greater majority of the increase to total assets. The net increase to capital assets of $4,332,000 in 2015 compares to $30,741,000 in 2014 and $114,314,000 in 2013. The funding for the acquisition and construction of capital assets (largely facility improvements) is reflected in the uses of working capital and increases to liabilities and other obligations, including new debt issuances in 2014. Grants and other capital contributions (including City general obligation bond proceeds for waterfront approved parks and open space projects) also fund certain capital improvements.

The net increase in noncurrent liabilities of $28,640,000 in 2015 includes the new requirement to report the net pension liability ($16,574,000) and the noncurrent portion of prepaid license fees received in 2015. Prepaid license fees of $15,275,000 were received from the Pacific Gas & Electric Company for its ZA-1 Embarcadero-Potrero 230kv Transmission Project. These prepaid fees are being amortized on a straight-line basis over the 40-year term of the license agreement. The decrease in current liabilities of $14,232,000 in 2015 (and previous decrease of $22,229,000 in 2014) reflects the utilization of working capital, including the liquidation of accounts payable and related obligations for the Port's operating and robust capital activities. The issuance of revenue bonds in May 2014 (discussed further in Note 8) increased noncurrent liabilities as well as additional restricted deposits held by the bond trustee.

Operating revenues increased in 2015 and supported current operation and maintenance expenses. 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 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 largest portion of the Port's net position is represented by the net investment in capital assets: 89% at June 30, 2015, 84% at June 30, 2014, and 88% at June 30, 2013. The total net investment in capital assets ($315,037,000 at June 30, 2015) 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, 2015 consists of $6,511,000 restricted for specific capital project expenditures and $31,047,000 that is unrestricted and available to meet future capital requirements and ongoing obligations.

The statements of revenues, expenses and changes in net position on page 21 presents the Port's operating revenues in more detail by industry revenue types. Operating revenues for the year ended June 30, 2015 increased $9,557,000 or 11.1%, which compares to an increase of $4,219,000 or 5.2% for the year ended June 30, 2014. Property rentals across all revenue types for the year ended June 30, 2015 posted a net increase of $7,752,000 comprised of a $5,705,000 increase in minimum or base rentals and an increase of $2,047,000 from 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, continue to be a strong source of income. Total parking revenues for the year ended June 30, 2015 increased $2,588,000 or 13%, which compares to an increase of $1,950,000 or 11% for the year ended June 30, 2014. Off-street parking lots have returned to full operation after diversion for the 34th America's Cup event-related usage in 2012 and 2013. Parking meter revenues for on-street parking has also 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.

Facility rentals for maritime uses and activity-based revenues from Cruise and Ship Repair continue to show growth. Dredging and investments to expand the capacity of the large drydock and to add shorepower equipment have resulted in additional booked business for the Port's ship repair tenant, which continues to be able to pay the Port additional percentage rent after the rent credits granted to support the drydock expansion. Cruise revenues of $4,928,000 for 2015 were higher than 2014 by $1,532,000. Comparatively, 2014 was higher than 2013 by $571,000. There were 76, 73 and 65 passenger cruise calls in 2015, 2014 and 2013, respectively. Princess Cruises continues a year-round schedule with several vessels sailing from San Francisco and completes certain drydockings at the Pier 70 shipyard. Higher fees and recovery charges are also assessed for the utilization of the facilities at the new James R. Herman Cruise Terminal at Pier 27.

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.

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. The Port received $18.2 million of proceeds in 2013 from the City's issuance of 2012 Clean and Safe Neighborhood Parks General Obligation Bonds to fund designated open space projects on Port property. There were no park bond issuances in 2015 and 2014 for Port projects. The net decrease in capital contribution revenues in 2015 is attributable to over $6 million of grant-funded security improvements that were included in the 2014 construction of the James R. Herman Cruise Terminal at Pier 27.

Total expenses of $88,195,000 (condensed summary on page 4) for 2015 represent a $14,000 increase from 2014. Comparatively, 2014 was higher than 2013 by $2,756,000. The statements of revenues, expenses and changes in net position on page 21 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 2015 and 2014 are highlighted below:

	Increase / (Decrease)	
	2015	**2014**
Personal services	$ (4,083,000)	$ 595,000
Contractual services	208,000	(1,860,000)
Utilities	421,000	(66,000)
Materials and supplies	54,000	87,000
Depreciation and amortization	2,353,000	4,067,000
General and administrative	278,000	370,000
Services provided by other City departments	1,526,000	(1,650,000)
Pollution remediation	146,000	2,742,000
Other	(816,000)	146,000

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, 2015 was 241 versus 219 in 2014. Current accounting rules have been requiring 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, pension expense reflects only the change in the net pension liability, determined in accordance with GASB 68. The City allocates pension elements proportionately to departments based on the level of contributions made. The 2015 allocation includes $3,713,000 credit adjustment for the first-year amortization of deferred inflows of resources (excess of projected investment earnings over actual earnings), which are required under GASB 68 to be amortized over a closed five-year period. More detailed information concerning pensions is in Note 10 beginning on page 40. A $2 million charge was recorded in 2015 and in 2014 for OPEB. The City allocates the annual required contribution computed by consulting actuaries proportionately to departments based on the current payroll costs of covered employees. As discussed in more detail in Note 12, a reform measure was passed (Proposition B in 2008) to partially reduce the impact of the unfunded OPEB liability, which had previously been funded on a "pay-as-you-go" basis.

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 2015 were $208,000 more than 2014 expenditures. Preliminary conceptual design work, feasibility analyses, environmental investigations, hazardous material removal and demolition costs are typically expensed when incurred. The Planning 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. Pollution remediation obligations and related changes in estimates are discussed more fully in Note 18. The utility expense increase of $421,000 reflects the utilization of shoreside power at the cruise terminal. Related pass-through recoveries for this power usage are reported among cruise revenues.

Total service reimbursements to other City departments were $17,097,000 in 2015, a net increase of $1,526,000 over 2014. 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. 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 2015 were largely attributable to supplemental services procured from the Department of Public Works to implement certain construction projects at Port facilities, from Parking and Traffic for the operation and maintenance of on-street parking program as well as additional 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 18). The increase variances in pollution remediation expense for 2015 and 2014 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 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 expenditures in 2015 for certain preliminary costs were about $200,000, from a total grant award of $2,970,000.

Also among nonoperating revenues and expenses are the gains and losses realized from the disposition of Port assets. Insurance proceeds totaling $14,116,000 have been received pursuant to the insurance claim filed by the Port (Note 16). Final settlement of the insurance claim was reached in April 2015, resulting in the collection of $1,686,000 in additional insurance proceeds.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets as of June 30, 2015 and 2014, respectively, were $444.1 million and $439.8 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 32-33 of this report.

James R. Herman Cruise Terminal at Pier 27

The most significant capital asset activity in the recent period is the September 2014 opening of the James R. Herman Cruise Terminal at Pier 27. Pier 27 has been developed as the primary cruise terminal to meet modern ship and current operational requirements of the cruise industry. The cruise terminal building is designed to allow for special event and meeting uses when the facility is not occupied for cruise purposes. A civic celebration and official grand opening was held on September 25, 2014, with the *Grand Princess* in port. Phase 1 construction for the core and shell of the building was completed in February 2013; and the building was then used temporarily for the 34th America's Cup events. Phase 1 expenditures were approximately $62 million, including demolition and remediation costs. Phase 2 expenditures of approximately $49 million brought total costs to approximately $111 million. Phase 2 covered additional build-out of the cruise terminal building, including the U.S. Customs and Border Protection offices and security rooms; the installation of the mobile gangway system, including a glass-covered passenger boarding bridge and other maritime equipment; completion of a facility operations/provisioning area; fenders and bollards; completion of the ground transportation area; and the ***Cruise Terminal Plaza*** (previously designated as the Northeast Wharf Plaza in planning documents), an approximately 2¾ acre public open space located along the west end of Pier 27, along the Embarcadero Promenade.

Blue Greenway Projects
The Blue Greenway is a City and Port project to improve and expand the public open space network along the central and southern waterfront, extending from China Basin Channel to the San Francisco southern county line. When fully completed, this network is envisioned to consist of thirteen miles of contiguous pedestrian and bicycling routes with a series of parks and respite areas at which to enjoy and access the Bay.

- ***Blue Greenway Signage System.*** The Port, with assistance from a design team, developed a wayfinding system to (a) improve recognition of the network of open spaces and the alignment of the Blue Greenway before it is completely designed, funded, and built; (b) help build an identity to the system for today's users and potential users; and (c) through removable panels, allow for future area interpretation on the signs as the Blue Greenway evolves over a long development period. Unlike the Embarcadero promenade in the northeastern waterfront, the alignment of the Blue Greenway is not obvious to the user. In many locations, the Blue Greenway public alignment is far away from the Bay's edge or adjacent to heavy industrial uses and is consequently somewhat obscured from potential users. In other locations, sidewalks are sometimes narrow or non-existent and shoreline open spaces are separated by great distances. Construction was completed in December 2014 of 22-foot height signs at ten locations between Mission Creek and Heron's Head Park. Total accumulated costs were $1.8 million. The 2008 Clean and Safe Parks General Obligation Bond provided funding for all of the construction and some of the design costs.

- ***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.

The Port had firm purchase and contract commitments at June 30, 2015 of approximately $10 million for capital projects. As of June 30, 2015, the budget file indicates over $60 million in appropriations for Port projects. 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 projects along the waterfront.

Debt Administration
Detailed information concerning the Port's long-term obligations can be found in Note 8 on pages 34-38 of this report. As of June 30, 2015, the Port had long-term debt obligations of $92,246,000 including $2,478,000 that is due during the next fiscal year. Total debt outstanding consists of $55,350,000 in revenue bonds, $34,355,000 in certificates of participation, $2,369,000 in loans that are secured by specified revenue sources and $172,000 advance from SFPUC for the energy efficiency project.

No new debt was issued in 2015. In May 2014, the Port issued $22,675,000 in revenue bonds (Note 8) in two series: Series 2014A (AMT tax-exempt) which includes 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 and Series 2014B (taxable) which includes serial bonds totaling $2,795,000 with coupon rates ranging from 0.55% to 3.00% and maturities from March 2015 through March 2020. The bonds were issued 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. All three national credit agencies also affirmed these same credit ratings that were also previously assigned to the Port's 2010 revenue bonds. S&P also revised its outlook from stable to positive, giving recognition to the Port's continued strong debt service coverage and strong liquidity position.

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 plan of finance for the Port projects also contemplated utilization of the City's commercial paper program as interim or bridge financing. The public sale of $37,700,000 in COPs was completed in October 2013 and $27,199,000 from the proceeds was used to repay the City commercial paper program in November 2013 (Note 8).

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. While many tenants have been affected by the recent recession and elongated recovery period, the Port's overall rental revenue stream remained stable and has more recently seen some good growth. Revenue loss 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 rents above the minimum based on tenant sales). Note 9 (pages 39-40) 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 has been demonstrating unusual strength in some sectors. The Port's overall revenues have also continued to reflect a good degree of strength and stability. 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. A cautious optimism is warranted in this post-recession environment. It is significant that the Federal Reserve is intent on raising 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

Ten-year capital plan. City Administrative Code Section 3.20 requires a Ten-Year Capital Plan (Plan) that is updated every two years in concert with the City's current biennial budget process. The most recent update, adopted by the Port Commission in February 2015, identifies $1.62 billion required to cover deferred maintenance and subsystem renewals on Port facilities. This figure 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. An additional $0.48 billion for conditional seismic work, which may or may not be required during the next ten-year period, is tabulated separately. 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.

The Plan identifies $853.7 million in existing or potential funding sources to finance the listed or anticipated expenditures. These sources are distinguished between internally and externally generated sources. Internally-generated funding sources include Port capital funds, revenue bond proceeds from the Series 2014 Bonds, and tenant contributions pursuant to improvement and maintenance obligations required under existing leases. Together, these sources are projected to generate approximately $344.7 million. Externally-generated funding sources include private sector development project funding, City general obligation bond proceeds, and Federal, State and local grants. These sources are projected to generate approximately $509.1 million. The Ten-Year Capital Plan reflects that approximately 57% of the identified funding sources ($487.9 million) will be applied towards state-of-good-repair projects and approximately 43% of identified funding sources ($365.8 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 estimated to represent 24% of the state-of-good-repair funding ($119.0 million) and 48% of the proposed capital enhancements ($176.1 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. Specific development projects that are identified in the Plan may change, be delayed, or cancelled.

The Port must continue to explore ways to address its unfunded needs, including building partnerships to attract new sources of funds. While the Plan projects $853.7 million in capital investments over the next ten years, at the end of that period the Port will still face a backlog of $1.13 billion for needed improvements, and potentially another $476.3 million in conditional seismic work. 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 this unmet need: future 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.

Sea Level Rise. The planning for certain Port leasing and development projects must take into consideration longer term issues. One of the more publicized impacts of global warming is the predicted acceleration of sea level rise. This acceleration would increase the historic rate 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. 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 mitigation measures would need to be constructed to protect Port facilities if sea level rises significantly.

An interdepartmental task force, formed to assess the potential impacts of climate change on the City, developed a guide for capital planners which presents up-to-date science on sea level rise and lays out four steps in the process for incorporating sea level rise into capital planning: (1) science review; (2) vulnerability assessment; (3) risk assessment; and (4) adaptation planning. In September 2014, the City's Capital Planning Committee formally adopted this framework.

Another initiative is the Mission Creek Adaptation Project, whose primary objective is to develop sea level rise and storm water adaptation alternatives for the Mission Creek area portion of the City's waterfront based on the findings of a high-level vulnerability assessment. This study project will also provide the Port with concepts that help address future flood risk along Islais Creek and other parts of its waterfront jurisdiction.

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. In 2014, the Port Commission authorized an earthquake vulnerability study of the seawall. The purpose of this study is to take a comprehensive look at the earthquake safety of this portion of the waterfront – and assist the Port in planning for and implementing adaptation measures necessary to address sea level rise and climate change.

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. 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. A summary of major State and local legislation passed to date which may benefit the Port is provided below:

- SB 1085 was adopted in 2005, adding IFD bonds to the Port's funding options. SB 1085 permits the Port to petition the Board of Supervisors to form a Port IFD, with the power to capture growth in property tax increment for periods of up to 40 years to finance improvements. Formation of such an IFD is currently in progress.
- SB 815 was adopted in 2007, authorizing the Port to lease or sell underutilized landside waterfront property located south of the Bay Bridge for its highest and best use, free of the use restrictions of the public trust, in order to generate funds for historic rehabilitation and open space.
- 2008 approval by City voters of Propositions A and D, and 2012 approval by City voters of Proposition B, directed City general obligation bond funds to Port waterfront park and open space projects.
- AB 1199 was enacted in 2010 to clarify and extend the Port's use of property tax increment revenues. Among other things, this legislation allows the future Pier 70 IFD project area to receive for a 20-year period the portion of property tax increment (with certain limitations) that would otherwise go into a State fund.
- AB 664 was enacted in September 2011 and allows the Port to capture the portion of property tax increment (with certain limitations) that would otherwise go into a State fund to fund specified capital improvements, and open space improvements.
- AB 418 was enacted in October 2011, authorizing the Port to sell one of the specified seawall lots under Senate Bill 815, Seawall Lot 330, on conditions specified in the legislation. Assembly Bill 418 also authorizes the State Lands Commission to approve lifting the public trust from certain parcels in the Port's Pier 70 area provided that the trust is imposed upon other parcels within the Pier 70 area of at least the same area and value, to assist in the rehabilitation of historic resources in the former maritime industrial site by increasing the developable area and providing income from potential non-trust uses of rehabilitated historic buildings.

Public agencies may use IFDs to finance public infrastructure improvements by capturing and bonding against tax revenue increments generated in a district after it is established. Senate Bill No. 1085 enables the City and Port to apply this code section to the Port area. Among other things, it authorizes the use of an IFD for urban waterfront areas in addition to undeveloped or underdeveloped areas; specifically clarifies that publicly-owned property subject to tidelands trust for commerce, navigation and fisheries (the public trust), including filled tidelands, may be included in such districts; and enumerates additional examples of infrastructure improvements that qualify for IFDs, including seismic upgrades, historic renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers and wharves. In June 2012, the Board of Supervisors approved an amended Resolution of Intention to establish Infrastructure Financing District No. 2 consisting of the entire waterfront area under Port jurisdiction, called the Port Area, and designated an initial eight proposed project areas within this IFD. The formal establishment of the IFD, including the project areas described in the amended Resolution of Intention, is subject to approval of the Board by ordinance after public hearing(s). The proposal to include property within the boundaries of any project area in the IFD does not constitute approval of any specific land uses on or authorize the Port to collect property tax increment from that property. In April 2013, the Board adopted certain draft guidelines for Port IFDs. Other actions are pending additional local legislative process.

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 luxury high-rise residential development along the Embarcadero at 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 revised 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 suits were filed in Superior Court to challenge those approvals, alleging violation of the California Environmental Quality Act (CEQA). The developer for the Seawall Lot 351 project continues to consider its options to reevaluate the proposed development.

City voters may also avail 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. Major 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 one project (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) has qualified a November 2015 ballot measure (Proposition D) for voter consideration of its project's height increase.

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. The Port has initiated a public process to update the Waterfront Plan. In 2014, Port staff published the Draft Review of the Waterfront Land Use Plan, a report that 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. In September 2015, a Waterfront Plan Working Group and Specialty Advisory Teams were being formed, with an official launch of the Waterfront Update Plan Update public process in October 2015. The project timeline anticipates that the public review process will conclude with final policy recommendations in 2017.

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. The Port is permitted to seek and use other funding sources (i.e. grants and contributions) to finance the required pier removals and public access improvements. As of June 30, 2015, $49 million has been appropriated and $47 million has been disbursed 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 an 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 18, 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.

<u>Historic Buildings</u> **–** In February 2012, the Port Commission selected a developer and, in May 2012, entered into an 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 buildings. 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 finding 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 and is anticipated to be complete in Spring 2017.

<u>Waterfront Site</u> **–** 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. The ENA, approved July 2011, provides for a five-year period to develop plans for the project, negotiate required agreements, and secure required approvals. 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. Negotiations between the Port and the developer continue on the transaction details and documents, including the ground leases, the development and disposition agreement and financing plans. The development concept for the Waterfront Site is subject to review and approval under CEQA.

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

In September 2010, the Port entered into an exclusive negotiation agreement (ENA) with Seawall Lot 337 Associates, LLC for the mixed-use development of Seawall Lot No. 337 (SWL 337) and the adjacent Pier 48. Pursuant to the ENA, 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. The project team is pursuing project entitlements including environmental review in accordance with CEQA. 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). Refinement of the development program for the Site, together with the review of project costs, continues.

Pier 38 Bulkhead Rehabilitation
A request for proposals was issued in November 2012, seeking a development partner to rehabilitate the Pier 38 bulkhead building and limited shed improvements for re-occupancy in the short-term and potentially qualifying the developer to redevelop the entire facility over the long-term. The Port Commission subsequently passed a resolution requiring a space planning process before consideration of any development of the full pier. In December 2013, a selection was made for the bulkhead rehabilitation project. Lease negotiations remain in progress.

Seawall Lot 322-1 Development for Affordable Housing
In March 2014, the Port Commission approved a Memorandum of Understanding between the Port and the Mayor's Office of Housing and Community Development 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, including affordable housing, at an effective rent that is below fair market value and entitles 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. The MOU allows three years for completing the entitlement process and obtaining project approval and authorizes certain limited time extensions. The job-housing credits realized and specific offset benefits allowable will be determined through negotiations with the Port's development partner(s) at a later, appropriate time. A Request for Proposals to solicit a developer for the project is scheduled to be released later in 2015.

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 a dinner-theater and 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. During the ENA period, Port staff will work with TZK to refine the proposed development concept and negotiate a term sheet for the required agreements.

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, 2015 approximately $65.4 million has been expended for park projects, including $38.0 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, 2015 and 2014
(dollar amounts in thousands)

	2015	2014
Assets		
Current assets:		
Unrestricted:		
Cash and investments, held in City Treasury (Note 3)	$ 109,139	$ 77,126
Cash held outside of City Treasury (Note 3)	5	5
Accounts and grants receivable, net (Note 4)	5,275	10,800
Accrued interest receivable	125	141
Materials and supplies	757	1,010
Prepaid charges and advances (Note 5)	233	147
Total unrestricted current assets	115,534	89,229
Restricted:		
Cash and investments, held in City Treasury (Note 3)	23,678	47,598
Deposits and investments outside of City Treasury (Note 3)	11,365	13,227
Total restricted current assets	35,043	60,825
Total current assets	150,577	150,054
Noncurrent assets:		
Capital assets (Note 6):		
Nondepreciable	124,897	155,506
Depreciable, net	319,208	284,267
Capital assets, net	444,105	439,773
Unrestricted other noncurrent assets (Note 7)	1,455	1,301
Total noncurrent assets	445,560	441,074
Total assets	$ 596,137	$ 591,128
Deferred outflows of resources -		
Deferred outflows of resources related to pensions (Notes 2 and 10)	$ 5,555	$ -

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, 2015 and 2014
(dollar amounts in thousands)

	2015	2014
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,477	$ 14,333
Due to General Fund (Notes 14)	-	42
Accrued interest payable	1,652	1,464
Accrued payroll	1,103	2,269
Accrued vacation and sick leave pay (Note 8)	1,367	1,252
Accrued workers' compensation (Notes 8 and 19)	408	406
Estimated claims payable (Notes 8, 18 and 19)	1,056	1,480
Current maturities of long-term obligations (Note 8)	2,370	2,600
Current portion of loan from City department (including accrued interest payable of $4 and $8, respectively) (Notes 8 and 14)	112	112
Pollution remediation obligation (Notes 8 and 18)	71	129
Other liabilities (Notes 8 and 18)	-	3,200
Prepaid rents and advance payments	2,365	1,847
Rent credits due to tenants	2,166	2,127
Lessee and other deposits	8,641	7,759
Total current liabilities	24,788	39,020
Noncurrent liabilities:		
Accrued vacation and sick leave pay (Note 8)	853	1,040
Accrued workers' compensation (Notes 8 and 19)	2,374	2,368
Estimated claims payable (Notes 8, 18 and 19)	350	350
Long-term obligations - net of current maturities (Note 8)	91,526	93,958
Loan from City department, net of current portion (Notes 8 and 14)	64	172
Pollution remediation obligation (Notes 8 and 18)	10,703	10,625
Net pension liability (Note 10)	16,574	-
Other postemployment benefits obligation (Note 12)	20,091	18,091
Prepaid rents, advance payments and other liabilities	15,146	577
Rent credits due to tenants	51,778	53,638
Total noncurrent liabilities	209,459	180,819
Total liabilities	$ 234,247	$ 219,839
Deferred inflows of resources -		
Deferred inflows of resources related to pensions (Note 2 and 10)	$ 14,850	$ -
Net position		
Net investment in capital assets	315,037	312,572
Restricted for capital projects	6,511	16,389
Unrestricted	31,047	42,328
Total net position	$ 352,595	$ 371,289

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, 2015 and 2014
(dollar amounts in thousands)

	2015	2014
Operating revenues (Note 9):		
Commercial and industrial	$ 51,328	$ 46,606
Parking	22,312	19,724
Cargo	4,931	4,696
Cruise	4,928	3,396
Ship repair	2,045	1,790
Fishing	2,185	2,123
Harbor services	1,996	2,136
Other maritime	2,305	1,842
Other	3,266	3,426
Total operating revenues	95,296	85,739
Operating expenses:		
Personal services	29,406	33,489
Contractual services	4,978	4,770
Utilities	2,395	1,974
Materials and supplies	1,689	1,635
Depreciation and amortization	22,787	20,434
General and administrative	4,266	3,988
Services provided by other City departments (Note 14)	17,097	15,571
Pollution remediation (Note 18)	78	(68)
Other	987	1,803
Total operating expenses	83,683	83,596
Operating income	11,613	2,143
Nonoperating revenues (expenses):		
Interest and investment income	970	1,236
Operating grants	458	165
Gain from fire insurance settlement (Note 16)	1,686	-
Disposition of Drydock #1 (Note 18)	134	841
Asset disposition expenses (net)	(426)	(294)
Debt issuance costs, including City commercial paper program (Note 8)	-	(1,650)
Interest expense	(4,220)	(3,482)
Total net nonoperating revenues (expenses)	(1,398)	(3,184)
Change in net position before capital contributions	10,215	(1,041)
Capital contributions -		
Grants from government agencies and other contributions	1,560	9,721
Change in net position	11,775	8,680
Net position, beginning of the year as previously reported	371,289	362,609
Restatement due to implementation of GASB 68 (Note 2)	(30,469)	-
Net position, beginning of the year as restated	340,820	362,609
Net position, end of the year	$ 352,595	$ 371,289

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, 2015 and 2014
(dollar amounts in thousands)

	2015	2014
Cash flows from operating activities:		
Cash received from tenants for rent	$ 89,205	$ 66,394
Cash received from customers and others	17,300	16,234
Deposits received from tenants and customers	1,578	1,016
Cash paid to employees for services	(28,213)	(26,840)
Cash paid to employee retirement system	(4,948)	(4,454)
Cash paid to suppliers for goods and services	(17,113)	(14,101)
Cash paid to City for services	(17,185)	(15,799)
Customer deposits returned	(467)	(385)
Net cash provided by operating activities	40,157	22,065
Cash flows from noncapital financing activities:		
Insurance proceeds	1,686	-
Operating grants	228	1,131
Net cash provided by noncapital financing activities	1,914	1,131
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(34,409)	(44,614)
Demolition and other dispositions	-	(159)
Dredging	(2,911)	(1,089)
Payments of long-term debt	(2,704)	(3,332)
Interest and debt issue cost payments on long-term debt	(4,468)	(4,579)
Proceeds from certificates of participation	-	12,347
Proceeds from revenue bonds	-	23,388
Capital contribution from City for cruise terminal project	-	1,600
Insurance proceeds	-	980
Capital grants received	6,876	1,734
Other capital contributions	800	550
Proceeds from sale of equipment and materials	5	10
Net cash used in capital and related financing activities	(36,811)	(13,164)
Cash flows from investing activities:		
Interest and investment income	986	1,125
Net cash provided by investing activities	986	1,125
Change in cash and cash equivalents	6,246	11,157
Cash and cash equivalents, beginning of year	137,607	126,450
Cash and cash equivalents, end of year	$ 143,853	$ 137,607

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, 2015 and 2014
(dollar amounts in thousands)

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 11,613	$ 2,143
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	22,787	20,434
Change in allowance for doubtful accounts	(166)	17
Net effects of (increase) decrease in:		
Receivables	(195)	(653)
Tenant deposits held outside City Treasury	15	64
Materials and supplies	253	182
Prepaid charges, advances and other assets	10	(5)
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	(607)	(1,228)
Accrued payroll	(1,166)	171
Accrued vacation and sick leave payable	(72)	(38)
Accrued workers' compensation	8	59
Estimated claims payable	(424)	148
Pollution remediation obligations	20	(79)
Other postemployment benefits obligation	2,000	2,035
Rent credits, prepaid rent and other liabilities	10,681	(1,185)
Net pension liability and related deferred outflow/inflow of resources	(4,600)	-
Net cash provided by operating activities	$ 40,157	$ 22,065
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	$ 1,056	$ 11,347
Tenant improvements financed by rent credits	400	2,861
Accrued capitalized interest	-	22
Reclassification of advance to USACE for dredging study	(250)	-
Change in estimate of the disposition of Drydock #1	(134)	1,000
Accrued proceeds from sale of asset	-	15
Abandoned capital improvement projects and asset disposal expense	(431)	(319)
Repaid City commercial paper advances by new certificates of participation	-	26,785
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	$ 109,139	$ 77,126
Restricted	23,678	47,598
Cash held outside City Treasury		
Unrestricted	5	5
Restricted	11,365	13,227
Cash and equivalents	144,187	137,956
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	(334)	(349)
Total cash and cash equivalents	$ 143,853	$ 137,607

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.

The Port is owned by the State of California (State) and, prior to February 1969, was 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.

2. Significant Accounting Policies (Continued)

Cash Equivalents

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

Investments

The Port reports its investments at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurs. Fair value is based upon quoted market prices.

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 date received. 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 20 years
Infrastructure	15 to 40 years

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 by the City Board of Supervisors in September 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 dry, liquid bulk, and break bulk cargoes, cruise, and other berthing. Other operating revenues include building permit and inspections fees. Operating expenses include facility maintenance, the cost of operations, administrative expenses, and depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Capital Contributions

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

Effects of New Pronouncements

In 2015, the City implemented the provisions of the following GASB accounting pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (issued June 2012) which is intended to improve accounting and financial reporting by state and local governments for pensions and, when applicable, to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities; and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68* (issued November 2013) which eliminates the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

2. Significant Accounting Policies (Continued)

The Port did not restate the financial statements for the year ended June 30, 2014 because the actuarial information was not available. As such, the Port included the pension disclosures under GASB Statement No, 27 (GASB 27), *Accounting for Pension by State and Local Government Employers*, for the year ended June 30, 2014. As of July 1, 2014, the Port restated its net position by $30,469,000 to record beginning Net Pension Liability ($35,458,000) and beginning Deferred Outflows of Resources ($4,989,000).

In 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This GASB statement recognized, as outflow of resources or inflow of resources, certain items that were previously reported as assets or liabilities. To implement this required accounting change, the Port's beginning net position of fiscal year 2013 was restated to remove certain items previously recorded as assets. The adoption of other statements in 2014 did not have a material impact on the Port's financial statements: GASB Statement No. 66, Technical Corrections-2012: an amendment of GASB Statements No. 10 and No. 62 and GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013.

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. 72, *Fair Value Measurement and Application*, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

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.

Reclassifications and Presentation

Certain reclassifications of prior year's balances have been made to conform with the current year presentation. The reclassifications have no effect on the financial position, results of operations, or cash flows.

3. Cash and Investments

The Port's cash and investments at June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Cash and investments in City Treasury	$ 109,139	$ 77,126
Cash outside of City Treasury - imprest fund	5	5
Restricted assets:		
Cash and investments in City Treasury	23,678	47,598
Deposits and investments outside of City Treasury:		
Cash and investments held by fiscal agents	11,031	12,878
Lessee deposits	334	349
	$ 144,187	$ 137,956

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 associated with the City's pool of cash and investments at June 30, 2015 and 2014. 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.

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.

3. Cash and Investments (Continued)

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 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, 2015 and 2014, 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 2015	12.6%	11.9%	10.5%	65.0%
FY 2014	3.3%	9.6%	15.6%	71.5%

At June 30, 2015 and 2014, the City's pooled investments have a weighted average maturity of 1.47 years and 1.94 years, respectively.

Cash and Investments Outside of City Treasurer's Pool

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.

3. Cash and Investments (Continued)

Cash Held by Fiscal Agents

At June 30, 2015 and 2014, cash and investments held by fiscal agents consisted of (in thousands):

	2015	2014
Reserve accounts:		
Cash equivalents - U.S. Bank commercial paper	$ 4,167	$ 4,184
Money market mutual fund	2,825	2,874
Project accounts -		
Money market mutual fund	3,965	5,516
Debt service and other accounts:		
Cash equivalents - U.S. Bank commercial paper	74	157
Money market mutual fund	-	147
	$ 11,031	$ 12,878

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, 2015 and 2014. Investments held by the COP fiscal agent consist of a money market fund, with weighted average maturity of 46 days and 40 days at June 30, 2015 and 2014, respectively. The money market fund has a Standard & Poor's rating of AAAm and a Moody's rating of Aaa-mf at June 30, 2015 and 2014.

4. Receivables

Receivables consisted of the following June 30, 2015 and 2014 (in thousands):

	2015	2014
Accounts receivable from tenants and customers	$ 4,424	$ 3,936
Less allowance for doubtful accounts	(581)	(747)
Accounts receivable, net	3,843	3,189
Grants receivable	784	6,670
Other	648	941
	$ 5,275	$ 10,800

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 cost-sharing agreement for the USACE to carry out work on Port property that is also in the federal interest. Under these cost-sharing arrangements, the Port is typically required to pay its estimated cost share in advance to the USACE. The unexpended portion of such advances, which USACE will apply to future project costs, are reported as Prepaid Charges and Advances at June 30, 2015 and 2014

6. Capital Assets

A summary of changes in capital assets for years ended June 30, 2015 and 2014 are as follows (in thousands):

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	49,924	23,945	54,554	19,315
Total capital assets, not being depreciated	155,506	23,945	54,554	124,897
Capital assets, being depreciated:				
Facilities and improvements	518,768	48,024	-	566,792
Machinery and equipment	18,561	7,222	1,078	24,705
Intangible assets	2,264	-	-	2,264
Dredging	3,379	2,911	1,089	5,201
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	29,114	1	-	29,115
Total capital assets, being depreciated	574,865	58,158	2,167	630,856
Less accumulated depreciation for:				
Facilities and improvements	263,833	16,678	-	280,511
Machinery and equipment	12,862	1,466	648	13,680
Intangible assets	1,436	262	-	1,698
Dredging	1,573	2,827	1,089	3,311
Waterfront Land Use Plan	2,244	165	-	2,409
Infrastructure	8,650	1,389	-	10,039
Total accumulated depreciation	290,598	22,787	1,737	311,648
Total capital assets, being depreciated, net	284,267	35,371	430	319,208
Capital assets, net	$ 439,773	$ 59,316	$ 54,984	$ 444,105

6. Capital Assets (Continued)

	Balance July 1, 2013	Increases	Decreases	Balance July 1, 2014
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	9,772	50,405	10,253	49,924
Total capital assets, not being depreciated	115,354	50,405	10,253	155,506
Capital assets, being depreciated:				
Facilities and improvements	509,632	9,136	-	518,768
Machinery and equipment	18,075	551	65	18,561
Intangible assets	2,075	189	-	2,264
Dredging	5,840	1,089	3,550	3,379
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	29,056	58	-	29,114
Total capital assets, being depreciated	567,457	11,023	3,615	574,865
Less accumulated depreciation for:				
Facilities and improvements	248,908	14,925	-	263,833
Machinery and equipment	11,838	1,089	65	12,862
Intangible assets	1,208	228	-	1,436
Dredging	2,486	2,637	3,550	1,573
Waterfront Land Use Plan	2,079	165	-	2,244
Infrastructure	7,260	1,390	-	8,650
Total accumulated depreciation	273,779	20,434	3,615	290,598
Total capital assets, being depreciated, net	293,678	(9,411)	-	284,267
Capital assets, net	$ 409,032	$ 40,994	$ 10,253	$ 439,773

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, 2015 and 2014. The cost of fully depreciated assets still in use was approximately $167,820,000 and $162,095,000 at June 30, 2015 and 2014, respectively. The Port received proceeds from sales of equipment and materials of $5,000 in 2015 and $10,000 in 2014. Total interest expense was $4,590,000 and $3,549,000 for fiscal years 2015 and 2014, of which $370,000 and $67,000 was capitalized, respectively. The decreases in machinery and equipment for fiscal year 2015 included $430,000 from the early disposition of on-street parking equipment purchased for the Port's pilot program, replaced in coordination with the final City program. The decreases in construction in progress for fiscal year 2014 included $319,000 for abandoned capital improvement projects, principally early design costs which did not result in capital projects.

7. Other Assets

Other unrestricted noncurrent assets represent the long-term portion of lease or other agreement obligations to be collected from tenants and customers in future years.

8. Bonds, Loans and Other Payables

The changes in bonds, loans and other payables for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	July 1, 2014	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2015	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 56,750	$ -	$ 1,400	$ 55,350	$ 1,225
Certificates of participation	35,435	-	1,080	34,355	1,020
Net of premiums/discounts:					
For issuance premiums	2,113	-	72	2,041	-
For issuance discounts	(229)	-	(9)	(220)	-
Total bonds payable	94,069	-	2,543	91,526	2,245
Other payables:					
Loan payable	2,489	-	120	2,369	125
Loan from City department	276	-	104	172	108
Accrued vacation and sick leave pay	2,292	1,379	1,451	2,220	1,367
Accrued workers' compensation (Note 19)	2,774	587	579	2,782	408
Estimated claims payable (Note 19)	1,830	508	932	1,406	1,056
Pollution remediation obligations (Note 18)	10,754	70	50	10,774	71
Other liabilities - Drydock#1 (Note 18)	3,200	-	3,200	-	-
Long-term obligations	$ 117,684	$ 2,544	$ 8,979	$ 111,249	$ 5,380

	July 1, 2013	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2014	Amounts Due Within One Year
Long-term debt:					
Revenue bonds	$ 34,800	$ 22,675	$ 725	$ 56,750	$ 1,400
Certificates of participation	-	37,700	2,265	35,435	1,080
Net of premiums/discounts:					
For issuance premiums	-	2,145	32	2,113	-
For issuance discounts	(238)	-	(9)	(229)	-
Total bonds payable	34,562	62,520	3,013	94,069	2,480
Other payables:					
Loan payable	2,603	-	114	2,489	120
Loan from City department	504	-	228	276	104
Accrued vacation and sick leave pay	2,330	1,684	1,722	2,292	1,252
Accrued workers' compensation (Note 19)	2,715	565	506	2,774	406
Estimated claims payable (Note 19)	1,682	277	129	1,830	1,480
Pollution remediation obligations (Note 18)	10,833	37	116	10,754	129
Other liabilities - Drydock#1 (Note 18)	4,200	-	1,000	3,200	3,200
Long-term obligations	$ 59,429	$ 65,083	$ 6,828	$ 117,684	$ 9,171

8. Bonds, Loans and Other Payables (Continued)

Annual debt service requirements for all bonds and loans outstanding as of June 30, 2015 are as follows (in thousands):

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest	Loans Payable Principal	Loans Payable Interest	Total Principal	Total Interest
2016	$ 1,225	$ 2,951	$ 1,020	$ 1,712	$ 233	$ 111	$ 2,478	$ 4,774
2017	1,265	2,904	1,060	1,671	195	102	2,520	4,677
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
2021-2025	8,660	12,211	5,550	6,639	853	306	15,063	19,156
2026-2030	11,870	9,001	4,520	5,445	831	95	17,221	14,541
2031-2035	10,340	5,571	5,830	4,132	-	-	16,170	9,703
2036-2040	13,010	2,900	7,465	2,496	-	-	20,475	5,396
2041-2044	4,810	506	5,430	552	-	-	10,240	1,058
Total	$ 55,350	$ 44,397	$ 34,355	$ 27,366	$ 2,541	$ 880	$ 92,246	$ 72,643
Remaining interest rates		0.95% - 7.408%		4.00% - 5.25%		4.00% - 4.50%		

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, 2015, the Port was in compliance with these reserve requirements.

Previously 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. The Series 2010B reserve requirement is an amount equal to

8. Bonds, Loans and Other Payables (Continued)

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, 2015, the Port was in compliance with these reserve requirements.

The Port has pledged future net revenues to repay the Revenue Bonds. Annual principal and interest payments through 2040 are expected to require less than 13% 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 $99,747,000. The principal and interest payments made in 2015 were $4,171,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $32,594,000. The principal and interest payments made in 2014 were $2,847,000 and pledged revenues (total net revenues calculated in accordance with the bond Indenture) were $25,309,000.

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, 2015, 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, 2015.

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 plan of finance for the Port projects also authorized utilization of the City's commercial paper program as interim or bridge financing. Under that program, commercial paper notes are issued by the City and short-term debt is incurred only when funds are drawn to pay project costs. The Port pays interest on the advance equal to the interest rate on the commercial paper. The public sale of $37,700,000 in COPs was completed in October 2013 and $27,199,000 from the proceeds was used to repay the City commercial paper program in November 2013. Interest rates on commercial paper for the period through October 2013 ranged from 0.07% to 0.16%.

8. Bonds, Loans and Other Payables (Continued)

A memorandum of understanding between the City and the Port govern 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 Certificates. 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. At the outset, the property ("Leased Property") securing the City COPs was a specified portion of the City's Laguna Honda Hospital and Rehabilitation Center. In 2015 with the completion of Phase 2 construction of the James R. Herman Cruise Terminal at Pier 27, the Laguna Honda Hospital and Rehabilitation Center has been released from the Project Lease and replaced with the completed cruise terminal. While the Leased Property will serve 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 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 will 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.

The Port has entered into a loan agreement with the California Department of Boating and Waterways (Cal Boating) for $3.5 million 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 $3,245,000. Annual principal and interest payments were $232,000 in 2015 and 2014 and pledged harbor revenues were $143,000 and $153,000 for the years ended June 30, 2015 and 2014, 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).

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, 2015 and 2014, property rental revenues were comprised as follows (in thousands):

	2015	2014
Minimum rentals, all revenue types	$ 58,656	$ 52,951
Percentage rentals	17,818	15,771
Total	$ 76,474	$ 68,722

The future minimum rent revenues under noncancellable operating leases having terms in excess of one year as of June 30, 2015 are as follows (in thousands):

Year Ending June 30	
2016	$ 38,496
2017	30,469
2018	27,629
2019	24,482
2020	23,735
2021-2025	97,878
2026-2030	79,236
2031-2035	72,413
2036-2040	45,979
2041-2045	35,893
2046-2050	28,071
2051-2055	16,648
2056-2060	15,727
2061-2065	11,545
2066-2070	5,616
2071-2075	4,522
2076-2078	310
Total	$ 558,649

9. Operating Revenues – Property Rentals (Continued)

Property subject to operating leases and property held for lease at June 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Land	$ 52,546	$ 52,546
Facilities and improvements at cost, net of accumulated depreciation	145,107	127,204
Total	$ 197,653	$ 179,750

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 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 or SFERS). 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.

10. Retirement Plan (Continued)

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.

Valuation Date (VD)	June 30, 2013 updated to June 30, 2014
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

The City is an employer of the Plan with a proportionate share of 93.78% as of June 30, 2014. The Port's allocation percentage was determined based on the Port's employer contributions divided by the City's total employer contributions for fiscal year 2013-14. 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 1.00% as of the 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 by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

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 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 and County. The four main categories of Plan members are:

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

10. Retirement Plan (Continued)

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%. Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including that Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

Funding & Contribution Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2014-15 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2015, 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, 2013 actuarial report, the required employer contribution rate for fiscal year 2013-14 was 22.26% to 26.76%.

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 fiscal year ended June 30, 2014 was $499.8 million. The Port's allocation of employer contributions for fiscal year 2013-14 was $4,989,000. The City's allocation methodology takes into consideration all City employees directly funded by the Port's budget.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions **-** The City's net pension liability for the Plan is measured as the proportionate share of the total net pension liability for all employers in the Plan. The net pension liability of the Plan is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 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. As of June 30, 2015, the City reported a net pension liability of $1.66 billion, for its proportionate share of the pension liability of the Plan. The Port's allocation of the City's

10. Retirement Plan (Continued)

proportionate share of the net pension liability as of June 30, 2013 and 2014 was $35,458,000 and $16,574,000, respectively.

For the year ended June 30, 2015, the City's recognized pension expense was $95,710,000 including amortization of deferred outflow/inflow related pension items. The Port's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $955,000.

At June 30, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 549
Net difference between projected and actual earnings on pension plan investments	-	14,199
Change in proportionate share	-	102
Pension contributions subsequent to the measurement date	5,555	-
	$ 5,555	$ 14,850

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

Year Ending June 30	
2016	$ 3,713
2017	3,713
2018	3,712
2019	3,712
2020	-
Thereafter	-

Actuarial Assumptions **-** A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2014 is provided below, including any assumptions that differ from those used in the July 1, 2013 actuarial valuation. Refer to the July 1, 2013 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website.

10. Retirement Plan (Continued)

Valuation Date	June 30, 2013 updated to June 30, 2014
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Expected Rate of Return	7.58%
Municipal Bond Yield	4.39% as of June 30, 2013
	4.31% as of June 30, 2014
	Bond Buyer 20-Bond GO Index, July 3, 2013 and July 2, 2014
Discount Rate	7.52% as of June 30, 2013
	7.58% as of June 30, 2014
Administrative Expenses	0.45% of payroll
Basic COLA:	
Old Miscellaneous and all New Plans	2.00%
Old Ploice & Fire pre 7/1/75 Retirements	3.00%
Old Police & Fire, Charters A8.595	4.00%
Old Police & Fire, Charters A8.559	5.00%

Mortality rates for active members 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 7.52% as of June 30, 2013 and 7.58% as of June 30, 2014.

The discount rate used to measure the Total Pension Liability as of June 30, 2014 was 7.58%. 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, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation data plus an amortization payment on the unfunded actuarial liability. The amortization payment is based on 15-year closed amortization of Charter amendments as a level percentage of payment and closed 20-year amortization as a level percentage of payroll of experience gains and losses and assumption changes. Supplemental COLAs are amortized over a closed 5-year period from the date they are granted. 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.

10. Retirement Plan (Continued)

While the contributions and measure of actuarial liability in the valuation do not anticipate any 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 a Supplemental COLA to be granted the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, City management developed an assumption as of June 30, 2014 of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for members with a 2.00% basic COLAs for sample years.

Assumed Supplemental COLA for Members
with a 2.00% Basic COLA

	Assumption
2015	0.000%
2020	0.364%
2025	0.375%
2030	0.375%
2035 and thereafter	0.375%

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 2083 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 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.31% to the extent they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the Total Pension Liability as of June 30, 2014 is 7.58%

10. Retirement Plan (Continued)

The long-term expected rate of return on pension plan investments was 7.58%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.30%
Fixed Income	25%	1.80%
Private Equity	16%	8.80%
Real Assets	12%	5.80%

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.

Proportionate Share of Collective Net Pension Liability (Asset) - June 30, 2014
(dollars in thousands)

Proportinate Share	1% Decrease Share of NPL @ 6.58%	Allocated Share of NPL @ 7.58%	1% Increase Share of NPL @ 8.58%
0.9982%	$ 41,056	$ 16,574	$ (3,983)

Pension disclosures under GASB 27 for the year ended June 20, 2014 – The City's basic financial statements for 2014 contain disclosures and required supplementary information for all covered City employees. Amounts for the Port are not separable from the City totals in those disclosures. Contributions are made to the basic plan by both the Port and its employees. Employee contributions are mandatory. Employee contribution rates for 2014 varied from 7.5% to 12.0%, for 2013 varied from 7.5% to 11.0%, and for 2012 varied from 7.5% to 8.0%, as a percentage of covered payroll costs. The Port is required to contribute at an actuarially determined rate, which was 24.82% for the year ended June 30, 2014, 20.71% for the year ended June 30, 2013, and 18.09% for the year ended June 30, 2012. The Port's employer contributions amounted to $4,454,332, $3,599,000, and $3,551,000 for 2014, 2013 and 2012, respectively.

10. Retirement Plan (Continued)

Since 2005, substantially all required employee contributions were paid to the Retirement System by such affected employees.

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 by writing to the San Francisco City and County Employees' Retirement System, 1145 Market St. 5th Floor, San Francisco, California 94103 or by calling (415) 487-7000.

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 $4,340,000, $4,405,000, and $4,545,000 in fiscal years 2015, 2014, and 2013, 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 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, 2015 and 2014, 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 $1,354,000, $1,298,000, and $1,336,000, for 2015, 2014, and 2013, 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):

	2015	2014
Annual required contribution	$ 3,232	$ 3,221
Interest on Net OPEB Obligation	736	674
Adjustment to annual required contribution	(614)	(562)
Annual OPEB cost (expense)	3,354	3,333
Contribution made	(1,354)	(1,298)
Increase in net OPEB obligation	2,000	2,035
Net OPEB obligation - beginning of year	18,091	16,056
Net OPEB obligation - end of year	$ 20,091	$ 18,091

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 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%.

Proposition B is expected to reduce the number of people who would eventually have been eligible for paid benefits and create significant savings for the City as investment earnings in the trust will help pay for the cost of the benefits going forward. By 2031 the majority of employees will be under the new benefit plan, and based on the City's actuarial analysis, the proposed funding of 3% of salary is estimated to be sufficient to cover the cost of the benefits on an ongoing basis. Proposition B is also expected to partially reduce the financial impact on the City in meeting its current unfunded OPEB liability.

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 before June 30, 2015, the agreement is executory pending the completion of several less significant closing conditions.

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 2015, the $17,097,000 in services provided by other City departments included $2,570,000 of insurance premiums and $587,000 in workers' compensation expense. In 2014, the $15,571,000 in services provided by other City departments included $2,184,000 of insurance premiums and $565,000 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 meter system maintenance and collection services from and through the San Francisco Municipal Transportation Agency, communications and network services from the Department of Technology and real estate services from the Department of Real Estate. Charges for electrical service provided by the SFPUC, included in utilities on the statements of revenues, expenses and changes in net position, were $1,795,000 and $1,409,000 in 2015 and 2014, respectively.

14. Related Party Transactions (Continued)

Rental revenues from City departments included in operating revenues were approximately $2,168,000 and $2,136,000 in 2015 and 2014, respectively. In connection with a memorandum of understanding, the General Fund reimbursed the Port for certain lost revenues (payment in lieu of rents) during the America's Cup events, approximately $720,000 in 2014 and $1,310,000 in 2013. The General Fund also contributed towards the construction of the cruise terminal project at Pier 27, $1,600,000 in 2014 for Phase 2 construction and $4,900,000 in 2013 for Phase 1.

At June 30, 2014, the Due to General Fund of $42,000 is for outstanding service invoices from two departments.

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 and, in June 2013, the Port received $18.3 million from the first sale. No amounts were received in 2015 and 2014. 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. From the 2008 bond, the Port received proceeds of $10.4 million in 2012, $10.6 million in 2010 and $3.6 million in 2009. Since these bonds are a citywide obligation, the proceeds received by the Port are recorded as capital contributions.

Pursuant to a memorandum of understanding (MOU), the SFPUC advanced funds to provide for the design and construction of certain energy efficiency projects at identified Port facilities (Note 8). 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. In 2012, the Port and the SFPUC entered into an MOU to facilitate the installation of a shoreside power system at the Pier 70 ship repair facility. Among other things, the SFPUC committed to provide the Port a project rebate of $1.5 million, or a pro-rata amount, based on a pre-established threshold for metered electricity consumption by the shoreside power system during the first ten years of operation. A prorated rebate amount of $208,000 has been accrued at June 30, 2015 as a noncurrent receivable, a component of Unrestricted other noncurrent assets.

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	
2016	$ 2,846
2017	2,753
2018	2,753
2019	2,753
2020	2,753
2021-2025	13,764
2026-2030	13,764
2031-2035	13,764
2036-2040	13,764
2041-2045	13,764
2046-2050	11,241
Total	$ 93,919

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 $2,896,000 in 2015 and $2,870,000 in 2014.

16. Pier 29 Fire

On June 20, 2012, a fire caused damage to the Pier 29 bulkhead and shed building. Required repair, replacement and certain improvement work, including code upgrades, is covered by insurance, after a deductible of $500,000. Insurance proceeds totaling $14.1 million have been received by the Port through June 30, 2015. The final settlement, approximately $1.7 million, was received in April 2015 and the additional insurance gain is reported as nonoperating revenue.

17. 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 18), preservation and adaptive reuse of historic buildings, construction of new infrastructure and public open spaces.

17. 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, 2015.

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. As of June 30, 2015, $48.8 million has been appropriated and $46.6 million has been expended or disbursed 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, 2015 for approximately $9.8 million for capital projects and $2.4 million for general operations.

18. 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.

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.

18. Contingencies (Continued)

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 several closing conditions.

South Beach Harbor revenues are pledged to a 1986 revenue bond issue that pre-dates the Port's Revenue Bonds. South Beach Harbor project funds, including certain tax increments, are available to pay current debt service, but berthing rate increases may be required to meet the required level of debt service coverage specified in the bond indenture. 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.

Construction Debris

There has been abandoned construction debris at industrial sites in the Southern Waterfront. A concrete batch plant ceased operations at a site north of Pier 80, abandoning approximately 17,000 cubic yards of concrete debris. Since the abandoned debris hinders leasing and use of the affected premises, the Port has assessed various options for processing and removal of the debris. The Port has accrued estimated costs of $600,000 for processing and removal of the remaining debris (included in other current liabilities). The Port share of removal costs may be less, if final disposition costs are shared with current or future tenants impacted by the debris.

Drydock #1

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. Over the years, the likely cost for final disposition had been variously estimated to be in the range of $4.3 million to $6.4 million. The Port had engineering consultants assess the requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Due to its poor condition, the drydock was only salvageable for scrap metal.

18. Contingencies (Continued)

In November 2012, the Port and the United States Navy's Supervisor of Salvage and Diving (SUPSALV) entered into a memorandum of understanding for SUPSALV to initiate a first phase of scrapping work. A $3.0 million federal appropriation, specifically earmarked to assist the Port with the disposition of Drydock #1, was allocated to SUPSALV. SUPSALV mobilized a federal contractor and the first-phase work was completed in September 2013. Subsequently in September 2014, the Port entered into a contract for $2.97 million with a global marine heavy-lift and transport company for semisubmersible dry tow to an overseas ship recycling facility. Transfer loading of the remainder of Drydock #1 onto the contractor's heavy-lift vessel in San Francisco Bay was completed in October 2014. The certificate of completion for demolition and scrapping of Drydock #1 was received in April 2015. Previously estimated costs of $3.2 million for the final disposition was accrued at June 30, 2014.

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.

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.

18. Contingencies (Continued)

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 believes the Slough mud is contaminated due to past waste disposal in and next to the Slough, past discharges from three City sewer pipes and uncontrolled storm water flows into the Slough. The sediment in Yosemite Slough contains elevated levels of a variety of chemicals including poly-chlorinated biphenyls (PCBs), and heavy metals such as lead. The San Francisco Public Utilities Commission (SFPUC) was previously identified 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. SFPUC continues to be the lead agency, representing the City, working with USEPA on the site cleanup.

Potrero Power Plant – In December 1997, Pacific Gas and Electric Company (PG&E) informed the Port that an environmental investigation at its Potrero Power Plant discovered hydrocarbons on a strip of land owned by the Port. Chemical analyses indicate that these materials contain high levels of polyaromatic hydrocarbons (PAH). PAH contamination also extends beyond the seawall at the site into San Francisco Bay sediments offshore. These contaminants are likely related to historical operations and demolition of a manufactured gas plant that was previously located on the site, and are not from current releases.

Over the past several years, PG&E has work cooperatively with the Port and under regulatory oversight by the Regional Water Quality Control Board (RWQCB) to develop remediation plans for the land portion of the site. In 2012, PG&E submitted and the RWQCB approved a recommended remedial action to address this late site contamination. On the Port property, remediation will consist of excavation and removal of contaminated soil and groundwater. Some residual contamination that can be safely managed in place in compliance with the existing Risk Management Plan for Pier 70 will remain.

PG&E's investigations have also found PAH in near-shore (within approximately 50 feet of shore) sediment along the former Portrero Power Plant and the southeast portion of the Port's Pier 70 "Waterfront Site". PG&E has completed several phases of sediment investigation and has developed a remedial action plan for contaminated sediment, including that on Port property.

As the property owner of the seawall and offshore area, the Port could be named as a secondarily responsible party if the RWQCB or other regulatory agency issued a cleanup and abatement order for the sediments. Because PG&E has accepted responsibility for the contamination and initiated voluntary cleanup action, it is unlikely that the Port will be required to bear any of the costs of cleanup.

18. 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 PAHs 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. The Port's preliminary findings will be submitted to the RWQCB and reviewed with PG&E. To the extent that PG&E does not undertake investigation responsibility or PAH contamination in sediment may not be fully attributable to former MGP operations, the Port may become liable for further 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.

***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 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. No pollution remediation obligation was accrued as of June 30, 2015.

18. Contingencies (Continued)

***Fuel Terminal at Fisherman's Wharf* –** ExxonMobil Corporation (or its predecessor company, Mobil Oil Co.) previously operated a fuel terminal on Jefferson Street, adjacent to the Port's Wharf J10. In March 2006, the RWQCB adopted a "site cleanup requirements" order that names ExxonMobil as a "primary discharger" responsible for petroleum contamination of subsurface soil and groundwater within the area generally bounded by Leavenworth, Jefferson and Hyde Streets, and San Francisco Bay. The order requires ExxonMobil to investigate, remediate, and establish long-term management measures for the subject contamination. In compliance with the order, ExxonMobil completed site investigation, risk assessment, and a feasibility study of potential remedial alternatives of the site, including a recommended remedial action. ExxonMobil maintains that not all contamination present beneath the area is attributable to its former operations. The Port, as the property owner, is named in the Order as a "secondary discharger". In May 2007, after demolition of a pile-supported wharf over the shoreline (Wharf J10), the Port discovered that small quantities of petroleum are released into the water in the inner lagoon of Fisherman's Wharf at certain times during the tidal cycle. The Port has deployed containment boom around the shoreline where the seepage is most evident to minimize migration of petroleum sheen on the water surface. Based on initial observations, the RWQCB does not consider this release to pose a significant risk to human health.

In June 2008, the City and County of San Francisco filed suit against ExxonMobil, demanding that ExxonMobil investigate and remediate petroleum seepage and groundwater contamination as required by the existing Order, and reimburse certain investigation costs incurred by the Port. ExxonMobil and the Port participated in a court-ordered mediation. While ExxonMobil continues to maintain that it is not solely responsible for subsurface petroleum in the vicinity of the former Wharf J10, it has completed a site investigation and risk assessment; developed and implemented a remedial action in compliance with the Order; and completed additional risk assessment of post-remediation conditions which found no significant risk to human health or the environment. ExxonMobil submitted the final risk assessment report to the RWQCB on May 30, 2014 and the RWQCB approved that report on September 11, 2014.

In June 2015, ExxonMobil submitted a draft "Risk Management Plan" (RMP) to the Port. It describes measures to be implemented during maintenance or construction activities that might encounter residual petroleum in soil or groundwater. The RWQCB's Order requires ExxonMobil to establish a mechanism through which ExxonMobil will be financially responsible for ongoing management of contamination remaining on-site. A mutually agreeable cost recovery or other agreement is pending completion.

Because several tenants other than ExxonMobil historically operated petroleum storage tanks and/or pipelines in the vicinity, there remains a significant potential for petroleum contamination to be present in soil and/or groundwater in the vicinity. To the extent that contamination beneath Wharf J10 cannot be conclusively attributed to a viable responsible party, the Port may be liable for some soil and groundwater investigation or remediation. As the existence and/or extent of such contamination is unknown, projections of potential liability cannot reasonably be made at this time. No pollution remediation obligation was accrued as of June 30, 2015.

18. 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 2008-2009 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 2010-2011 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 (see "*Potrero Power Plant*") 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

18. 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 estimated at $10.7 million and $10.6 million at June 30, 2015 and 2014, respectively. The net local share of the grant funded work, $50,000 and $59,000 as of June 30, 2015 and 2014, 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.

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 all but one site, Pier 80. Since 2012, $237,000 has been expended to excavate contaminated soil and to install groundwater wells to monitor for contamination at the Pier 80 site. At June 30, 2015, an additional $20,000 is accrued for monitoring well destruction and other expected closure costs.

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.

18. Contingencies (Continued)

Environmental (continued)

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2015 and 2014, is as follows (in thousands):

	Environmental Remediation		Miscellaneous Compliance		Total	
Environmental liabilities at July 1, 2013	$	10,670	$	163	$	10,833
Current year claims and changes in estimates		(45)		37		(8)
Vendor payments		-		(71)		(71)
Environmental liabilities at June 30, 2014	$	10,625	$	129	$	10,754
Environmental liabilities at July 1, 2014	$	10,625	$	129	$	10,754
Current year claims and changes in estimates		78		(8)		70
Vendor payments		-		(50)		(50)
Environmental liabilities at June 30, 2015	$	10,703	$	71	$	10,774

19. 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, 2015): (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 $3.5 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; and (iv) public officials and employee liability coverage of $5.0 million, subject to a deductible of $50,000 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution, and data processing equipment. In addition to the above, the Port requires its tenants, licensees, and contractors on all contracts to carry commercial general liability insurance in various amounts naming the Port Commission and the City as additional insured parties. Tenants whose operations pose a significant environmental risk are also required to post an environmental oversight deposit and an environmental performance deposit.

19. Risk Management (continued)

Insurance (continued)

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, 2015 and 2014 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, 2015 and 2014. 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, 2015 and 2014 resulted from the following activity (in thousands):

	General Liability		Workers' Compensation	
	2015	**2014**	**2015**	**2014**
Beginning of year	$ 1,830	$ 1,682	$ 2,774	$ 2,715
Current year claims & changes in estimate	(416)	277	587	565
Settlements	(8)	(129)	(579)	(506)
End of year	$ 1,406	$ 1,830	$ 2,782	$ 2,774

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PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Required Supplementary Information
Schedule of the Port's Proportionate Share of the Net Pension Liability (unaudited)
Last Ten Fiscal Years *
(dollar amounts in thousands)

Employees Retirement System – Pension Plan

The schedule below shows the Port's allocation of the employer's Net Pension Liability and related ratios. The Port's allocation percentage is 0.99%.

		2015
Allocation percentage of employer's net pension liability		0.99%
Allocation of employer's net pension liability	$	16,574
Covered employee payroll	$	21,692
Proportionate share of the net pension liability as of percentage of covered employee payroll		76.41%
Plan's fiduciary net position (proportionate share)	$	186,494
Plan's fiduciary net position as a percentage of total pension liability		0.9168%

Notes to Schedule:

Benefits - There were no changes in benfits during the year.

Changes in assumptions - In 2015, amounts reported as changes in assumptions resulted primarily from a change in the discount rate and a change in the Supplemental COLA assumption.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
PORT OF SAN FRANCISCO
Required Supplementary Information
Schedule of Employer Contributions (unaudited)
Last Ten Fiscal Years *
(dollar amounts in thousands)

Employees Retirement System – Pension Plan

The following is a schedule for the Port's allocation of Employer Contributions for fiscal year 2014-15.

		2015
Allocation of contractually required contribution	$	5,636
Allocation of contributions in relations to the actuarially determined contributions		5,636
Allocation of contribution deficiency/(excess)	$	-
Covered employee payroll	$	23,241
Allocation of contributions as a percengate of payroll		24.25%

Note to the schedule -

Valuation date: 7/1/2013

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.