New Issue — Book-Entry Only

Ratings: Moody's: "A1"
S&P: "A-"
Fitch: "A"
(See "RATINGS" herein)

In the opinion of Jones Hall, A Professional Law Corporation, and Schiff Hardin LLP, Co-Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except during any period while a Series 2014A Bond is held by a "substantial user" of the facilities financed by the Series 2014A Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. The interest on the Series 2014B Bonds is not intended by the Port Commission to be excluded from gross income for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the Series 2014 Bonds is, under existing law, exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

$19,880,000 REVENUE BONDS SERIES 2014A (AMT TAX-EXEMPT)	$2,795,000 REVENUE BONDS SERIES 2014B (FEDERALLY TAXABLE)

Dated: Date of Delivery **Due: March 1, as shown on the inside cover**

The Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt) (the "Series 2014A Bonds") and Series 2014B (Federally Taxable) (the "Series 2014B Bonds," and together with the Series 2014A Bonds, the "Series 2014 Bonds") are being issued by the Port Commission of the City and County of San Francisco (the "Port Commission") pursuant to the Charter of the City and County of San Francisco (the "City") and an Indenture of Trust, dated as of February 1, 2010 (the "Master Indenture"), between the Port Commission and U.S. Bank National Association (the "Trustee"), as amended and supplemented, including by a Second Supplement to Indenture of Trust, dated as of May 1, 2014 (the "Second Supplemental Indenture" and, together with the Master Indenture as amended, the "Indenture"). The Series 2014 Bonds are being sold to provide funds to: (i) finance or refinance the planning, acquisition, design, construction, reconstruction, rehabilitation or improvements to various facilities of the Port Commission; (ii) fund the Reserve Accounts for the Series 2014 Bonds; and (iii) pay costs associated with the issuance of the Series 2014 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE SERIES 2014 PROJECTS."

Interest on the Series 2014 Bonds will be payable on March 1 and September 1 of each year commencing September 1, 2014 (each, an "Interest Payment Date"), until their respective stated maturity dates. A maturity schedule with interest rates, yields and other information on the Series 2014 Bonds is on the inside cover page. The Trustee will pay interest to the person in whose name each Series 2014 Bond is registered in the registration books maintained by the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (the "Record Date"), whether or not such fifteenth day is a Business Day.

The Series 2014 Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal of and interest on the Series 2014 Bonds will be made. Individual purchases of the Series 2014 Bonds will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners of the Series 2014 Bonds will not receive physical delivery of bond certificates. Payment of principal of and interest on the Series 2014 Bonds will be payable by the Trustee, as paying agent, to DTC. DTC will remit such principal and interest payments to its participants, which will be responsible for remittance to the Beneficial Owners of the Series 2014 Bonds. See Appendix D — "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2014A Bonds are subject to optional and mandatory redemption prior to maturity as described herein. The Series 2014B Bonds are not subject to redemption prior to maturity. See "TERMS OF THE SERIES 2014 BONDS – Redemption Provisions."

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS." **The Series 2014 Bonds are not a debt or obligation of the City, the State of California (the "State") or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).** See "CERTAIN RISK FACTORS."

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 2014 Bonds are offered when, as, and if issued by the Port Commission and accepted by the Underwriters, subject to approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Schiff Hardin LLP, San Francisco, California, Co-Bond Counsel. Certain legal matters will be passed upon for the Port Commission by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel, and the City Attorney of the City and County of San Francisco, and for the Underwriters by their counsel, Curls Bartling P.C., Oakland, California. It is expected that the Series 2014 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about May 29, 2014.

Siebert Brandford Shank & Co., L.L.C. STIFEL

The date of this Official Statement is May 15, 2014.

MATURITY SCHEDULE

Series 2014A Bonds
(AMT Tax-Exempt)
(Base CUSIP† Number: 797679)
$1,030,000 Serial Bonds

Maturity (March 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix
2020	$ 60,000	3.00%	1.96%	105.632	BD8
2021	475,000	4.00	2.27	110.775	AX5
2022	495,000	4.00	2.52	110.364	AY3

$1,055,000 5.00% Term Bond Due March 1, 2024 Yield – 2.85% Price – 118.194 CUSIP†: 797679 BE6

$1,160,000 5.00% Term Bond Due March 1, 2026 Yield – 3.20% Price – 114.976[c] CUSIP†: 797679 BF3

$1,280,000 5.00% Term Bond Due March 1, 2028 Yield – 3.36% Price – 113.540[c] CUSIP†: 797679 AZ0

$1,415,000 5.00% Term Bond Due March 1, 2030 Yield – 3.52% Price – 112.125[c] CUSIP†: 797679 BA4

$4,115,000 4.00% Term Bond Due March 1, 2035 Yield – 4.02% Price – 99.715 CUSIP†: 797679 BB2

$9,825,000 4.125% Term Bond Due March 1, 2044 Yield – 4.18% Price – 99.063 CUSIP†: 797679 BC0

Series 2014B Bonds
(Federally Taxable)
(Base CUSIP† Number: 797679)
$2,795,000 Serial Bonds

Maturity (March 1)	Principal Amount	Interest Rate	Price	CUSIP† Suffix
2015	$645,000	0.55%	100.00	BG1
2016	430,000	0.95	100.00	BH9
2017	430,000	1.60	100.00	BJ5
2018	440,000	2.20	100.00	BK2
2019	450,000	2.60	100.00	BL0
2020	400,000	3.00	100.00	BM8

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Capital IQ. This data is not intended to create a database and does not serve in any way as a substitute for CGS. CUSIP numbers are provided for convenience of reference only. Neither the Port Commission nor the Underwriters take any responsibility for the selection or accuracy of such CUSIP numbers.

(c) Priced to par call on March 1, 2024.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein has been obtained from the Port Commission, the City and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Port Commission or the City since the date hereof. This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Series 2014 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The City and the Port Commission each maintains a website and issues from time to time a variety of reports and other information. The information presented on such websites and otherwise issued is ***not*** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2014 Bonds. Various other websites, reports and other information referred to in this Official Statement also are not incorporated herein by such references.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2014 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2014 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS AND OTHER CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

Port of San Francisco

* The above map reflects the geographic boundaries and jurisdiction of the Port Commission, and is referred to herein as the Port Area. The Series 2014 Bonds are not secured by a lien on any property of the Port Area (other than the Port Commission's Net Revenue).

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

Leslie Katz, *President*
Willie Adams, *Vice President*
Kimberly K. Brandon, *Commissioner*
Mel Murphy, *Commissioner*
Doreen Woo Ho, *Commissioner*

Monique Moyer, *Executive Director*

THE CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

David Chiu, *Board President*, *District 3*

Eric Mar, *District 1*
Mark Farrell, *District 2*
Katy Tang, *District 4*
London Breed, *District 5*
Jane Kim, *District 6*

Norman Yee, *District 7*
Scott Wiener, *District 8*
David Campos, *District 9*
Malia Cohen, *District 10*
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CITY TREASURER

José Cisneros

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Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

$19,880,000	**$2,795,000**
REVENUE BONDS	**REVENUE BONDS**
SERIES 2014A	**SERIES 2014B**
(AMT TAX-EXEMPT)	**(FEDERALLY TAXABLE)**

INTRODUCTION

This Official Statement is furnished in connection with the offering of $19,880,000 aggregate principal amount of the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt) (the "Series 2014A Bonds"), and $2,795,000 aggregate principal amount of the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable) (the "Series 2014B Bonds" and, together with the Series 2014A Bonds, the "Series 2014 Bonds").

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, including the Appendices attached hereto. Unless otherwise defined below, all capitalized terms used in this Official Statement shall have the meanings ascribed thereto in the Indenture (as defined below).

The Port Commission

The Port Commission of the City and County of San Francisco (the "Port Commission") is a self-supporting enterprise department of the City and County of San Francisco (the "City"). The geographic boundaries and jurisdiction of the Port of San Francisco (the "Port") consists of seven and one half miles of waterfront adjacent to San Francisco Bay. In 1969, the State of California (the "State") transferred the Port to the City to be held in trust for the people of the State. The Port is governed by the five-member commission and is managed as a self-supporting enterprise department of the City. The term "Port Commission" is sometimes used in this Official Statement to refer to this commission as well as to the Port as a legal entity, and the term "Port" is sometimes used to refer to the enterprise governed by the Port Commission and its operations or to the Port Area (defined below) and the land and facilities therein; however, in each case the meaning of such terms depends upon the context in which used. The term "Port Area" is defined under the Indenture as all real and personal property owned, controlled or operated by the Port Commission, or over which the Port Commission has management, supervision or control, or is deemed by the Port Commission to be a benefit to the Port Area. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement."

The Port Area consists of seven and one-half miles of waterfront property adjacent to the San Francisco Bay, from Hyde Street Pier in the north to India Basin in the south, including more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. The Port's waterfront property is adjacent to the natural harbor of San Francisco Bay with channel and berth depths of up to 40 feet that can accommodate larger ships. The Port Commission's revenue is derived primarily from leases of Port property to commercial, industrial and maritime enterprises and from maritime operations, including cargo, ship repair, fishing, harbor services, cruise and other maritime activities. The Port is different from most municipal seaport enterprises in that a majority of its revenue (approximately 75%) is derived from real estate operations and only a minority of its revenues (approximately 18%) is derived from maritime operations. **The Port Commission has no taxing power.** The Port Commission's financial operations are included as a part of the City's budget and financial reporting but is separately accounted for as a City enterprise operation. Additional information concerning the Port Commission's organization and finances is set forth herein under

"THE PORT OF SAN FRANCISCO," "PORT COMMISSION FINANCIAL OPERATIONS" and in Appendix B – "THE PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO – FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

Authority for Issuance

The Series 2014 Bonds are being issued pursuant to Section 9.107 of the Charter of the City (the "Charter"), Chapter 43, Article XII ("Article XII") of the City and County of San Francisco Administrative Code (the "Administrative Code") and an Indenture of Trust, dated as of February 1, 2010 (the "Master Indenture"), between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2010 between the Port Commission and the Trustee (the "First Supplemental Indenture") and the Second Supplement to Indenture of Trust dated as of May 1, 2014 (the "Second Supplemental Indenture" and, together with the Master Indenture and the First Supplemental Indenture, the "Indenture"), and resolutions of the Port Commission adopted on December 12, 2013 and March 25, 2014. The Board of Supervisors of the City and County of San Francisco (the "Board of Supervisors") approved the issuance of the Series 2014 Bonds by resolution adopted on April 29, 2014.

Purpose

The Series 2014 Bonds are being sold to provide funds to: (i) finance or refinance the planning, acquisition, design, construction, reconstruction, rehabilitation or improvements to various facilities of the Port Commission (see "THE SERIES 2014 PROJECTS"); (ii) fund the Reserve Accounts for the Series 2014 Bonds; and (iii) pay costs associated with the issuance of the Series 2014 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE SERIES 2014 PROJECTS."

Security and Sources of Payment for the Series 2014 Bonds

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. **The Series 2014 Bonds are not a debt or obligation of the City, the State or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).**

The Series 2014 Bonds are issued and secured pursuant to the terms of the Indenture. Under the Indenture, the Port Commission grants a first lien on the Net Revenue to secure the payment of the Series 2014 Bonds. Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service with respect to the Bonds (as defined below) for such Fiscal Year. In determining Net Revenue pursuant to the provisions of the Indenture described in this paragraph, the Port Commission may take into account as a credit the amount on deposit in one or more funds of the Port Commission holding amounts designated by the Port Commission to be generally available to pay debt service on the Bonds and/or Operation and Maintenance Expenses (the "Revenue Stabilization Fund") on June 30 of each Fiscal Year; provided that the Port Commission is required to maintain Coverage equal to at least 100% of Annual Debt Service without regard to any credit for any such amounts in the Revenue Stabilization Fund. The Port Commission has also covenanted in the Indenture to take certain specified actions in the event that Net Revenue falls below the required levels. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Covenant to Maintain Net Revenue."

Upon the issuance of the Series 2014 Bonds, the Port Commission will deposit $650,614.56 into the Series 2014A Reserve Account relating to the Series 2014A Bonds and $681,185.44 into the Series 2014B Reserve Account relating to the Series 2014B Bonds. Moneys on deposit in the Series 2014A Reserve Account will be used and withdrawn for the purpose of paying principal of and interest on the Series 2014A Bonds in the event Net Revenue deposited with the Trustee is insufficient therefor. Moneys on deposit in the Series 2014B Reserve Account will be used and withdrawn for the purpose of paying principal of and interest on the Series 2014B Bonds in the event Net Revenue deposited with the Trustee is insufficient therefor. Amounts on deposit in the Series 2014A Reserve Account may not be used to pay debt service with respect to the Series 2014B Bonds, and amounts on deposit in the Series 2014B Reserve Account may not be used to pay debt service with respect to the Series 2014A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Reserve Fund" and Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Reserve Fund" and "– SECOND SUPPLEMENT TO INDENTURE OF TRUST – Reserve Fund."

Pursuant to the Indenture, the Port Commission is permitted to issue additional bonds and to enter into additional obligations secured by Net Revenue on a parity with the payment of principal of and interest on the Series 2014 Bonds, provided that certain conditions are satisfied as described herein. The Indenture also permits the Port Commission to incur subordinate obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

The Port Commission has previously issued $36.65 million in aggregate initial principal amount of its Series 2010 Revenue Bonds (the "Series 2010 Bonds"), currently outstanding in the aggregate principal amount of approximately $34.08 million. The Series 2010 Bonds are payable solely from Net Revenue. Upon issuance of the Series 2014 Bonds, the Series 2014 Bonds will be secured by a lien on Net Revenue on a parity with the Series 2010 Bonds. The Port may issue additional bonds payable from Net Revenue on a parity with the Series 2014 Bonds and the Series 2010 Bonds in the future (the Series 2010 Bonds, the Series 2014 Bonds and any additional bonds issued pursuant to the Indenture are collectively referred to as the "Bonds" under the Indenture).

The Port Commission also has outstanding the following subordinate long-term obligations: (i) a loan from the California Division of Boating and Waterways (now a division of the California State Parks) in the outstanding principal amount of $2.5 million; (ii) a loan from the San Francisco Public Utilities Commission (the "SFPUC") in the aggregate outstanding principal amount of approximately $276,000; and (iii) payment obligations with respect to certificates of participation executed and delivered by the City on behalf of the Port Commission in the aggregate outstanding principal amount of $35.4 million. These obligations are all expressly subordinate to the Series 2014 Bonds and are not secured by any lien on Port revenues or property, except that certain marina revenues are pledged on a subordinate basis to the loan from the California Division of Boating and Waterways. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

For more information regarding the security and sources of payment for the Series 2014 Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS," "THE PORT OF SAN FRANCISCO," "PORT REAL ESTATE OPERATIONS," "PORT MARITIME OPERATIONS," "PORT COMMISSION FINANCIAL OPERATIONS" and "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein. Audited financial information concerning the Port Commission is set forth in Appendix B attached hereto. See "CERTAIN RISK FACTORS" for a discussion of certain risks related to an investment in the Series 2014 Bonds.

Debt Service Coverage

Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service with respect to the Bonds for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Covenant to Maintain Net Revenue."

Historical Debt Service Coverage. The following table summarizes the historical coverage of Net Revenue to debt service on bonds of the Port Commission as calculated by the Port Commission pursuant to the terms of the Indenture. See "PORT COMMISSION FINANCIAL OPERATIONS – Historical Debt Service Coverage" for a more detailed discussion of the historical debt service coverage.

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

	2009	2010	2011	2012	2013
Total Revenues	$67,634	$68,357	$73,451	$78,318	$82,360
Total Operating Expenses	$54,563	$56,305	$55,268	$60,856	$63,760
Net Revenue	$13,071	$12,052	$18,183	$17,462	$18,600
Debt Service on Bonds	$4,407	$4,396	$2,843	$2,845	$2,846
Net Revenue Coverage of Debt Service on Bonds (times)	2.97x	2.74x	6.40x	6.14x	6.54x

Projected Debt Service Coverage. The following table presents a summary of projected debt service coverage for the Bonds. These projections were prepared by the Port Commission and show debt service coverage as calculated pursuant to the Indenture. Projections and related assumptions are inherently subject to significant uncertainties and actual results may differ significantly from projected results**. This table is an abbreviated summary of the more detailed projections herein and is provided for convenience only as part of this introduction, and investors are strongly advised to read the tables, footnotes and other information (including assumptions) herein under "PORT COMMISSION FINANCIAL OPERATIONS – Projected Debt Service Coverage."** See also "CERTAIN RISK FACTORS – Uncertainties of Projections and Assumptions; Forward Looking Statements."

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

	2014	2015	2016	2017	2018
Total Revenues	$83,066	$87,988	$92,935	$97,046	$99,447
Total Operating Expenses	$63,881	$66,599	$68,949	$70,950	$73,266
Net Revenue	$19,185	$21,389	$23,986	$26,096	$26,181
Debt Service on Bonds	$2,847	$4,171	$4,176	$4,169	$4,174
Projected Net Revenue Coverage of Debt Service on Bonds (times)	6.74x	5.13x	5.74x	6.26x	6.27x

Continuing Disclosure and Additional Information

The Port Commission will covenant in a Continuing Disclosure Certificate, to be delivered concurrently with the issuance of the Series 2014 Bonds, to provide certain financial information and operating data relating to the Port Commission and notices of certain events. Such information and notices will be filed by the Port Commission with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. The Port Commission will act as Dissemination Agent under the Continuing Disclosure Certificate. In the last five years, the Port Commission has not failed to comply in all material respects with any previous undertakings with regard to Securities and Exchange Commission Rule 15c2-12(b)(5). For more information concerning the Port Commission's continuing disclosure commitment and the form of the Continuing Disclosure Certificate, see "CONTINUING DISCLOSURE" and Appendix C – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Brief descriptions of the Series 2014 Bonds, the Indenture, the security and sources of payment for the Series 2014 Bonds, the Net Revenue, the Port Commission and related matters are included in this Official Statement, together with summaries of certain provisions of the Series 2014 Bonds, the Indenture and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the Series 2014 Bonds and other documents and instruments are qualified in their entirety by reference to such documents or instruments or the forms thereof, copies of which are available for inspection at the office of the Port Commission. The Port Commission regularly prepares a variety of reports, including audits, budgets and related documents, which may be obtained from the Port Commission. Additional information regarding such reports, the Indenture or other documents relating to the Series 2014 Bonds or this Official Statement may be obtained by contacting the Manager of Communications, Port of San Francisco, Pier 1, San Francisco, CA 94111; Telephone (415) 274-0400, Fax (415) 274-0412 or www.sfport.com. Information found on the website is not incorporated herein by reference. Copies of the Indenture are also available for inspection at the principal corporate trust office of the Trustee.

TERMS OF THE SERIES 2014 BONDS

General

The Series 2014 Bonds will be executed and delivered as one fully-registered Bond for each maturity shown on the inside cover hereof. The Series 2014 Bonds will be delivered in denominations of $5,000 or an integral multiple thereof. Interest on the Series 2014 Bonds will be payable on each March 1 and September 1, commencing September 1, 2014, so long as any Series 2014 Bonds are outstanding (each an "Interest Payment Date"). Interest on the Series 2014 Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2014 Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the inside cover of this Official Statement. The principal of the Series 2014 Bonds will be payable, subject to redemption, as described below, on the dates and in the principal amounts set forth on the inside cover of this Official Statement.

Form and Registration

The Series 2014 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC," together with any successor securities depository, the "Securities Depository"). DTC will act as initial Securities Depository for the Series 2014 Bonds. Purchases of the Series 2014 Bonds will be made in book-entry only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Series 2014 Bonds. So long as Cede & Co. is the registered owner of the Series 2014 Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners of the Series 2014 Bonds will mean Cede & Co., and will not mean the Participants or "Beneficial Owners" of the Series 2014 Bonds. In this Official Statement, the term "Beneficial Owner" will mean the person for whom a Participant (as defined herein) acquires an interest in the Series 2014 Bonds.

So long as Cede & Co. is the registered owner of the Series 2014 Bonds, all payments of principal, premium (if any) and interest on the Series 2014 Bonds will be payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee of DTC as the sole registered owner of the Series 2014 Bonds. DTC and its Participants are solely responsible for any subsequent payments to the Beneficial Owners.

In the event the use of the book-entry only system is discontinued, principal of the Series 2014 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the Series 2014 Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date, in accordance with the provisions set forth in the Indenture. Pursuant to the Indenture, the Record Date with respect to the Series 2014 Bonds is the fifteenth day of the month preceding each Interest Payment Date (the "Record Date"), whether or not such fifteenth day is a Business Day.

A more detailed description of the Book-Entry Only System is contained in Appendix D – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption of Series 2014A Bonds. The Series 2014A Bonds maturing on or before March 1, 2024 are not subject to optional redemption prior to maturity. The Series 2014A Bonds maturing on or after March 1, 2025 are subject to optional redemption prior to maturity at the sole option of the Port Commission, as a whole or in part, on any date on or after March 1, 2024 (from such maturities as are selected by the Port Commission and by lot within a maturity if less than all of the Series 2014A Bonds of such maturity are selected for redemption), from any source of available funds, at redemption prices equal to the principal amount thereof plus accrued but unpaid interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Series 2014A Bonds. The Series 2014A Bonds maturing on March 1, 2024 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2023	$515,000
2024*	540,000

* Maturity

The Series 2014A Bonds maturing on March 1, 2026 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2025	$565,000
2026*	595,000

* Maturity

The Series 2014A Bonds maturing on March 1, 2028 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2027	$625,000
2028*	655,000

* Maturity

The Series 2014A Bonds maturing on March 1, 2030 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2029	$690,000
2030*	725,000

* Maturity

The Series 2014A Bonds maturing on March 1, 2035 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2031	$760,000
2032	790,000
2033	820,000
2034	855,000
2035*	890,000

* Maturity

The Series 2014A Bonds maturing on March 1, 2044 are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	**Sinking Fund Payment**
2036	$925,000
2037	960,000
2038	1,000,000
2039	1,045,000
2040	1,085,000
2041	1,130,000
2042	1,180,000
2043	1,225,000
2044*	1,275,000

* Maturity

No Redemption Prior to Maturity of Series 2014B Bonds. The Series 2014B Bonds are not subject to redemption prior to maturity.

Notice of Redemption. The Trustee is required to send a notice of redemption to the Owners of the Series 2014 Bonds selected for redemption not less than 30 nor more than 60 days prior to the date set for redemption by first class mail or electronic mail, as appropriate (i) with respect to each Series 2014 Bond to be redeemed, to the Holder of such Series 2014 Bond at his or her address as it appears on the records maintained by the Registrar, and (ii) to any information services of national recognition which disseminate redemption information with respect to municipal securities (currently the EMMA System of the Municipal Securities Rulemaking Board), as directed by the Port Commission. However, so long as any Series 2014 Bonds are in book-entry form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2014 Bonds, and not directly to the Owners.

If less than all Series 2014 Bonds of a Series are to be redeemed, the Series 2014 Bonds to be redeemed will be identified by reference to the Series designation, date of issue, serial numbers and maturity dates. Each notice of redemption will specify: (i) the date of such notice and the date fixed for redemption, (ii) the principal amount of Series 2014 Bonds or portions thereof to be redeemed, (iii) the applicable redemption price, (iv) the place or places of payment, (v) that payment of the principal amount and premium, if any, will be made upon presentation and surrender to the Trustee of the Series 2014 Bonds to be redeemed, (vi) that interest accrued to the date fixed for redemption will be paid as specified in such notice, (vii) that on and after said date interest on the Series 2014 Bonds called for redemption will cease to accrue, and (viii) the designation, including Series, and the CUSIP and serial numbers, if any, of the Series 2014 Bonds to be redeemed and, if less than the face amount of any such Series 2014 Bond is to be redeemed, the Principal Amount to be redeemed.

Neither the failure to receive any redemption notice nor any defect in such redemption notice so given will affect the sufficiency of the proceedings for such redemption of the Series 2014 Bonds.

Requirements of Optional Redemption. The Port Commission will deposit with, or otherwise make available to, the Trustee the moneys required for payment of the redemption price of all Series 2014A Bonds then to be called for redemption at least one Business Day before the date fixed for such redemption. The Indenture permits delivery of a notice of redemption that is conditional on receipt of funds. Any notice of redemption may be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2014A Bonds then called for redemption, and such cancellation does not constitute an Event of Default under the Indenture.

Effect of Notice of Redemption. When a notice of redemption has been duly given as provided in the Indenture and sufficient moneys for the redemption of the Series 2014A Bonds selected for redemption, together with accrued interest to such redemption date are held by the Trustee; then, from and after such redemption date, interest on the Series 2014A Bonds selected for redemption will cease to accrue, and all such Series 2014A Bonds will cease to be entitled to any benefit or security under the Indenture, except for the right of the Owners to receive payment of the redemption price thereof.

ESTIMATED SOURCES AND USES OF FUNDS

Proceeds of the Series 2014 Bonds are expected to be applied approximately as set forth below:

	Series 2014A (AMT Tax-Exempt)	Series 2014B (Federally Taxable)	Total[1]
Sources			
Par Amount	$19,880,000	$2,795,000	$22,675,000
Plus Net Original Issue Premium	712,623	–	712,623
Total Sources of Funds[1]	$20,592,623	$2,795,000	$23,387,623
Uses			
Deposit to Project Costs Fund	$19,531,611	$1,943,389	$21,475,000
Deposit to Reserve Account	650,615	681,185	1,331,800
Costs of Issuance[2]	318,866	160,174	479,040
Underwriters' Discount	91,532	10,251	101,783
Total Uses of Funds[1]	$20,592,623	$2,795,000	$23,387,623

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(1) Totals may not add up due to independent rounding of individual components.

(2) Includes amounts for rating agency fees, fees of Co-Bond Counsel and Disclosure Counsel, fees of the financial advisors, Trustee's fees, and other costs relating to the issuance of the Series 2014 Bonds.

DEBT SERVICE SCHEDULE

Set forth below are the annual principal, interest and total debt service requirements for the Series 2014 Bonds, the Series 2010 Bonds and other subordinate obligations of the Port Commission:

Fiscal Year Ending June 30	Series 2014A Bonds (AMT Tax-Exempt) Principal	Series 2014A Bonds (AMT Tax-Exempt) Interest	Series 2014B Bonds (Federally Taxable) Principal	Series 2014B Bonds (Federally Taxable) Interest	Total Series 2014 Bonds	Series 2010 Bonds	Total Parity Bonds	Subordinate Obligations[1]	Total Debt Service[2]
2015	–	$646,741	$645,000	$36,185	$1,327,927	$2,843,361	$4,171,287	$3,178,850	$7,350,138
2016	–	855,981	430,000	44,345	1,330,326	2,845,988	4,176,314	3,075,650	7,251,965
2017	–	855,981	430,000	40,260	1,326,241	2,842,430	4,168,671	3,028,245	7,196,916
2018	–	855,981	440,000	33,380	1,329,361	2,844,593	4,173,954	2,965,598	7,139,552
2019	–	855,981	450,000	23,700	1,329,681	2,846,926	4,176,608	2,965,348	7,141,955
2020	$60,000	855,981	400,000	12,000	1,327,981	2,845,047	4,173,028	2,962,248	7,135,276
2021	475,000	854,181	–	–	1,329,181	2,844,342	4,173,523	2,966,598	7,140,121
2022	495,000	835,181	–	–	1,330,181	2,845,482	4,175,663	2,962,598	7,138,260
2023	515,000	815,381	–	–	1,330,381	2,846,370	4,176,752	2,965,598	7,142,349
2024	540,000	789,631	–	–	1,329,631	2,841,658	4,171,289	2,225,098	6,396,387
2025	565,000	762,631	–	–	1,327,631	2,846,345	4,173,977	2,228,098	6,402,074
2026	595,000	734,381	–	–	1,329,381	2,844,381	4,173,763	2,224,098	6,397,860
2027	625,000	704,631	–	–	1,329,631	2,844,743	4,174,374	2,223,348	6,397,722
2028	655,000	673,381	–	–	1,328,381	2,841,956	4,170,337	2,223,460	6,393,797
2029	690,000	640,631	–	–	1,330,631	2,845,649	4,176,281	2,226,176	6,402,457
2030	725,000	606,131	–	–	1,331,131	2,844,713	4,175,844	1,994,575	6,170,419
2031	760,000	569,881	–	–	1,329,881	1,853,775	3,183,656	1,992,075	5,175,731
2032	790,000	539,481	–	–	1,329,481	1,851,119	3,180,600	1,991,950	5,172,550
2033	820,000	507,881	–	–	1,327,881	1,850,644	3,178,525	1,993,938	5,172,463
2034	855,000	475,081	–	–	1,330,081	1,852,094	3,182,175	1,992,775	5,174,950
2035	890,000	440,881	–	–	1,330,881	1,855,213	3,186,094	1,991,525	5,177,619
2036	925,000	405,281	–	–	1,330,281	1,854,744	3,185,025	1,994,063	5,179,088
2037	960,000	367,125	–	–	1,327,125	1,850,688	3,177,813	1,989,725	5,167,538
2038	1,000,000	327,525	–	–	1,327,525	1,853,044	3,180,569	1,992,275	5,172,844
2039	1,045,000	286,275	–	–	1,331,275	1,851,300	3,182,575	1,991,500	5,174,075
2040	1,085,000	243,169	–	–	1,328,169	1,855,456	3,183,625	1,993,500	5,177,125
2041	1,130,000	198,413	–	–	1,328,413	–	1,328,413	1,991,500	3,319,913
2042	1,180,000	151,800	–	–	1,331,800	–	1,331,800	1,995,500	3,327,300
2043	1,225,000	103,125	–	–	1,328,125	–	1,328,125	1,995,000	3,323,125
2044	1,275,000	52,594	–	–	1,327,594	–	1,327,594	–	1,327,594
TOTAL[2]	$19,880,000	$17,011,323	$2,795,000	$189,870	$39,876,193	$64,042,059	$103,918,253	$68,320,907	$172,239,159

(1) Consists of certain long-term obligations of the Port Commission that are secured and payable on a subordinate basis to the Series 2014 Bonds and Series 2010 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

(2) Totals may not add up due to independent rounding of individual components.

THE SERIES 2014 PROJECTS

The Port Commission will apply a portion of the proceeds of the Series 2014 Bonds to finance or refinance the planning, design, acquisition, construction, reconstruction, rehabilitation or improvement of various facilities of the Port Commission (the "Series 2014 Projects"). A brief description of the Series 2014 Projects expected to be funded with the proceeds of the Series 2014 Bonds is set forth below. **These descriptions are not intended to and do not constitute a commitment by the Port Commission to finance or complete any particular project. The Port Commission may substitute other projects for some or all of the Series 2014 Projects described below. See "CERTAIN RISK FACTORS – Construction Risk."**

Piers are numbered from the Ferry Building, located at Market Street and The Embarcadero, with odd numbered piers going north (with the highest number the furthest north) and even numbered piers going south (with the highest number the furthest south). See the map located at the front of this Official Statement. The projects described below are considered part of the Port Area, which consists of all real and personal property owned, controlled or operated by the Port Commission, or over which the Port Commission has management, supervision or control, or is deemed by the Port Commission to be a benefit to the Port Area. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement."

James R. Herman Cruise Terminal at Pier 27

The Port Commission is developing a primary cruise terminal at Pier 27 to replace the existing facility at Pier 35. The existing primary terminal at Pier 35 does not have the capacity to allow for the increasing length and passenger capacity of new cruise ships or the amenities needed for an international cruise terminal. Pier 27 has been used as a back-up berth, but previously did not have any amenities. The Port Commission's engineering staff determined that Pier 27 is in good seismic condition, and that its use as a cruise terminal is consistent with The Port Commission Building Code. The Port Commission approved the development of a new cruise terminal on Pier 27 that would serve as the Port's primary cruise ship terminal, while the cruise terminal on Pier 35 would be used as a secondary terminal in the event that two cruise ships require berthing on the same date. The new cruise terminal building is an approximately 88,000 square foot, two-level cruise terminal facility, and is designed to meet modern ship and operational requirements of the cruise industry and provide an appropriate, welcoming gateway to the City. Additionally, the facility will also be used for special events and will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ships Festivals and visits by oceanic research vessels. On an interim basis, the new cruise terminal building was used to host the 34th America's Cup, a sailing race hosted on Port property, in 2013.

On June 14, 2011, pursuant to a competitive bid process, the Port Commission selected Turner Construction Company as the general contractor for the Pier 27 cruise terminal project. The new terminal is being constructed in two phases. Phase I, which began in April 2012 and was completed in March 2013, consisted of hazardous material abatement and demolition of the old Pier 27 shed, partial demolition of the Pier 29 shed and the Pier 27 Annex office building, relocation of the shoreside power equipment, construction of the core and shell of the cruise terminal building, and preparation of the Pier 27 site for the installation of temporary improvements for the duration of the 34th America's Cup. Phase II of construction began in November 2013 and includes completing the interior spaces specific to the needs of the cruise terminal, landscaping, and completing the Northeast Wharf Plaza, an approximately 2.5 acre open space at the western end of Pier 27. Phase II is currently expected to be completed in August 2014, and the cruise terminal is expected to be operational by September 2014.

Phase II of the Pier 27 cruise terminal consists of finishing the remaining portions of the cruise terminal building, including the U.S. Customs and Border Protection facilities, building out the Northeast Wharf Plaza and North Point, the ground transportation area, apron and substructure repairs, installation of maritime equipment such as the mobile gangway system, fenders and bollards, electrical upgrades, and provision of miscellaneous furniture and equipment. The estimated total project cost for Phase II is approximately $47 million, of which $19.5 million is expected to be financed with proceeds of the Series 2014

Bonds. The balance of the project costs are funded through a combination of a Federal Emergency Management Agency ("FEMA") grant for security improvements and contributions from the City consisting of proceeds of certain general obligation bonds issued by the City, and proceeds of certain certificates of participation which the Port is obligated to repay. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations" herein.

Pier 29½ and Pier 31

A portion of the proceeds of the Series 2014 Bonds is planned to be used on structural repairs to the superstructure (columns, beams, truss members and roof decking), exterior apron deck reconstruction, window repairs, door repairs to the apron for egress and safety ladders for roof access, removal and replacement of roofing and miscellaneous sheet metal caps and flashing, and to provide plumbing and electrical infrastructure needed for restrooms, lighting and potential tenant needs at Piers 29½ and 31. The estimated total cost of these improvements is approximately $6 million, of which $917,000 is expected to be financed with proceeds of the Series 2014 Bonds. The balance of the project costs are funded using a portion of the proceeds of the Series 2010 Bonds.

Other Capital Improvements

A portion of the remaining proceeds of the Series 2014 Bonds is planned to be used for various capital improvements in order to upgrade and re-lease currently vacant facilities and/or historic window rehabilitation and/or other capital improvements.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS

Pledge of Net Revenue Under the Indenture

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. The Series 2014 Bonds are not a debt or obligation of the City, the State or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).

The Indenture provides that the Series 2014 Bonds will be payable as to principal, premium, if any, and interest exclusively from, and will be secured by a pledge of, first lien on and security interest in Net Revenue. "Net Revenue" is defined under the Indenture to mean Revenue (as defined below) less Operation and Maintenance Expenses (as defined below). Under the Indenture, for the benefit of the Bondholders, the Port Commission also grants a first lien on and security interest in, amounts on deposit from time to time in the Funds and Accounts created pursuant to the Indenture, subject to the provisions of the Indenture and any Supplemental Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture.

"Revenue" is defined under the Indenture to include all revenue earned by the Port Commission from or with respect to its management, supervision, operation and control of the Port Area, as determined in accordance with generally accepted accounting principles. To the extent permitted by law and designated as Revenues in a Supplemental Indenture, Revenue will include revenues available to the Port Commission from any infrastructure financing district established pursuant to Chapter 2.8 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California or a similar law ("IFD Revenues"). Revenue will not include: (a) Special Facility Revenue (as described herein) and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenue by the Port Commission, (b) grants-in-aid, donations and/or bequests, which by their terms would be restricted to uses inconsistent with the purposes provided hereunder, or (c) IFD Revenues unless designated by the Port Commission as Revenues in a Supplemental Indenture.

Under the Indenture, Special Facilities Revenues or IFD Revenues are not included in the Revenues pledged to Bonds unless designated by the Port to be included in Revenues. The Port Commission has not issued any obligations secured by IFD Revenues, but has taken certain steps to form infrastructure financing districts and may issue obligations secured by IFD Revenues in the future. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Port Legislative Efforts." The Port Commission currently has not designated any revenues as "Special Facility Revenue" under the Indenture and does not have any "Special Facility Bonds" outstanding; however, the Port may issue Special Facility Bonds in the future. See "– Additional Bonds and Other Obligations – Special Facilities and Special Facility Bonds" below and "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Impact of Dissolution of Redevelopment Agencies."

"Operation and Maintenance Expenses" is defined under the Indenture to mean, for any period, all expenses of the Port Commission incurred for the operation and maintenance of the Port Area, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest (including capitalized interest) on any Bonds, Subordinate Bonds, general obligation bonds or certificates of participation issued by the City for Port Area purposes or other Port Commission indebtedness; (b) any allowance for amortization, depreciation or obsolescence of the Port Area; (c) any expense for which, or to the extent to which, the Port Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenue, including, but not limited to, Special Facility Revenue; (d) any extraordinary items arising from the early extinguishment of debt; (e) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Port Area which, under generally accepted accounting principles, are properly chargeable to the capital account or any reserves for depreciation; (f) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Port Area properties; (g) items that are unusual or unrelated to the Port Commission's ordinary activities and would occur infrequently, including but not limited to litigation settlements or awards or other items not included in the annual budget or non-cash items paid over a number of years; (h) non-cash expenses arising from pension and post-employment pension benefits; and (i) dredging costs.

Application of Revenue Under the Charter and Indenture

Under the Charter and the Indenture, all Revenue as received is required to be set aside and deposited by the Treasurer of the City in the San Francisco Harbor Trust Fund (the "Enterprise Fund").

The Charter provides that moneys in the Enterprise Fund will be applied by the City Treasurer for the following purposes in the following order of priority:

(1) for the payment of maintenance and operating expenses, pension charges and proportionate payments to such compensation and other insurance and accident reserve funds as the Port Commission may establish or the Board of Supervisors may require;

(2) for the payment of principal, interest, reserve funds, sinking funds, and other funds established for the benefit of any forms of indebtedness issued or undertaken by or on behalf of the Port Commission for any purpose authorized under the Charter, including, but not limited to, revenue bonds, general obligation bonds, Infrastructure Financing District bonds, certificates of participation, lease revenue bonds, commercial paper, variable rate demand notes, auction rate securities, bond anticipation notes and other evidences of indebtedness;

(3) for capital improvements to, and reconstruction and replacement of, the properties, equipment and facilities of the harbor; and

(4) to establish a reserve, surplus or sinking fund for harbor operations, capital improvements, reconstruction, and replacement of equipment or facilities used in connection thereto as the Port Commission may establish.

In addition to the priorities established under the Charter, the Indenture provides that moneys in the Enterprise Fund will be applied by the Treasurer for the following purposes and in the following amounts and order of priority, each priority to be fully satisfied before the next priority:

(1) *Operation and Maintenance Expenses*. An amount equal to the Operation and Maintenance Expenses as the same become due;

(2) *Debt Service Fund Transfer*. An amount equal to the requirements described below will be transferred and applied by the Treasurer for the purposes described herein:

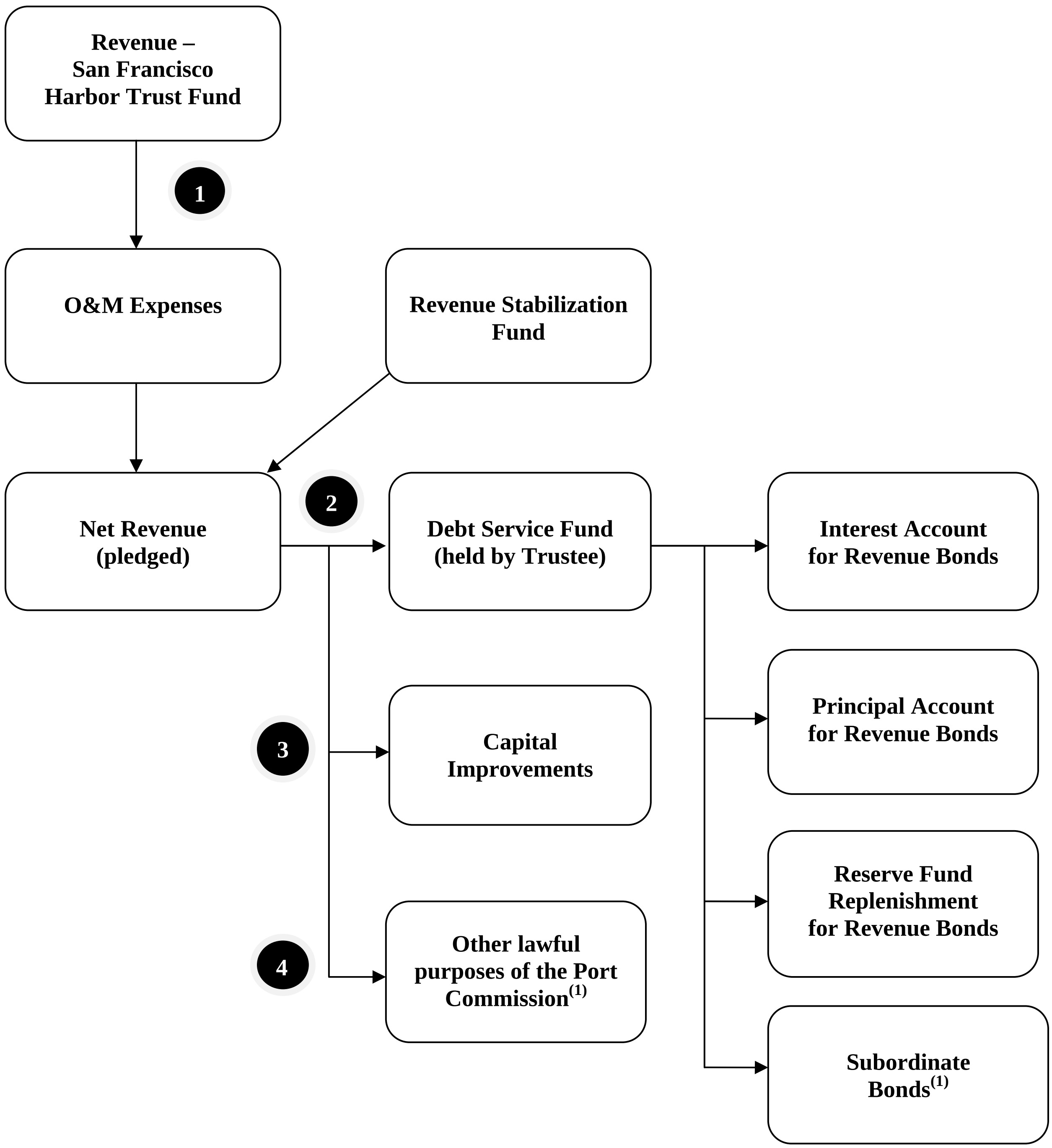
(i) first, to the Trustee for deposit in the Debt Service Fund, the amount necessary to make all payments and deposits required to be made into the Debt Service Fund and the Reserve Fund with respect to the payment of Bonds (as further described below) and the payment or reimbursement of a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto (in addition, if and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds); and

(ii) second, to pay directly or to make all payments and deposits required to be made into any funds and accounts created to pay or secure the payment of the Principal Amount or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof; and

(3) *General Purposes.* Any amounts remaining after the applications pursuant to paragraphs (1) and (2) above will be used for any lawful purpose of the Port Commission and in accordance with all relevant provisions of the Charter.

Flow of Funds

The following is a graphic presentation summarizing the flow of funds under the Charter and the Indenture (as described above) for Port Revenue. The numbers indicate the order of priority in the flow of funds.



(1) The Port Commission has certain obligations that are secured and payable on a subordinate basis to the Series 2014 Bonds and Series 2010 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

Reserve Fund

The Second Supplemental Indenture establishes within the Reserve Fund the Series 2014A Reserve Account for the Series 2014A Bonds and the Series 2014B Reserve Account for the Series 2014B Bonds. Upon delivery of the Series 2014 Bonds, the Series 2014A Reserve Account will be funded in an amount equal to $650,614.56, and the Series 2014B Reserve Account will be funded in an amount equal to $681,185.44. The Series 2014A Reserve Requirement is defined under the Indenture, as of any date of calculation, as the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2014A Bonds, (ii) 125% of average annual debt service on the Series 2014A Bonds, (iii) 10% of the initial Principal Amount of Series 2014A Bonds, or (iv) the sum of (A) $650,614.56 which is the initial deposit to the Series 2014A Reserve Account, plus (B) any amounts available to be transferred from the Series 2014B Reserve Account pursuant to the Indenture. To the extent a future Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014A Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code. The Series 2014B Reserve Requirement is defined under the Indenture, as of any date of calculation, as the Maximum Annual Debt Service on the Series 2014B Bonds. See Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – DEFINITIONS," "– THE MASTER INDENTURE – Funds – Reserve Fund" and "– SECOND SUPPLEMENT TO INDENTURE OF TRUST – Reserve Fund."

Moneys in the Series 2014A Reserve Account will be held in trust for the benefit and security of the Holders of the Series 2014A Bonds, and are not available to pay or secure the payment of the Series 2014B Bonds. Moneys in the Series 2014B Reserve Account will be held in trust for the benefit and security of the Holders of the Series 2014B Bonds, and are not available to pay or secure the payment of the Series 2014A Bonds. As provided in a Supplemental Indenture, the Series 2014A Reserve Account or the Series 2014B Reserve Account may support additional Series of Bonds issued in the future, subject to the amount therein equaling the required amount for all covered Bonds.

The Series 2014A Reserve Requirement (or any portion thereof) or the Series 2014B Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Series 2014 Bonds. See Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Reserve Fund."

Permitted Investments

The Indenture provides that moneys in all funds and accounts held by the Trustee under the Indenture will be invested upon receipt in Permitted Investments as directed by the Port Commission. For a summary of the definition of Permitted Investments and information regarding the investment of moneys held in the various funds and accounts relating to the Series 2014 Bonds, see Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Investment of Moneys" attached hereto. For information regarding the investment of moneys held in the various funds and accounts of the Port Commission, see "PORT COMMISSION FINANCIAL OPERATIONS – Investment Policy and Investments."

Covenant to Maintain Net Revenue

Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service for such Fiscal Year. In determining Net Revenue pursuant to the provisions of the Indenture described in this paragraph, the Port Commission may take into account as a credit the amount on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year;

provided that the Port Commission is required to maintain Coverage equal to at least 100% without regard to any credit for any such amounts or deposits in the Revenue Stabilization Fund. The Port has not deposited any moneys into the Revenue Stabilization Fund to date, but may do so in the future.

The Port Commission also covenants that if Net Revenue as of the end of any Fiscal Year is less than the amount described in the paragraph above, the Port Commission will retain and direct a Port Consultant to make recommendations as to the revision of the Port Commission's business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area and will take such recommendations into account for future budgets and management. In the event that Net Revenue as of the end of any Fiscal Year is less than the amount described above, but the Port Commission promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise its business operations and/or its schedule of rentals, rates, fees and charges as required by the Indenture, such deficiency in Net Revenue will not constitute an Event of Default under the Indenture. Nevertheless, if after taking the measures required by the Indenture to revise its business operations and/or its schedule of rentals, rates, fees and charges, Net Revenue in such next succeeding Fiscal Year (as evidenced by the audited financial statements of the Port Commission for such Fiscal Year) is less than the amount described above, such deficiency in Net Revenue will constitute an Event of Default. For a description of the Events of Default and available remedies to Bondholders in an Event of Default, see Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Default and Remedies."

See "CERTAIN RISK FACTORS" for a description of certain risk factors that could adversely affect the ability of the Port Commission to maintain Net Revenue as required by the Indenture.

Additional Bonds and Other Obligations

Pursuant to the Indenture, the Port Commission is permitted to issue additional bonds and to enter into additional obligations secured by Net Revenue on parity with the payment of principal of and interest on the Series 2014 Bonds, provided that the conditions described below are satisfied. Under the Charter, no voter approval is required with respect to revenue bonds or other obligations authorized and issued by the Port Commission for any Port-related purpose and secured solely by Port revenues.

The Port Commission has previously issued $36.65 million in aggregate initial principal amount of its Series 2010 Bonds, currently outstanding in the aggregate principal amount of $34.075 million. The Series 2010 Bonds are secured by and payable from Net Revenue on a parity with the Series 2014 Bonds. The Port Commission currently has no other obligations outstanding that would be on a parity with the Series 2010 Bonds and the Series 2014 Bonds. The Port's current Ten-Year Capital Plan (as defined herein) assumes no additional Port revenue bonds will be issued, but the Plan notes that the Port would revisit issuing bonds if projects were identified in the future that generate revenues in excess of the amount required to service debt costs. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ten-Year Capital Plan" herein.

All Bonds issued under the Indenture and at any time outstanding will be equally and ratably secured with all other outstanding Bonds, with the same right, lien, preference and priority with respect to Net Revenue, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds or otherwise. All Bonds of a particular Series will in all respects be equally and ratably secured and will have the same right, lien and preference established under the Indenture for the benefit of such Series of Bonds including, without limitation, rights in any related project fund and/or delivery costs fund, debt service fund or reserve fund. Notwithstanding the foregoing, amounts drawn under a Credit Facility with respect to particular Bonds and all other amounts held in funds or accounts established with respect to particular Bonds pursuant to the Indenture and of any Supplemental Indenture will be applied solely to make payments on such Bonds.

Additional Bonds. Under the Master Indenture, the Port Commission is permitted to issue additional Series of Bonds subject to certain conditions. These conditions include, among other things, submission to the

Trustee of a report of the Port Commission demonstrating that for the period from and including the first full Fiscal Year following the issuance of such additional Series of Bonds during which no interest on such additional Series of Bonds is expected to be paid from the proceeds thereof through and including the later of (A) the fifth full Fiscal Year following the issuance of such additional Series of Bonds or (B) the third full Fiscal Year during which no interest on such additional Series of Bonds is expected to be paid from the proceeds thereof, projected Net Revenue in each such Fiscal Year will be at least sufficient to satisfy the rate covenants set forth in the Indenture. See "Covenant to Maintain Net Revenue" above.

In determining projected Net Revenue for purposes of the report of the Port Commission described in the paragraph above, the Port Commission may take into account any reasonably anticipated changes in Revenue and Operation and Maintenance Expenses over such period, which assumed changes and the basis therefor will be described in the calculations provided by the Port Commission. In determining Annual Debt Service for such purposes, (i) Bonds that will be paid or discharged immediately after the issuance of the additional Series of Bonds proposed to be issued from the proceeds thereof or other moneys will be disregarded, and (ii) Variable Rate Bonds and variable rate Interest Rate Swaps will generally be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the lower of one hundred twenty five percent of the average Index Rate (*i.e.,* generally defined under the Indenture as the SIFMA Municipal Swap Index) during the twelve calendar months immediately preceding the date on which such calculation is made or the maximum rate of interest payable under such Bonds or Interest Rate Swaps. The Port Commission may also take into account as a credit amounts expected to be on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year; provided that the Port Commission is required to maintain Coverage under the provisions of the Indenture summarized above under "Covenant to Maintain Net Revenue" equal to at least 100% without regard to any credit for any such amounts on deposit in the Revenue Stabilization Fund.

The Indenture also permits the Port Commission to issue additional Series of Bonds for the purpose of refunding any Bonds or Subordinate Bonds on or prior to maturity. The Port Commission currently does not plan to issue additional Series of Bonds to fund various capital projects; however, this is subject to change in the future. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ten-Year Capital Plan."

Subordinate Obligations. The Port Commission has a loan from the California Division of Boating and Waterways, in the initial principal amount of $3.5 million (and currently outstanding in the aggregate principal amount of $2.5 million). This loan is secured by a lien on certain marina revenues but such loan is expressly subordinate to the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Application of Revenue Under the Charter and Indenture" and "– Flow of Funds."

In October 2013, the City caused the execution and delivery of certificates of participation in the aggregate initial principal amount of $37.7 million (and currently outstanding in the aggregate principal amount of $35.4 million), for the purpose of financing and refinancing capital improvements to certain facilities owned by the Port, including Phase I of the new cruise terminal at Pier 27. See "THE SERIES 2014 PROJECTS" herein. Pursuant to a memorandum of understanding between the Port Commission and the City, the Port Commission has agreed, during the term of the certificates of participation, to pay the principal and interest with respect to the certificates of participation. The Port's payment obligations with respect to the certificates of participation are unsecured by any lien on Port revenues or property and are expressly subordinate to the Bonds. The Pier 27 facilities are the leased property under a lease relating to the certificates of participation; however, the lease is an obligation payable from the City's General Fund and the lease does not provide for a remedy of re-entering and re-leasing the leased property in the event of a default.

The San Francisco Public Utilities Commission ("SFPUC"), a department of the City, has advanced funds to the Port in the aggregate initial principal amount of $1.14 million (and currently outstanding in the aggregate principal amount of approximately $276,000) to construct certain energy efficiency projects at identified Port facilities. Pursuant to a memorandum of understanding between the Port Commission and the SFPUC, the Port has agreed to repay these advances with interest. The Port's payment obligations with respect to these advances are unsecured by any lien on Port revenues or property and are expressly subordinate to the Bonds.

Repayment Obligations as Bonds. If so provided in the applicable Supplemental Indenture and in the written agreement between the Port Commission and a Credit Provider, a Repayment Obligation (other than a Repayment Obligation with respect to a Credit Facility credited to the Reserve Fund) may be accorded the status of an obligation payable on a parity from Net Revenue with the Series 2014 Bonds for purposes of securing such Repayment Obligation under the Indenture. The foregoing rights of a Credit Provider are in addition to any rights of subrogation which the Credit Provider may otherwise have or be granted under law or pursuant to any Supplemental Indenture.

Interest Rate Swaps as Bonds. If so provided in the applicable Supplemental Indenture and in the written agreement establishing an Interest Rate Swap between the Port Commission and a Swap Counter Party, a Swap Payment may be accorded the status of an obligation payable on a parity from Net Revenue with the Series 2014 Bonds for purposes of securing such obligation to make Swap Payments under the Indenture. The Port Commission currently does not have any outstanding Interest Rate Swap.

Special Facilities and Special Facility Bonds. The Port Commission from time to time, subject to the terms and conditions of the Indenture and all applicable laws, may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is located within the Port Area or part of any facility or structure at the Port Area as a "Special Facility," (b) provide that revenues earned by the Port Commission from or with respect to such Special Facility will constitute "Special Facility Revenue" and will not be included as Revenue, and (c) issue Special Facility Bonds primarily for the purpose of acquiring, constructing, renovating or improving, or providing financing to a third party to acquire, construct, renovate or improve, such Special Facility. The Special Facility Bonds will be payable as to principal, purchase price, if any, redemption premium, if any, and interest from and secured by the Special Facility Revenue with respect thereto, and not from or by Net Revenue. The Port Commission from time to time may refinance any such Special Facility Bonds with other Special Facility Bonds. The Port Commission currently does not have any outstanding Special Facility Bonds. However, the Port Commission plans to designate its South Beach Harbor facilities as a Special Facility, the related revenues as Special Facility Revenue and certain related obligations as Special Facility Bonds. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Impact of Dissolution of Redevelopment Agencies" herein.

No Special Facility Bonds may be issued by the Port Commission unless there has been filed with the Trustee (i) a certificate of the Port Commission to the effect that no Event of Default then exists under the Indenture, (ii) an opinion of Bond Counsel to the effect that such Special Facility Bonds may lawfully be issued in accordance with the Charter and all other applicable laws, and (iii) a report of the Port Commission providing the following calculations:

(a) the estimated Special Facility Revenue with respect to the proposed Special Facility are at least sufficient to pay the principal (either at maturity or by mandatory sinking fund redemptions) or purchase price of and interest on such Special Facility Bonds as and when the same becomes due, all costs of operating and maintaining such Special Facility to be paid by the Port Commission, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Bonds as and when the same will become due; and

(b) the estimated Net Revenue, calculated without including the Special Facility Revenue and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses, that will be sufficient so that the Port Commission will be in compliance with the rate covenant under the Indenture (see "Covenant to Maintain Net Revenue" above) during each of the five full Fiscal Years immediately following the issuance of such Special Facility Bonds.

At such time as the Special Facility Bonds issued for a Special Facility, including Special Facility Bonds issued to refinance such Special Facility Bonds, are fully paid or otherwise discharged and no longer outstanding, the Special Facility Revenue with respect to such Special Facility will be included as Revenue.

Subordinate Bonds. Under the Indenture, the Port Commission may issue at any time obligations with a pledge of, lien on, and security interest in Net Revenue which are junior and subordinate to those of the Series 2014 Bonds ("Subordinate Bonds"). Under the Charter, no voter approval is required with respect to revenue bonds or other obligations authorized and issued by the Port Commission for any Port-related purpose and secured solely by Port revenues. See "– Additional Bonds" above. The principal and purchase price of and interest, redemption premium and reserve fund requirements on such Subordinate Bonds are payable from time to time out of Net Revenue only if all amounts then required to have been paid or deposited under the Indenture from Net Revenue with respect to principal, purchase price, redemption premium, interest and reserve fund requirements on the Series 2014 Bonds and any other Series of Bonds then Outstanding has been paid or deposited as required in the Indenture. The Port has certain long-term obligations outstanding which constitute "Subordinate Bonds" as defined under the Indenture and/or which are otherwise subordinate to the Bonds. See "– Subordinate Obligations" above.

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The population of the City as of January 1, 2013 was approximately 839,100.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, technology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2012, approximately 16.5 million people visited the City and spent an estimated $8.93 billion during their stay. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for Fiscal Year 2012-13 was estimated to be $73,197. The San Francisco Unified School District operates 72 elementary and K-8 school sites, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 state-funded preschool sites, and sponsors 13 independent charter schools. Higher education institutions located in the City include the University of San Francisco, San Francisco State University, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In 2013, SFO serviced approximately 44 million passengers and handled 363,794 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City.

The City is governed by a Board of Supervisors elected from 11 districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's Original Budget for Fiscal Years 2013-14 and 2014-15 totals $7.91 billion and $7.93 billion, respectively. The General Fund portion of each year's budget is $3.95 billion in Fiscal Year 2013-14 and $4.05 billion in Fiscal Year 2014-15, with the balance being allocated to all other funds, including enterprise fund departments, such as the Port Commission, SFO, the San Francisco Municipal Transportation Agency, and the San Francisco Public Utilities Commission. The City employed 28,387 full-time-equivalent employees at the end of Fiscal Year 2012-13. According to the Controller of the City (the "Controller"), Fiscal Year 2013-14 total net assessed valuation of taxable property in the City is approximately $172.5 billion.

THE SERIES 2014 BONDS ARE NOT A DEBT OR OBLIGATION OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE PORT COMMISSION PAYABLE SOLELY FROM NET REVENUE). NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES 2014 BONDS. NO HOLDER OF A SERIES 2014 BOND MAY COMPEL THE EXERCISE OF THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO PAY PRINCIPAL OF THE SERIES 2014 BONDS OR THE INTEREST THEREON. THE PORT COMMISSION HAS NO TAXING POWER. THE SERIES 2014 BONDS ARE NOT SECURED BY A LIEN ON ANY PORT PROPERTY (OTHER THAN THE PORT'S NET REVENUE).

THE PORT OF SAN FRANCISCO

Introduction and Overview

The State transferred the Port to the City in 1969 pursuant to California Statutes of 1968, Chapter 1333 (the "Burton Act"). The Burton Act and related Transfer Agreement require the City to manage the Port in trust for the State consistent with public trust laws, including limitations on the uses of Port property to those that are water-dependent or water-related, but not necessarily revenue-generating, such as commerce, industry, fisheries, navigation, environmental preservation and recreation. In addition, the Burton Act requires the City to use all of the revenues generated from Port property to operate, maintain and develop the Port. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement."

The Port Commission was established to govern the Port pursuant to the Charter and the Burton Act. The mission of the Port Commission is to promote a balance of recreational, industrial, maritime, transportation, public access and commercial activities on a self-supporting basis through appropriate management and development of the waterfront for the benefit of the public.

The Port Area consists of seven and one-half miles of waterfront property adjacent to the San Francisco Bay, from Hyde Street Pier in the north to India Basin in the south, including more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. The Port Commission controls and manages and is able to lease approximately 89% of the land in the Port Area. Among ports, the

Port has one of the most diverse mixes of types of businesses in the nation. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursions, professional sports, bulk and breakbulk cargo, cruise ship calls and ship repair. To support these operations, the Port Commission owns or has responsibility for the maintenance of certain capital assets, including 39 pile-supported pier structures, 80 substructures (of both piers and wharves between piers), 245 commercial and industrial buildings, over three miles of streets and sidewalks, and elements of the utility infrastructure that support them, as well as drydocks, cargo cranes and heavy equipment used by the Port's maintenance division. The Port Commission is the landlord under approximately 533 ground, commercial, retail, office, industrial and maritime industrial leases, including ground leases of many internationally recognized landmarks such as Fisherman's Wharf, Pier 39, The Exploratorium, the Ferry Building, and AT&T Park (home of the San Francisco Giants baseball team).

Port operating revenues, which totaled approximately $81.5 million in Fiscal Year 2012-13, were derived primarily from real estate and maritime operations. Real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, represented approximately 75% of Port operating revenues in Fiscal Year 2012-13. Maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship and ferryboat activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities, comprised approximately 18% of Port operating revenues in Fiscal Year 2012-13. See Table 12 under "PORT COMMISSION FINANCIAL OPERATIONS" and also "PORT REAL ESTATE OPERATIONS" and PORT MARITIME OPERATIONS."

The use of Port property and facilities, the rehabilitation and development of its assets, and its operations are all subject to a number of constraints. The constraints within which the Port Commission must operate include those imposed by the Waterfront Land Use Plan, the San Francisco Bay Conservation and Development Commission (through its Seaport and Special Area Plans), the California Environmental Quality Act and other State environmental regulations, the California State Lands Commission (interpreting public trust law), the Burton Act, the Transfer Agreement, the Board of Supervisors, the Charter and Administrative Codes, federal regulation, Port tenants, and community interest groups. Certain Port piers, buildings and other structures are also subject to additional regulations due to their historic significance. See "PORT COMMISSION FINANCIAL OPERATIONS."

Most capital assets comprising the Port range from 50 to 100 years old, were constructed for use in the cargo shipping industry as it existed at the time of original construction and are reaching the end of their useful lives. When the State transferred responsibility for the Port to the City, the Port capital assets were already in a state of disrepair. Of the 39 piers currently in use by the Port Commission or Port tenants, 10 have been significantly rehabilitated since 1950. The piers that were structurally sound at the time of transfer were only marginally productive because containerized shipping was already replacing breakbulk (*e.g.*, bagged, boxed, crated or palletized) shipping as the primary mode of cargo shipping at that time. Containerized shipping requires significant acreage of land and access to rail and truck transportation facilities that the Port lacks given its proximity to the City's dense urban environments. Therefore, the Port Commission has been transitioning Port facilities from primarily cargo-serving uses to mixed uses including more non-cargo related maritime uses, retail, restaurants, and office space. The Port's Capital Plan and development strategy attempt to address some of the foregoing issues. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

Port Commissioners

The Port Commission governs the Port. The five Port Commissioners, appointed by the Mayor and subject to confirmation by the Board of Supervisors of the City, serve four-year terms and elect, from the members of the Port Commission, the Port Commission President and Vice President to one-year terms. Through resolutions and directives, the Port Commission sets policy for the Port.

The current members of the Port Commission and the appointment and expiration dates of their terms are:

Name and Title	Occupation	Originally Appointed	Term Expires
Leslie Katz, President	Strategy and external affairs consultant and attorney	March 2011	May 2014
Willie Adams, Vice President	Secretary-Treasurer of the International Longshore & Warehouse Union	July 2012	May 2014
Kimberly Brandon	Financial services	August 1997	May 2017
Mel Murphy	General contractor and real estate developer	March 2013	May 2016
Doreen Woo Ho	Retired banking executive	May 2011	May 2014

Executive Director and Senior Management

The policies set by the Port Commission are implemented by the Port's Executive Director and staff. The Executive Director serves as chief executive of the Port, is appointed by the Mayor, serves at the pleasure of the Port Commission, and is charged with the management of all the offices and activities placed under the jurisdiction of the Port Commission. The staff of the Port Commission is organized into the following divisions: Maritime; Real Estate; Planning and Development; Engineering; Maintenance; and Finance and Administration. In addition, the Executive Director oversees the Executive Division functions for Public Relations, Homeland Security and Special Projects.

Monique Moyer, Executive Director. Monique Moyer is the Executive Director of the Port, appointed by Mayor Gavin Newsom and confirmed by the Port Commission in April 2004. She is the second woman to serve as Executive Director in the Port's 151-year history. Prior to joining the Port Commission, Ms. Moyer served the City for seven years as the Director of the Mayor's Office of Public Finance & Business Affairs. Ms. Moyer sits on the non-profit boards of the Mid-Peninsula Housing Coalition, the Foundation of the Fine Arts Museums, and is Vice Chair of the California Association of Port Authorities. In 2002, Ms. Moyer received the San Francisco Chamber of Commerce Public Managerial Leadership Award. She has been named annually as one of the *San Francisco Business Times'* 150 Influential Women in Business from 2005-2011 and became "Ever Influential" in 2012. She is the recipient of San Francisco Travel's 2013 Silver Cable Car Award in recognition of her significant contribution to San Francisco tourism.

Brad Benson, Director Special Projects. Brad Benson joined the Port in 2005. He directs government affairs, leads the Port's policy efforts and manages a variety of complex projects which cross multiple Port and/or intercity divisions. Mr. Benson specializes in the public trust for commerce, navigation and fisheries and regulations that govern waterfront development and oversees the Port's local, State and federal legislative program. Mr. Benson serves as project leader for designated large development projects in conjunction with the Port's Planning & Development Division and manages interdepartmental and interdivisional efforts, such as the 34th America's Cup and the under pier utility inspection program. Prior to joining the Port, Mr. Benson served as legislative aide to Supervisor Tom Ammiano from 1998-2005.

Thomas Wm. Carter, Deputy Director of Maintenance. Thomas Wm. Carter has served as Deputy Director of Maintenance for the Port since December 2004. He is responsible for directing and managing maintenance services for all Port facilities and providing the overall evaluation, direction, planning and management of services for the Port's Maintenance Division. Prior to joining the Port Commission, Mr. Carter held various positions at the City and its Department of Public Works ("DPW"), including serving as Operations Superintendent – Bureau of Street & Sewer Repair for the Department of Public Works, the first Operations Superintendent of the Bureau of Urban Forestry, and Assistant Superintendent of the Bureau of Building Repair for DPW.

Peter A. Dailey, Deputy Director of Maritime. Peter A. Dailey has served as Deputy Director, Maritime, for the Port since 1998 and is responsible for managing and marketing the Port's varied maritime business portfolio. Mr. Dailey has been at the Port for over 27 years. Prior to his current position, Mr. Dailey was senior marketing executive at the Port with responsibility for public relations and public affairs, strategic marketing and press relations. He is a member of the San Francisco Bay Conservation and Development Commission's Seaport Planning Advisory Committee and the California Association of Port Authorities Advisory Committee, and past Chairman of the American Association of Port Authorities Cruise Committee.

Elaine Forbes, Deputy Director of Finance and Administration. Elaine Forbes joined the Port in July of 2010. She is responsible for directing and managing all internal support services for other Port divisions and the executive staff; overseeing business services, inventory and purchasing; managing information systems, human resources, finance, accounting and infrastructure maintenance function; and formulating division-wide budget, business and strategic plans. Prior to joining the Port, Ms. Forbes worked for the City and County of San Francisco for nine years. She worked for the Board of Supervisors as a legislative and budget analyst for five years, served as the San Francisco Airport's budget manager, and was most recently the chief administrative officer for the Planning Department, where she was responsible for finance and accounting, contracts, information technology, and operations.

Eileen Malley, Deputy City Attorney and Port General Counsel. Eileen Malley began serving as the Port's General Counsel in March 2012. In this capacity, she provides advice on a range of legal matters including contracts, real estate agreements, public trust matters, environmental and community stewardship, land use, California Environmental Quality Act compliance processes and public meeting laws and rules. Ms. Malley has been a Deputy City Attorney in the San Francisco City Attorney's Office since January 2005. Prior to working as General Counsel to the Port, she was a member of the City Attorney's Office Real Estate and Finance Team and served as General Counsel to the Treasure Island Development Authority. Before joining the City Attorney's Office, Ms. Malley practiced real estate law at Brobeck Phleger & Harrison LLP and Morgan Lewis & Bockius LLP, and was a member of the Legal Department at Catellus Development Corporation.

Uday Prasad, Interim Chief Harbor Engineer. As Interim Chief Harbor Engineer, Uday Prasad has been overseeing the Port's Engineering Division since June 2013. He is responsible for developing, planning, and directing the work of the Port's Engineering Division, which oversees several major functions including: building/encroachment permits, engineering and architectural design, facilities assessment, construction management, and project management. Mr. Prasad has more than twenty years of experience in engineering design, supervision, and management. He started with the Port as a Civil Engineer in 2002 and has also held the position of the Port's Senior Civil Engineer since 2005. Prior to joining the Port Commission, Mr. Prasad worked for San Francisco Department of Public Works and San Francisco Public Utilities Commission. He has been with the City and County of San Francisco since 1992.

Susan Reynolds, Deputy Director of Real Estate. Susan Reynolds has served as Deputy Director of Real Estate for the Port since November 2006. She is responsible for directing, promoting and managing the Port's diverse real estate portfolio. Prior to joining the Port Commission, Ms. Reynolds worked for eight years at the Mayor's Office of Community Development. Prior to joining the City, Ms. Reynolds spent over 25 years in the commercial banking industry.

Byron A. Rhett, Deputy Director of Planning & Development. Byron A. Rhett has served as the Deputy Director of Planning & Development for the Port since November 2000. Mr. Rhett is responsible for overseeing all planning and development activities at the Port including the implementation of large scale, mixed-use commercial, recreational and industrial projects. Prior to joining the Port Commission, Mr. Rhett worked at the San Francisco Redevelopment Agency for over 21 years, serving as a senior project manager managing the Hunters Point Shipyard project and nearby Bayview Hunters Point neighborhood development projects. Prior to that, he worked as a planner for the City of Newark, New Jersey, the Newark Watershed Conservation and Development Corporation and Special Assistant in the City Manager's Office in Kansas City, Missouri.

Margaret "Sidonie" Sansom, Director of Homeland Security. Sidonie Sansom has served as Director of Homeland Security at the Port since July 2005. She is responsible for developing, directing, and implementing a comprehensive homeland security program for the Port. She is also responsible for the Port's emergency preparedness and response programs, and the Port's physical security programs. Before joining the Port Commission, Ms. Sansom served as an Emergency Planner at the San Francisco International Airport where she developed exercises to test emergency response and emergent threats, as well as cross-jurisdictional, multi-agency response procedures for the airport's Water Perimeter Security Zone. Prior to that, she served in the U.S. Coast Guard, planning and leading flight operations throughout the world, in a variety of mission areas including search and rescue, anti-terrorism/threat response, law enforcement, pollution response and high latitude science. Ms. Sansom is a member of the American Association of Port Authorities Security Committee, the Port Security Caucus, the California Maritime Security Council, the California Association of Port Authorities Security Committee and the Area Maritime Security Committee.

Port Operating Divisions

Real Estate Division. The Real Estate Division is responsible for all asset management, property and lease management, marketing and leasing for the Port's commercial and industrial property along the 7.5 miles of San Francisco's waterfront properties that extends from Fisherman's Wharf to Bayview/Hunters Point, exclusive of those leases to maritime tenants that are managed by the Maritime Division. Real estate asset and property management duties entail lease negotiations, lease and property administration and enforcement, and asset value enhancement.

Maritime Division. The Maritime Division is responsible for managing and marketing a wide array of maritime industries: cruise and cargo shipping, ship repair, commercial and sport fishing, ferry and excursion operations and other harbor services. The division promotes Port maritime facilities to potential and existing customers while ensuring compliance with federal security mandates and providing environmental stewardship. Areas of responsibility include cruise and cargo terminals, ferry terminals, shipyards and dry docks, Fisherman's Wharf and Hyde Street commercial fishing harbors, excursion terminals and harbor service facilities for pilots, tugboats, barges, layberthing and other ship services.

Planning and Development Division. The Port's Planning and Development Division is responsible for developing and maintaining planning and land use policies adopted by the Port Commission. The Port's land use policies, as adopted by the Port Commission, are contained in the Waterfront Land Use Plan and its Waterfront Design and Access element. The Waterfront Land Use Plan establishes the foundation and framework for new development projects, real estate leasing and asset management, public access, open space and environmental improvements, and preservation of the Port's historic resources. Another important responsibility of the Planning and Development Division is to manage major development projects on Port property. This responsibility includes major public-private partnership development projects with a private developer partner, from the developer selection stage through the project approval and construction stage. Finally, the Planning and Development Division provides regulatory and review responsibilities pertaining to Port building permits, leases and use proposals to ensure that proposals for Port properties comply with applicable land use, design review, and environmental impact review requirements administered by a number of different government agencies.

Engineering Division. The Engineering Division provides project and construction management, engineering design, facility inspection, contracting, code compliance review and permitting services for all of the Port's facilities including piers, structures, buildings, cranes, utilities, public and private areas, development projects, streets and walkways. The Engineering Division assists and coordinates with other City Departments to assure an appropriate transition between the City and the property in the Port's jurisdiction.

Maintenance Division. The Maintenance Division is responsible for maintaining the Port's 7.5 miles of waterfront property and maintaining the waterfront as a positive connection to the other parts of the City. More than 100 skilled craftspersons are responsible for the preservation and improvement of the Port's fishing harbors, ferry landing, public parks, cargo terminals and piers. The overall maintenance performed by the Maintenance Division includes the skilled work of 18 different crafts, including carpenters, electricians, painters, gardeners, pile drivers, plumbers, roofers and general laborers.

Finance and Administration Division. The Finance and Administration Division is responsible for management of Port operations and support services, including human resources, accounting, finance, contracts, information systems, and business services. Human resources include labor and employee relations, payroll, training programs, employee recruitment and hiring, and contract compliance. Finance includes budget development and analysis, capital planning, grants, forecasting, financing, risk analysis, and reporting. Accounting includes accounts payable, accounts receivable, general ledger, financial statements and managing outside audits. Information systems include the Port's information technology equipment acquisition and maintenance, local area network, computer application development and maintenance. Business services includes purchasing, materials management, mail service, telephone system, receptionist service, administration of the Port's vehicles, and management of the Port's offices.

PORT REAL ESTATE OPERATIONS

Overview

The Port Commission through its Real Estate Division is engaged in the marketing, leasing and management of its properties for commercial business uses including office, industrial, storage, retail, restaurants, parking, and tourist attractions. As of June 2013, the Port had 408 real estate leases representing 309 commercial and industrial tenants who occupied approximately 13.1 million square feet including piers, sheds, wharves, seawall lots, and open industrial land that generated approximately $53.5 million in lease revenues in Fiscal Year 2012-13. An additional $7.9 million was derived from non-lease sources such as parking meters and parking fines, for total Real Estate Division revenues of $61.4 million. For information on certain maritime leases of the Port, see "PORT MARITIME OPERATIONS" herein.

The Port Commission is authorized pursuant to the Burton Act, under specified conditions, to grant leases with terms up to 66 years. Beginning in the 1970s, the Port Commission has entered into several major ground leases of its properties that provide for the development of significant office, retail, and tourism attractions across the waterfront, including, for example, the Pier 39 festival marketplace, AT&T Park, the renovation of the historic Ferry Building and the opening of a 330,000 square foot science museum, the Exploratorium. Most of these long-term master leases, with base and percentage rents, have replaced short-term leases to dozens of individual tenants. In establishing such long-term lease arrangements, the Port Commission endeavors to transfer risks related to such developments to the ground lease tenant and in certain cases to address repairs and seismic upgrades needed for Port facilities. The Port Commission is currently pursuing several public-private partnership development projects with the intention of addressing the Port's capital backlog and enhancing Port land value. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" below.

Industrial and Other Non-Maritime Real Estate Leases and Lease Revenues

The largest category of the Port Commission's real estate operations by number of leases is the "industrial" group of leases. The industrial group consists of 225 tenancy agreements and represents approximately 55% of the Port Commission's 408 real estate lease agreements. Industrial tenant uses range from simple storage to manufacturing and fabrication. The next largest group by number of leases, the "office" leases, comprises approximately 25% of the Port's real estate tenancy agreement mix.

Although diversified in terms of the numbers of users, several categories of Port tenants represent a larger share of Port Commission revenues than do others. The Port's restaurant and retail tenants account for approximately 16% of real estate lease annualized revenue. Similarly, rent from the Port's diversified industrial tenants represents approximately 31% of such annualized revenues. Industrial tenants include warehouse and storage space leases. Leases to parking companies generate 23% of such annualized revenues. Annualized revenue is calculated by the Port Commission based on current minimum base rents as of June 30, 2013 plus Fiscal Year 2012-13 percentage rents over the minimum rent, net of certain credits.

A large majority of all Port real estate leases provide for periodic fixed or cost of living increases in the base or minimum rents. Most Port retail and restaurant leases provide for the monthly payment of percentage rents utilizing factors consistent with national and regional percentage rent comparables. Most Port commercial property leases are fully or partially net leases, with the tenants responsible for some or all of the property operating expenses including utility fees, some maintenance and repair, liability and fire damage insurance, janitorial expenses and the payment of state and local taxes.

Information regarding lease terms held by current non-maritime tenants of the Port is set forth in the following table:

Table 1
PORT OF SAN FRANCISCO
Real Estate Leases
Remaining Lease Terms
As of June 2013

	Number of Leases		Annualized Revenue[1]	
Month-to-Month	184	45.1%	$11,247,674	20.2%
Remaining Term:				
Less than One Year	51	12.5	1,742,305	3.1
One to Five Years	104	25.5	17,395,588	31.3
Five to Ten Years	12	2.9	3,059,638	5.5
Ten to Twenty Years	11	2.7	4,005,168	7.2
Twenty to Thirty Years	28	6.9	12,346,475	22.2
Over Thirty Years	18	4.4	5,855,037	10.5
Total	408	100.0%	$55,651,885	100.0%

(1) Based on current minimum rents as of June 30, 2013 and Fiscal Year 2012-13 percentage rents over minimum rent amounts. Amounts shown are net of certain rent credits. As of February 28, 2014, there were 405 active leases, representing approximately $54.9 million in annualized revenue. Certain re-leasing activities are currently in progress.

Source: Port Commission of the City and County of San Francisco.

The following table sets forth the top ten real estate tenants of the Port, in terms of revenue, for Fiscal Year 2012-13. The lease revenue of these ten tenants accounted for approximately $24,965,000 or 40.7% of the total revenues managed by the Port's Real Estate division.

Table 2
PORT OF SAN FRANCISCO
Top Ten Real Estate Tenants by Revenue
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

	Tenant Name	Revenue(1)(2)	Percent of Real Estate Revenue(3)	Percent of Total Revenue(4)	Use
1	China Basin Ballpark Company LLC	$6,167	10.1%	7.6%	Ballpark Site and Related Parking
2	Pier 39 Limited Partnership	3,268	5.3	4.0	Retail/Entertainment
3	Priority Parking-CA	2,468	4.0	3.0	Parking
4	San Francisco Municipal Transportation Agency	2,447	4.0	3.0	Storage, Office, and Parking
5	Central Parking System	2,373	3.9	2.9	Parking
6	Recology San Francisco	2,238	3.6	2.8	Recycling
7	Trans Bay Cable LLC	1,935	3.2	2.4	Utility (Power Transmission)
8	Ferry Building Investors, LLC	1,491	2.4	1.8	Office/Retail
9	AMB Pier One, LLC	1,362	2.2	1.6	Office/Retail
10	Imperial Parking (U.S.), Inc.	1,216	2.0	1.5	Parking
	Total	$24,965	40.7%	30.6%	

(1) Includes tenants with leases that generate non-maritime revenues. Minor maritime or other revenues may be included in a tenant's revenue total.
(2) Amounts represent tenant billings net of certain revenue credits and allowances.
(3) Real Estate revenue for Fiscal Year 2012-13 was approximately $61.4 million.
(4) Port operating revenue for Fiscal Year 2012-13 was approximately $81.5 million.
Source: Port Commission of the City and County of San Francisco

San Francisco's and the Port's Real Estate Market

The 2008 economic crisis had a significant impact on all Bay Area commercial real estate markets. However, due to the diversity of the Port Commission's real estate portfolio, which includes office, industrial, storage, retail, restaurants, parking, and major tourist attractions, and the relative scarcity of industrial space in San Francisco, the Port's real estate revenues remained relatively stable throughout the economic downturn. Recent growth in real estate revenues has followed regional economic improvements, driven primarily by growth in parking revenues.

Today, the San Francisco office market continues to attract tenants from across a wide spectrum of industries around the world. The technology sector is the principal driver of demand in the office market, but professional service firms are continuing to lease space throughout the City. With major tenants still in the market leasing space, the Port Commission expects high leasing activity to continue through the short term, and a return to traditional levels in the longer term.

In Fiscal Year 2012-13, commercial and residential rents and median home prices in San Francisco increased. The average residential rent for apartments in San Francisco rose 6.6% during Fiscal Year 2012-13, from $2,640 to $2,813. Commercial rents saw a 14.8% increase in Fiscal Year 2012-13 compared to Fiscal Year 2011-12. The average median home price in Fiscal Year 2012-13 was $765,583, up 18.4% from the previous fiscal year.

The table below shows the Port's commercial and industrial lease revenues, and parking rental revenues (excluding parking meter, parking fine and parking stall revenues), from Fiscal Year 2008-09 to Fiscal Year 2012-13.

Table 3
PORT OF SAN FRANCISCO
Historical Results of Real Estate Lease Revenue
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	2009	**2010**	**2011**	**2012**	**2013**
Commercial/Industrial	$41,506	$39,956	$42,221	$42,883	$43,266
Parking Lot Rent	7,210	7,970	10,077	10,688	10,222
Total	$48,716	$47,926	$52,298	$53,571	$53,488

Source: Port Commission of the City and County of San Francisco.

Port vacancy rates for shed (warehouse), office, and retail space have closely followed vacancy rates in the overall City real estate market. The table below reflects the vacancy rate of Port facilities under direct management by Port staff (excluding those facilities under master leases such as Pier 39 or the Ferry Building) available for leasing as of the end of each Fiscal Year from Fiscal Year 2008-09 to Fiscal Year 2012-13. Some fluctuations in the vacancy rate are caused by either (a) facilities coming off the market due to safety concerns, to allow for renovation, or to facilitate long term development projects, or (b) the return of property to the Port that was previously under a master lease, or dedicated to a special event such as the 34th America's Cup. The Port Commission believes that these fluctuations in the vacancy rate generally are due to changes in the supply of leasable Port property and not any underlying change in demand. Generally, demand for Port space has been increasing with improvements in the regional economy.

Table 4
PORT OF SAN FRANCISCO
Vacancy Rates of Facilities Available Under Direct Port Real Estate Management
On June 30,

	2009	2010	2011	2012[1]	2013[1]
Office[2]	15.5%	17.7%	21.0%	10.1%	9.3%
Shed	10.2	12.7	3.0	2.3	0.3
Overall[3]	10.9	13.4	5.5	3.5	1.6

(1) During some periods in Fiscal Years 2011-12 and 2012-13 various sheds and piers were provided to the America's Cup Event Authority, causing reductions in the vacancy rate shown above.
(2) Office space includes both traditional office space as well as bulkhead building office space.
(3) Overall vacancy is weighted by square footage in each respective category, and does not equal the average of office and shed.

Source: Port Commission of the City and County of San Francisco.

In 2009, the City's Planning Commission and Board of Supervisors approved the City's Eastern Neighborhoods Plan and associated zoning and planning codes. The Eastern Neighborhoods Plan does not include the Port Area, but a significant portion of the area covered by the plan is directly adjacent to the Port's industrial properties. The Eastern Neighborhoods Plan calls for transitioning about half of the existing industrial areas in four San Francisco neighborhoods to mixed use zones that encourage new housing. The other remaining half would be reserved for "Production, Distribution and Repair" (Light Industrial) districts, where a wide variety of functions such as bus vehicle yards, caterers, and performance spaces can continue to operate. The Port's industrial properties are expected to house a significant portion of the "Production, Distribution and Repair" uses in the City. Demand for the Port's industrial space should remain high. Some industrial property owners in San Francisco have been converting their industrial properties to different uses. As these conversions continue, the Port's status as the single largest holder of built industrial space in the City may strengthen.

During portions of calendar year 2012 and 2013, the City hosted the world's premier sailing race, the 34th America's Cup managed by the America's Cup Event Authority. In connection with the event, the City, through the Port, agreed to provide rent-free use of facilities for certain race events that occurred in 2012 and 2013. The City and the Port entered into a memorandum of understanding ("MOU") for payments-in-lieu of rent, to reimburse the Port for certain race-induced lost revenues.

As the successful defender of the 34th America's Cup challenge in September 2013, the Golden Gate Yacht Club ("GGYC") has the right to organize the next America's Cup including selection of the race format, date, and location of the race. While negotiating with the City, the GGYC announced that it intends to consider other locations to host the 35th America's Cup, and to finalize a selection by the summer of 2014. The financial cost or benefit to the Port of hosting the 35th America's Cup, if any, will not be known until after these negotiations have been concluded. Any negotiated agreement will then be subject to environmental review under CEQA, and approvals by the Port Commission and by the Board of Supervisors.

PORT MARITIME OPERATIONS

Overview

The Port's maritime revenues are derived from cargo, cruise, ship repair, commercial and sport fishing, ferry and excursion operations and a full range of harbor services. Term leases related to maritime activity normally provide base or minimum rents payable to the Port in equal monthly installments. Percentage or other contingent rents may be payable based on revenue volumes in excess of threshold amounts. Some maritime revenues are based on actual occupancy or use by a measured unit (*e.g.,* per lineal feet of vessel length for dockage) or measured time (*e.g.*, per 24-hour day). These maritime use fees may be based on a standardized tariff schedule or covered by a specific contractual agreement.

In Fiscal Year 2012-13, maritime revenues (excluding maritime revenues such as excursion agreements allocated to the Port's real estate division) were $14.9 million, or approximately 18.3% of the Port's Fiscal Year 2012-13 total operating revenues of $81.5 million. The Port has shifted its maritime business focus from solely cargo to include passenger cruises, harbor services and ship repair, in recognition of the Port's competitive advantages among the northern California ports as a popular tourist destination and a diversified facility. Nonetheless the largest source of the Port's maritime revenues continues to be cargo, followed by passenger cruises. In addition, the Port has one of the largest dry docks in the United States that is able to repair cruise ships that are so large they are unable to pass through the Panama Canal ("post-panamax ships").

As of June 30, 2013 the Port had 125 maritime leases representing 99 maritime industry tenants. The breakdown of these leases by industry segment is as follows:

Table 5
PORT OF SAN FRANCISCO
Maritime Leases
As of June 30, 2013

	Annualized Revenue[1]	**No. of Leases**
Cargo	$3,900,346	14
Harbor Services	2,046,257	5
Ship Repair	1,897,552	1
Various Maritime	1,890,568	32
Commercial Fishing	1,828,334	72
Passenger Cruise[2]	180,000	1
Total	$11,743,057	125

(1) Annualized revenue figures are based on the following: (a) current minimum rents as of June 30, 2013; (b) percentage rent for Fiscal Year 2012-13; and (c) agreement-based maritime user fees, such as wharfage and dockage.

(2) Represents lease revenue only. The Port Commission contracts with a stevedoring company to operate its passenger cruise berths. Approximately 12 different cruise lines visit the Port on an annual basis. The Port Commission derives a majority of its passenger cruise revenues from dockage and wharfage fees. See Table 9 below.

Source: Port Commission of the City and County of San Francisco

The following table sets forth the top 10 Maritime tenants of the Port, in terms of revenue, for Fiscal Year 2012-13. The lease revenue from these 10 tenants accounted for $9,808,000 or 66.0% of the total revenues generated by the Port's Maritime division and 12% of the Port's total Revenue.

Table 6
PORT OF SAN FRANCISCO
Top Ten Maritime Tenants and Customers by Revenue
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

	Customer/Tenant Name	Revenue[(1)]	Percent of Maritime Revenue[(2)]	Percent of Total Revenue[(3)]	Use
1	BAE Systems San Francisco Ship Repair, Inc.	$1,827	12.3%	2.2%	Ship Repair
2	Princess Cruises[(4)]	1,719	11.6	2.1	Passenger Cruises
3	Hanson Aggregates Mid-Pacific, Inc.	1,702	11.5	2.1	Maritime Terminals (Dry Bulk Cargo)
4	San Francisco Bar Pilots Benevolent & Protective	1,258	8.5	1.6	Maritime Layberthing Operations
5	CEMEX Construction Materials Pacific, LLC	911	6.1	1.1	Maritime Terminals (Dry Bulk Cargo)
6	Bode Gravel Company	630	4.2	0.8	Maritime Terminals (Dry Bulk Cargo)
7	California Sealift Terminals, Inc.	520	3.5	0.6	Maritime Layberthing Operations
8	Darling International, Inc.	447	3.0	0.5	Maritime Terminals (Liquid Bulk Cargo)
9	SF Bay Area Water Emergency Transportation Authority	402	2.7	0.5	Excursions/Ferry
10	Crosslink, Inc.	392	2.6	0.5	Warehouse (Maritime), Office and Parking
	Total	$9,808	66.0%	12.0%	

(1) Amounts represent tenant billings net of certain revenue credits and allowances.
(2) Maritime revenue for Fiscal Year 2012-13 was approximately $14.9 million.
(3) Port operating revenue for Fiscal Year 2012-13 was approximately $81.5 million.
(4) See "PORT MARITIME OPERATIONS – Passenger Cruises." Princess Cruises does not lease property. Metro Cruises is the Port's stevedoring tenant for its cruise facilities and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port Commission based on cruise ship call duration and passenger volume generated by Princess Cruises. As many as 11 other passenger cruise lines also pay fees to Metro Cruises and the Port for cruise calls at the Port.

Source: Port Commission of the City and County of San Francisco

Cargo

The primary Port cargo facilities are the 69-acre general cargo terminal at Pier 80 and bulk terminals at Piers 90, 92 and 94.

The Port competes in the bulk and neo-bulk cargo markets, having ceased handling containerized cargoes in 2005 due to high operating costs and low container volumes. The Port's shift in marketing focus resulted in terminal agreements and leases at Piers 90, 92 and 94 with four different companies handling construction aggregates imported primarily from Canada. In 2013, 1.2 million tons of aggregate sand crossed San Francisco terminals, making it the Port's leading commodity.

The Port handles neo-bulk cargoes at Pier 80 including steel coils, rebar, structural steel, lumber and project cargoes. West Coast cargo volumes have been negatively impacted as international trade has slowed due to the world-wide economic recession. Pier 80 is one of the last remaining ocean terminals in the Bay Area handling non-containerized general cargo, and the Port is aggressively marketing the facility to leading shippers with the expectation that cargo volumes will begin to increase as the economy improves.

In January 2009, the Port hired CBRE Consulting and Martin Associates to examine current and future Port cargo markets. This analysis indicated that the Port should continue to focus on bulk cargoes, which should continue to be a stable and profitable market, while the breakbulk market may continue to be extremely sensitive to world market conditions.

Passenger Cruises

One of the Port's leading maritime industries is commercial passenger cruises. From 2007 to 2013 there was a 15.2% increase in the volume of cruise passengers on a calendar year basis (from 184,935 in 2007 to 213,020 in 2013). The Port has been actively marketing itself to the cruise industry in order to attract more cruise calls and new cruise ship lines to San Francisco. In 2013, there were 213,020 passengers on a total of 64 cruise ship calls, which generated approximately $2.6 million in revenues to the Port. In Fiscal Year 2013-14, the Port expects to have a total of nine cruise lines calling. On average, approximately 5,000 passengers and crewmembers pass through the cruise terminal whenever a cruise ship is in port. Cruise vacations have continued to be a popular vacation option, with cruise lines recently reporting occupancy of close to 100% for ships sailing out of San Francisco.

The Port has been a home port for Alaska cruises since 1969, and more recently for Mexico and Hawaii round trips. The Port also welcomes world cruises, coastal itineraries, and repositioning calls. Competing West Coast cruise ports include Los Angeles, Long Beach, and San Diego to the south, and Seattle and Vancouver, Canada, to the north. These ports have a geographic advantage because of their relative proximity to either Mexico or Alaska, which allows them to offer round-trip cruises of seven days or less. San Francisco's round-trip cruises to Mexico, Alaska, and Hawaii are 10 to 15 days in duration, which appeals to a narrower segment of the market. However, the Port has the benefit of offering a convenient debarkation to the popular Bay Area region.

The Port's current primary cruise terminal, Pier 35, is within walking distance of some of the City's most popular visitor destinations, including Fisherman's Wharf, Pier 39, and the Alcatraz ferry. The James R. Herman Cruise Terminal at Pier 27 will become the primary cruise terminal in September 2014 and is expected to feature the highest design, energy, and environmental standards, including a shoreside power hook-up for cruise ships. See "THE SERIES 2014 PROJECTS." The Port's Pier 70 shipyard offers cruise lines the expert technical support they require and the largest floating repair drydock in North America (see "Ship Repair" below).

Commercial Fishing and Fish Processing

The Port is the center of the commercial fishing industry in northern California. The Hyde Street Harbor and Fisherman's Wharf harbor together are able to accommodate more than 200 fishing vessels. Approximately 180 boats on average are berthed at the fishing marina and the harbor on a daily basis. The region's major fish processors are located at specialized facilities in Fisherman's Wharf and the adjacent Pier 45 Commercial Fishing Center. Major local fisheries off of the Northern California coast include Dungeness crab, salmon and herring. On a typical day, 40% of the fish processed at the Port arrives from local fishermen, 45% by truck from Washington, Oregon and Southern California and 20% by air freight. Approximately 80% of the fish processed is delivered daily to restaurants, grocery, stores and specialty retailers within San

Francisco. The remainder is delivered to the rest of Northern California. Federal limitations have been imposed on both the salmon and herring seasons in an effort to protect both species from overfishing and environmental impacts exacerbated by below average rainfall. Fish processing has remained active, however, as a significant portion of seafood processed at the Port is transported into San Francisco for processing, as opposed to being caught in local waters.

Ferry Operations

The Port serves as the central terminus for Bay Area commuter ferry routes. The Port Commission built, maintains and operates two ferry terminals; one at the Ferry Building and one at China Basin near AT&T Park. The Golden Gate Bridge Highway and Transportation District operates a terminal at the Ferry Building for Marin County commuters. In 2013, over 4.4 million passengers passed through the Port's ferry terminals. The ferry system is an important emergency transportation system for the Bay Area and has proved invaluable during closures of the Bay Bridge or BART transit worker strikes. Future expansion of ferry facilities is being planned by the Port Commission and the San Francisco Bay Water Emergency Transit Authority.

Harbor Services

The Port is also the center of Northern California's harbor service industry and leases facilities to tenants providing harbor services to the maritime industry throughout the Bay Area including the Ports of Oakland, Redwood City, Richmond, Benicia, West Sacramento and Stockton. These ancillary operators include numerous tug and tow operators, the San Francisco Bar Pilots, and contractors providing lay berthing to Maritime Administration Ready Reserve ("MARAD") ships. Maritime rents and real estate leases and fees, collected both from contractors that provide lay berthing to ships and from vessel owners requiring temporary berthing, comprise the revenues included in this category.

Ship Repair

The Port's ship repair yard at Pier 70 is operated by BAE Systems Ship Repair – San Francisco ("BAE Systems") a multinational firm that offers engineering, advanced technology and other technical services and which operates a number of shipyards in the United States including San Francisco and San Diego, California, Honolulu, Hawaii and Norfolk, Virginia. BAE Systems provides repair services to cruise ships, petroleum tanker vessels, bulk carriers, container ships, military reserve vessels, commercial tugs and barges, and local bay traffic for maintenance, alterations and repairs. BAE Systems leases over 15 acres of land and over 17 acres of water from the Port. Included in the tenant's leasehold are eight cranes and two floating drydocks, all owned by the Port Commission, including the largest floating dry dock on the West Coast. The next closest large-scale dry docks are located in Portland, Oregon. In 2007, the Port Commission entered into an agreement with BAE Systems and Princess Cruises that resulted in a $5 million enhancement of the largest drydock at Pier 70. The Port Commission lease with BAE Systems has an expiration date of December 2017 and provides that the Port Commission receives a percentage rent subject to an annual minimum of $1.05 million. The Port has agreed to provide BAE Systems with rent credits that will apply as an offset of percentage rent payments of up to $3 million over ten years from 2007 to 2017 to reimburse some of the drydock enhancement costs.

PORT COMMISSION FINANCIAL OPERATIONS

Introduction and Overview

The Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013 are attached as Appendix B. See Appendix B – "PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013." Such Financial Statements should be read in conjunction with the information below and in their entirety.

As shown in Table 12, Port Commission operating revenues, which totaled approximately $81.5 million in Fiscal Year 2012-13, were derived primarily from real estate and maritime operations. Real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, represented approximately 75% of Port operating revenues in Fiscal Year 2012-13. Maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities, comprised approximately 18% of Port operating revenues in Fiscal Year 2012-13. Most real estate revenues are rental revenues derived from long-term leases of Port facilities, providing a practical constraint on the Port Commission's ability to increase annual revenues absent significant tenant turnover and/or capital investment in the creation or improvement of rental facilities. Port operating revenues increased by $15.0 million, or 23%, between Fiscal Year 2008-09 and Fiscal Year 2012-13. See "Historical Operating Results" below. Other sources of funding available to the Port Commission include fund balances from year-end savings and revenue surpluses, grants, Port Commission revenue bond proceeds, City general obligation bond proceeds, IFD Revenues (if any Infrastructure Financing District bonds are issued), tax increment revenue, tenant contributions and developer partner equity. These other sources are used primarily for capital projects. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

Port Commission operation and maintenance expenses, which totaled approximately $63.6 million in Fiscal Year 2012-13, include personnel costs, charges for use of City services provided by other City departments, contractual services, office expenses, utility costs, materials and supply costs, discretionary expenses, judgments, claims and litigation expenses, and other general operating expenses. In Fiscal Year 2012-13, the largest of those categories were personnel expenses, representing approximately 52% of total operation and maintenance expenses, and charges for use of City services, representing approximately 27% of the total. Operation and maintenance expenses also include the costs of any repair and maintenance of Port facilities that do not extend the useful life or expand the productive capacity of a capital asset. Port Commission operation and maintenance expenses increased by $6.0 million, or 11%, between Fiscal Year 2008-09 and Fiscal Year 2012-13. Annual expenditures for deferred maintenance relating to older Port facilities are not treated as operation and maintenance expenses, but rather as capital expenditures, and are generally payable from Net Revenue or other available sources after provision for payment of principal and interest on revenue bonds of the Port Commission. See "Operation and Maintenance Expenses" below.

In February 2008, the Port Commission adopted Resolution 08-12, which directs the Port Commission to budget a 15% operating reserve defined as a percentage of operating expenses. Commencing with the Port's Fiscal Year 2008-09 budget, the 15% operating reserve has been included in every adopted budget, including the current biennial budget for Fiscal Years 2012-13 and 2013-14. See "Port Commission Operating Reserve Policy and Liquidity" below.

Port Commission Operating and Capital Budget Processes

As a department within the City and pursuant to Charter requirements, the Port Commission prepares a biennial Operating and Capital Budget. As part of the biennial budget process, the Port is on a "fixed" two-year budget and only amends the budget on alternating years if revenues or expenditures are 5% above or below projections.

The Port Commission's biennial budget is a detailed operating plan that includes the programs, projects, services, and activities to be provided during the two fiscal years, estimated resources available for appropriation, including revenues, fund balance, interdepartmental work order recoveries and other income, and the estimated changes to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The Charter prohibits expending funds for which there is no legal appropriation.

The Capital Budget prioritizes projects submitted for funding and identifies the various sources of funding. The Capital Budget also details previously approved capital projects that are in progress, and provides the funding status of approved projects. Funding for capital projects is generated from grants, operating fund surpluses, general obligation bond funds, the Port Commission's operating budget and debt issuances. Each biennial capital budget includes capital expenditures on Port projects and Portwide activities such as dredging of the Bay floor along the waterfront, facility condition surveys and emergency facility repair. Many of the capital projects address deferred maintenance and facility improvement needs for the Port's maritime and commercial properties. Some of the capital projects create new public amenities such as parks. Most capital projects typically do not include seismic upgrades to the substructure or super-structure of the facilities. The Port uses the following criteria to determine which projects to recommend to the Port Commission for funding: (i) addresses health and safety or regulatory issues; (ii) reduces potential significant liability to the Port; (iii) promotes commerce, navigation or fisheries; (iv) attracts people to the waterfront; (v) promotes natural and cultural resources; (vi) preserves existing Port revenues and (vii) generates additional revenues for the Port. See "CERTAIN RISK FACTORS – Condition of Port Facilities" herein, for a discussion of the Port's costs related to its capital improvements and deferred maintenance needs. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

The Operating and Capital Budgets are approved by the Executive Director and then submitted to the Port Commission. Upon approval by the Port Commission, the budget is submitted to the Mayor for approval by May 1 of every other year and then forwarded to the Board of Supervisors for review and approval by August 1 of every other year. The Board of Supervisors can make certain reductions to the budget in their sole judgment. The Port's Executive Director is authorized by the Port Commission to make non-material changes to the operating budget. Significant expenditure increases to the approved budget require Port Commission and Board of Supervisors approval.

Port Commission Operating Reserve Policy and Liquidity

In February 2008, the Port Commission adopted Resolution 08-12, which directs the Port Commission to budget a 15% operating reserve defined as a percentage of operating expenses. Resolution 08-12 further states that the operating reserve should not fall below an amount equal to the estimated cost of two months' expenditures on essential expenses, including salaries, fringe benefits, rent, debt service, essential materials and supplies, and payment of outstanding invoices for professional services. The Resolution allows the Port's Executive Director to use the operating reserve for unforeseen operating expenses, provided prior authorization is obtained from the Port Commission, the Mayor and the City's Board of Supervisors. Prior authorization to use the operating reserve is not required if the funds are to be used to address an emergency that has been declared by the Mayor, or to address other emergencies on Port property that requires an immediate response. Commencing with the Port's Fiscal Year 2008-09 budget, the 15% operating reserve has been included in every adopted budget, including the current biennial budget for Fiscal Years 2012-13 and 2013-14. The operating reserve has been maintained at 15%. The operating reserve has not been drawn upon since first being established in Fiscal Year 2008-09.

Substantially all of the Port Commission's cash is held in the City Treasurer's pooled account of cash and investments. The higher level of capital spending in recent years has decreased the Port Commission unrestricted cash balance from a peak of $98.9 million at June 30, 2011 to $80.4 million at June 30, 2013. With Fiscal Year 2012-13 Operations and Maintenance expenses at $63.6 million, the unrestricted cash position at June 30, 2013 represents 461 days of cash on hand. See "Historical Condensed Statement of Net Position" below.

Fiscal Year 2013-14 Operating and Capital Budgets

The Port Commission's Fiscal Year 2013-14 budget of $105.4 million consists of $70.3 million for operating expenses, $8.6 million to fund annual projects (stand-alone small maintenance and other noncapital projects such as technology projects the duration of which is expected to be one year), $14.0 million for capital projects, $2.0 million in funds that are designated for capital projects in future years, and a $10.5 million operating reserve. $81.7 million or 77% of the Port Commission's $105.4 million budget is derived from the revenues the Port generates from the use of its property, including rental income from real estate activities, parking related fees and fines, berthing fees, and permitting fees. These revenues are sufficient to cover the Port's operating and maintenance expenses, including the Port's annually funded projects, as well as debt service payments.

The Port Commission's Fiscal Year 2013-14 Capital Budget, shown as Capital Projects in the table below, provides $14.0 million in funding for 13 capital projects. Such funding is available from Port Commission Fund Balance, which is derived from year-end savings and revenue surpluses. In addition to these newly funded projects, the Port has other capital projects that were funded in prior years and are in various stages of completion.

Table 7
PORT OF SAN FRANCISCO
Fiscal Year 2013-14 Budget
(Amounts in Millions)

Sources	**Amount**
Estimated Fund Balance[1]	$23.7
Revenue	81.7
Total Sources	**$105.4**
Uses	
Operating Expenses	$70.3
Annual Projects	8.6
Capital Projects	14.0
Designated to Future Capital Projects	2.0
Operating Reserve[2]	10.5
Total Uses	**$105.4**

(1) Estimate of accumulated surplus after provision for 15% operating reserve.
(2) Operating reserve as a percentage of operating expenses is budgeted at 15%.
Source: Port Commission of the City and County of San Francisco.

Historical Condensed Statement of Net Position

Table 8 below sets forth the Port's condensed summary statement of net position for the Fiscal Years 2008-09 through 2012-13, which is compiled from the audited Financial Statements of the Port. Audited Financial Statements of the Port Commission for the fiscal years ended June 30, 2013 and 2012 are attached as Appendix B.

During the last five fiscal years, the Port Commission has adopted policies, pursued legislative changes and positioned its budget and capital plans for capital investment and strategically focused on revenue enhancements. A portion of the investment in capital assets is funded from the issuance of debt which has resulted in the increases to long-term obligations, including the Series 2010 Bonds. Restricted assets are comprised of unexpended bond proceeds, including proceeds from City general obligation bonds for park and open space improvements on Port property. The higher accounts payable and other liabilities in recent years reflect the impact of obligations incurred in connection with higher capital activities.

Table 8
PORT OF SAN FRANCISCO
Condensed Summary Statement of Net Position
For the Fiscal Years Ending June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Unrestricted cash and investments, held in City Treasury	$85,094	$91,793	$98,905	$92,408	$80,366
Other unrestricted current assets	6,786	9,389	7,502	19,604	7,632
Restricted current assets	16,422	54,933	49,428	44,796	46,492
Total current assets	108,302	156,115	155,835	156,808	134,490
Capital assets	258,754	261,039	263,834	294,718	409,032(1)
Other assets	869	1,529	1,654	1,745	1,853
Total assets	367,925	418,683	421,323	453,271	545,375
Accounts payable and accrued liabilities	7,876	9,195	7,440	18,319(2)	44,081(3)
Current portion of long-term obligations	4,473	760	956	992	1,068
Other current liabilities	10,847	10,665	11,982	16,627	16,100
Total current liabilities	23,196	20,620	20,378	35,938	61,249
Long-term obligations – net of current maturities	3,590	39,215	38,269	37,285	36,601
Other noncurrent liabilities(4)	51,006	57,643	53,169	44,572	84,359
Total liabilities	77,792	117,478	111,816	117,795	182,209
Net position	$290,133	$301,205	$309,507	$335,476	$363,166

(1) The Fiscal Year 2012-13 amount reflects major capital projects that were completed and put into service during the fiscal year, including (i) Phase I of the James R. Herman Cruise Terminal at Pier 27, (ii) substructure improvements to Pier 15, (iii) the Brannan Street Wharf and Pier 43 Bay Trail Link open space projects, (iv) various capital improvements to Piers 19, 23, 29 and 30-32 that were required as part of the City's agreement to host the 34th America's Cup yacht races, and (v) the installation of shoreside power at Pier 70.

(2) The Fiscal Year 2011-12 amount includes approximately $8.7 million in accounts payable and contract retention accruals related to certain Port capital projects, including Phase I of the James R. Herman Cruise Terminal at Pier 27, the Brannan Street Wharf and Bayfront Park projects, shoreside power at Pier 70, the Fisherman's Wharf Harbor Joint Operations and Security center, and security fencing project, among others and an accrual of AC34-related fee charge for $1.0 million.

(3) The Fiscal Year 2012-13 amount includes $26.8 million in funds advanced to the Port from the City's commercial paper ("CP") program. These advances consisted of CP draws used to fund Port capital project expenditures, principally the James R Herman Cruise Terminal at Pier 27, and related CP program costs. In October 2013 these CP advances were repaid from proceeds received from the $37.7 million in Certificates of Participation issued by the City on behalf of the Port (currently outstanding in the aggregate principal amount of $35.4 million). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

(4) The Fiscal Year 2012-13 increase in other noncurrent liabilities reflect approximately $45 million in deferred credits provided to the Exploratorium, a Port tenant, for substructure improvements that they constructed. These rent credits will be amortized over the remaining term of the Exploratorium's lease consistent with the useful life of the substructure improvements.

Source: Port Commission of the City and County of San Francisco.

Port Operating Revenues – General

The Port Commission's operating revenues are derived from real estate and maritime operations: (i) real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, and (ii) maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities.

The Port Commission's operating revenues are primarily a function of the terms of leases and agreements the rates of which are determined chiefly by the San Francisco real estate market. Increasing the Port Commission's rental income often requires the Port Commission and/or its tenant to invest in repairs and upgrades to the Port's property. If the tenant paid for the improvements, the Port Commission typically is able to increase the rental rates only after the tenant's contributions have been amortized. As previously noted, the Port does not receive tax revenues to support its operations.

The following table sets forth information about the Port Commission's operating revenues from maritime and commercial and industrial real estate operations, based on an annualization of minimum rents of Port tenants as of June 30, 2013 and percentage rents received in Fiscal Year 2012-13.

Table 9
PORT OF SAN FRANCISCO
Major Port Operating Revenues[1]
June 30, 2013

	Annualized Revenue[2]		Square Footage	
	Amount	**Percent**	**Size**	**Percent**
Real Estate				
Industrial[3]	$17,349,363	24.32%	8,454,640	43.10%
Ground Lease[3]	11,844,753	16.61	3,002,306	15.30
Restaurant & Retail	8,970,493	12.57	271,108	1.38
Parking	12,872,878	18.04	1,187,364	6.05
Office	4,614,399	6.47	269,798	1.38
Subtotal Real Estate	$55,651,886	78.01%	13,185,216	67.21%
Maritime				
Cargo	$4,746,928	6.65%	2,626,155	13.39%
Commercial Fishing	2,174,925	3.05	254,953	1.30
Passenger Cruise	3,085,947	4.33	241,447	1.23
Various Maritime	1,735,451	2.43	2,198,161	11.20
Harbor Services	2,046,257	2.87	192,705	0.98
Ship Repair	1,897,552	2.66	920,354	4.69
Subtotal Maritime	$15,687,060	21.99%	6,433,775	32.79%
Total	$71,338,946	100.00%	19,618,991	100.00%

(1) Table only includes major revenues from tenancy and operating agreements and maritime user fees (*i.e.*, wharfage and dockage). Revenues from miscellaneous sources (*i.e.*, parking meters and parking fines) are not included. Total operating revenue for Fiscal Year 2012-13 was approximately $81.5 million.

(2) The Port calculates annualized lease revenue based on current base rents as of June 30, 2013 and Fiscal Year 2012-13 percentage rents in excess of base rent amounts. Revenue amounts are net of certain rent credits.

(3) During Fiscal Year 2012-13, approximately 2.2 million square feet of leased space was reclassified from the category of ground lease to that of industrial principally as a result of the dissolution of the former San Francisco Redevelopment Agency ("SFRDA") which leased several parcels of land from the Port under long term ground leases. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Impact of Dissolution of Redevelopment Agencies."

Source: Port Commission of the City and County of San Francisco.

The following table sets forth the top ten tenants and customers (both maritime and non-maritime) of the Port for Fiscal Year 2012-13.

Table 10
PORT OF SAN FRANCISCO
Top Ten Port Tenants and Customers by Revenue
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

Tenant Name	Revenue[1]	Percent of Operating Revenue[2]	Use	Expiration
China Basin Ballpark Co.	$6,167	7.6%	Ballpark Site and Related Parking	12/31/2022[3]
Pier 39 Ltd. Partnership	3,268	4.0	Retail/Entertainment	12/31/2042[4]
Priority Parking-CA	2,468	3.0	Parking	Expired[5]
SF Municipal Transportation Agency	2,447	3.0	Storage, Office, and Parking	Expired[6]
Central Parking System	2,373	2.9	Parking	Expired[7]
Recology San Francisco[8]	2,238	2.8	Recycling	7/31/2023[9]
Transbay Cable, LLC	1,935	2.4	Utility (Electric Power Transmission)	11/21/2035
BAE Systems – SF Ship Repair, Inc	1,827	2.2	Ship Repair	12/16/2017
Princess Cruises	1,719	2.1	Passenger Cruises	N/A[10]
Hanson Aggregates Mid-Pacific	1,702	2.1	Maritime Terminals (Dry Bulk Cargo)	8/31/2018[11]
Total	$26,144	32.1%		

(1) Amounts represent tenant billings net of certain revenue credits and allowances.
(2) Operating revenue for Fiscal Year 2012-13 was approximately $81.5 million.
(3) Tenant has multiple leases. The expiration date shown is for the ballpark lease (approximately 23% of tenant revenues). The primary parking lot lease expires March 31, 2017 (77% of revenues). The parking lot may be included in a future development project. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."
(4) Tenant has multiple leases. The expiration date shown is for the tenant's primary lease (99% of tenant revenues). The tenant's other leases expire March 31, 2016.
(5) Tenant has multiple leases, all of which are expired, but have continued under month-to-month holdover provisions. The Port is preparing a Request for Proposals to competitively bid these parking lots.
(6) The Agency terminated its primary lease on June 30, 2013 (approximately 79% of tenant revenues). Since June 30, 2013, the vacated space has been largely re-leased to other tenants. Remaining Agency leases are expired, but have continued under month-to-month holdover provisions.
(7) Lease expired on March 31, 2012 and is continuing under month-to-month holdover provisions. The Port is preparing a Request for Proposals to competitively bid the lease of these parking lots.
(8) Formerly known as SF Recycling and Disposal, Inc.
(9) Tenant has two leases. Expiration date shown is for the primary lease (75% of tenant revenues). The tenant's other lease expires July 31, 2014 (25% of tenant revenues).
(10) Princess Cruises does not lease property. Metro Cruises is the Port's stevedoring tenant for its cruise facilities and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port Commission based on cruise ship call duration and cruise passenger volume generated by Princess Cruises. As many as 11 other passenger cruise lines also pay fees to Metro Cruises and the Port for cruise calls at the Port.
(11) Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire February 28, 2019 or are month to month.

Source: Port Commission of the City and County of San Francisco.

Operation and Maintenance Expenses

General. The Port Commission's Operation and Maintenance Expenses include the following costs: personnel, office expenses, utility costs, materials and supply costs, discretionary expenses, litigation expenses, payments made to the City for services of other City departments, and other general operating expenses. Any maintenance and repair work to Port facilities that does not extend the useful life and/or expand productive capacity of a capital asset are included as Operation and Maintenance Expense, as shown in Table 11 below and as discussed herein. Many of the Port's older facilities have significant deferred maintenance. Due to the advanced age of these facilities and the magnitude of rehabilitation that is required to bring such properties to a current state of repair, when costs are incurred to address such deferred maintenance they are not treated as Operation and Maintenance Expense, but rather as capital expenditures, payable from Net Revenue after provision for payment of principal of and interest on the Bonds. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein.

Port Commission Payments to the City and County of San Francisco. The Port Commission reimburses the City for services provided to the Port by various City departments. Such amounts are included in Operation and Maintenance Expenses as "Charges for Use of City Services" in the table set forth below. Examples of City services include fire protection (fire boat and crew), police protection, performance audits of Port operations by the City Controller's Office including tenant concession audits, insurance procured through the City's Risk Manager, and legal services provided by the City Attorney's Office. In Fiscal Year 2012-13, these expenses totaled $17.2 million or approximately 22% of the Port's total Operations and Maintenance Expenses. The Fiscal Year 2012-13 total included $3.2 million in pass through charges for such items as workers' compensation, insurance, electricity, and telephone service.

The Port also reimburses the City for indirect costs based on the City's County Wide Indirect Cost Allocation Plan. Examples of these City services include materials, supplies and equipment procurement, document processing and financial reporting, and payroll services. In Fiscal Year 2011-12 and Fiscal Year 2012-13 the Port did not contribute to the City's overhead expenses due to a credit from overpayment in prior years. However, in Fiscal Year 2013-14 the Port Commission will pay $0.3 million for its share of the City's overhead expenses.

The following table sets forth historical Operation and Maintenance Expenses of the Port Commission, based on the categories of expenses discussed above.

Table 11
PORT OF SAN FRANCISCO
Historical Operations & Maintenance Expenses
For Fiscal Year Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Operations & Maintenance					
Personnel Expense	$29,239	$29,324	$30,092	$32,318	$32,894
Citywide Overhead[(1)]	538	261	100	0	0
Other Current Expenses[(2)]	2,868	2,778	2,794	3,355	3,802
Professional & Specialized Services	4,417	3,336	3,454	3,826	4,887
Utility Expenses	2,004	1,963	1,769	2,111	2,040
Materials & Supplies	1,618	1,311	1,462	1,051	1,548
Judgments, Claims & Litigation	702[(3)]	353	308	333	427
Office Rent	3,097	3,213	3,032	2,882	2,892
Charges for Use of City Services	12,771	16,021	14,495	16,395	17,221
Other O&M Expense (net)	320	197	214	1,231[(4)]	715[(5)]
Subtotal	$57,574	$58,757	$57,720	$63,502	$66,426
Non-cash adj. for estimated pollution remediation costs[(2)]	0	0	(5,850)	(8,032)	(2,810)
Total Operations & Maintenance Exp.	$57,574	$58,757	$51,870	$55,470	$63,616

(1) In Fiscal Year 2011-12 and Fiscal Year 2012-13 the Port did not contribute to the City's overhead expenses due to a credit from overpayment in prior years.

(2) The reported expense for Fiscal Years 2010-11 through 2012-13 was adjusted to exclude the effect of a credit that represented a noncash adjustment to account for a reduction in estimated future environmental costs. These credits totaled $5.85 million, $8.032 million and $2.81 million for Fiscal Years 2010-11, 2011-12 and 2012-13, respectively.

(3) The relatively high expense for Fiscal Year 2008-09 is due, in part, to the settlement of a claim from a Port tenant alleging breach of contract.

(4) The increase in "other operating and maintenance expenses" for Fiscal Year 2011-12 results from a $1 million payment to the America's Cup Event Authority for the use of plans and design drawings that they developed for repairs to and seismic upgrade of Piers 30-32.

(5) The "other operating and maintenance expenses" for Fiscal Year 2012-13 includes $451,000 in fees paid to the City for the use of their commercial paper program to finance certain Port capital projects.

Source: Port Commission of the City and County of San Francisco.

Historical Operating Results

A summary of the Port Commission's historical results of operations as reported in the Port Commission's Financial Statements for the Fiscal Year 2008-09 through Fiscal Year 2012-13 are shown in the table set forth below. See APPENDIX B – "THE PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO – FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

Table 12
PORT OF SAN FRANCISCO
Historical Results of Operations
For Fiscal Year Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Operating Revenues:					
Maritime Operations					
Cargo	$4,655	$4,500	$5,052	$5,442	$4,886
Ship Repair	975	875	927	1,706	1,553
Harbor Services	991	1,032	1,477	1,964	2,018
Cruise	1,924	1,716	1,903	2,266	2,825
Fishing	1,972	1,980	1,986	2,024	2,012
Other Marine	1,534	1,631	1,490	1,517	1,556
Miscellaneous	107	1	13	73	11
Total Maritime	$12,158	$11,735	$12,848	$14,992	$14,861
Real Estate Operations					
Commercial/Industrial	$41,506	$39,956	$42,221	$42,883	$43,266
Parking	10,697	11,958	15,105	17,159	17,774
Filming & Special Event Revenue	114	157	202	203	48
Miscellaneous	106	114	153	226	300
Total Real Estate Operations	$52,423	$52,185	$57,681	$60,471	$61,388
Other Operating Revenues	1,558	2,659	1,737	1,797	5,263
Total Operating Revenues	$66,139	$66,579	$72,266	$77,260	$81,512
Operating Expenses					
Operations & Maintenance	$57,574	$58,757	$51,870	$55,470	$63,615
Depreciation & Amortization	13,349	13,760	14,695	15,070	16,367
Total Operating Expenses	$70,923	$72,517	$66,565	$70,540	$79,982
Operating Income	($4,784)	($5,938)	$5,701	$6,720	$1,530

[Table Continued on Next Page]

	2009	2010	2011	2012	2013
Other Income & (Expenses)					
Interest & Investment Income	$2,595	$2,313	$1,508	$2,559	$24[1]
Interest Expense	(544)	(1,056)	(2,178)	(1,767)	(1,440)
Pier Demolition & Other Dispositions	(14)	(2,203)	10	(7,648)[2]	(5,821)[3]
Other	15	1,822	234	9,150[4]	7,565[5]
Total Other Income/(Expense) Net	$2,052	$876	($426)	$2,294	$328
Net Income/(Loss) Before Capital Contribution	($2,732)	($5,062)	$5,275	$9,014	$1,858
Capital Grants and Other Contributions	5,203	16,134	3,027	16,955	25,832
Change in Net Assets	$2,471	$11,072	$8,302	$25,969	$27,690

(1) The decline in interest and investment income is largely due to the unrealized losses accrued as of June 30, 2013. Cash and investments in the City Treasury are, in substance, demand deposits and are considered cash equivalents. For accrual financial statement purposes, investments are marked-to-market with the associated gains and losses included in interest and investment income.

(2) For Fiscal Year 2011-12 represents costs incurred for the demolition of Pier 36, and additional accrued costs for the final disposition of an obsolete Port dry dock.

(3) For Fiscal Year 2012-13 represents the costs for the demolition of Pier 1/2, Pier 36, and portions of the apron on Pier 19.

(4) For Fiscal Year 2011-12 includes $4,500,000 in Pier 29 fire insurance proceeds, a $4,046,000 Army Corp of Engineers contribution for the demolition of Pier 36, and $629,000 in funding from various grants.

(5) For Fiscal Year 2012-13 includes $4,096,000 in Pier 29 fire insurance proceeds, $1,800,000 in federally funded work towards the final disposition of an obsolete Port dry dock, $1,300,000 in grant funds for the demolition of Pier 1/2, and $169,000 in funding from various grants.

Source: Port Commission of the City and County of San Francisco.

Historical Debt Service Coverage

The following table sets forth historical summary financial information relating to the Port Commission's debt service coverage.

Table 13
PORT OF SAN FRANCISCO
Historic Debt Service Coverage
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Revenues[1]					
Maritime	$12,158	$11,735	$12,848	$14,992	$14,861
Real Estate[5]	52,423	52,185	57,681	$60,471	61,388
Interest Income[2]	1,480	880	962	$1,084	848
Other Revenue[3]	1,573	3,557	1,960	$1,771	5,263
Total Revenues	$67,634	$68,357	$73,451	$78,318	$82,360
Operating Expenses[1]					
Operations & Maintenance[4]	$54,563	$56,305	$55,268	$60,856	$63,760
Net Revenue[5]	$13,071	$12,052	$18,183	$17,462	$18,600
Debt Service on Bonds[6]	$4,407	$4,396	$2,843	$2,845	$2,846
Net Revenue Coverage on Bonds (times)[6]	2.97x	2.74x	6.40x	6.14x	6.54x
Debt Service on Subordinate Obligations[7]	$232	$297	$427	$427	$474
Net Revenue Coverage on Bonds and Subordinate Obligations (times)[7]	2.82x	2.57x	5.56x	5.34x	5.60x

(1) Revenues and expenses were determined in accordance with the Indenture, including Fiscal Years 2008-09 and 2009-10 when a prior indenture governed the Port Commission's bonds. For comparative purposes, revenues and expenses for Fiscal Years 2008-09 and 2009-10 were adjusted to conform with the Indenture. With this exception, the amounts are derived from Port Commission audited Financial Statements.

(2) Represents interest income earned on funds on deposit with the City Treasurer and late charges received from tenants.

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

(4) Pursuant to the Indenture, Operations & Maintenance Expenses exclude non-cash other post-employment benefits (OPEB) expenses and accretion expenses.

(5) Higher Net Revenue reported for Fiscal Year 2010-11 and subsequent years is largely derived from higher Total Revenues reflecting, in part: (i) revenues from a new license for the use and maintenance of a subterranean high voltage transmission cable that runs through Port property; and (ii) higher parking revenues generated from several parking lot operating agreements that were put out to competitive bid.

(6) Represents debt service and Net Revenue coverage on the Series 2004 Refunding Revenue Bonds for Fiscal Years 2008-09 and 2009-10, and Net Revenue coverage on the Series 2010 Bonds for Fiscal Years 2010-11 through 2012-13.

(7) Includes the following subordinate obligations: the loan from the California Division of Boating and Waterways, the SFPUC loan and the certificates of participation issued by the City. The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinate Bonds or other subordinate obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

Source: Port Commission of the City and County of San Francisco.

Projected Debt Service Coverage

The projected debt service coverage ratios of Net Revenue to debt service on the Bonds shown in the following table are calculated in accordance with the Indenture. Such information constitutes "forward looking statements." A discussion of the major assumptions that underlie the revenue projections reflected in the following table is set forth below, and a discussion of certain risk factors affecting the achievement of Revenue and Net Revenue is set forth under the caption "CERTAIN RISK FACTORS" herein, but no assurance is given that actual results will meet the Port Commission's forecasts in any way. Such discussion is not intended to address all possible risks and uncertainties relating to the achievement of such results. Changes in the circumstances that form the bases for the assumptions used in developing these projections as well as unanticipated events may occur subsequent to the date of this Official Statement. Differences between forecasted results and actual results may be material. See "CERTAIN RISK FACTORS – Uncertainties of Projections and Assumptions; Forward Looking Statements."

Table 14
PORT OF SAN FRANCISCO
Projected Debt Service Coverage
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	2014	2015	2016	2017	2018
Revenue					
Maritime	$16,283	$18,032	$19,159	$19,933	$20,365
Real Estate	63,039	68,053	71,725	74,872	76,651
Interest Income(1)	777	777	900	1,064	1,228
Other Revenue(2)	2,967	1,126	1,151	1,177	1,203
Total Revenues	$83,066	$87,988	$92,935	$97,046	$99,447
Operating Expenses					
Operations & Maintenance(3)	$63,881	$66,599	$68,949	$70,950	$73,266
Net Revenue	$19,185	$21,389	$23,986	$26,096	$26,181
Debt Service on Bonds(4)	$2,847	$4,171	$4,176	$4,169	$4,174
Projected Net Revenue Coverage on Bonds (times)(4)	6.74x	5.13x	5.74x	6.26x	6.27x
Debt Service on Subordinate Obligations(5)	$3,359	$3,179	$3,076	$3,028	$2,966
Projected Net Revenue Coverage on Bonds and Subordinate Obligations (times)(5)	3.09x	2.91x	3.31x	3.63x	3.67x

(1) Includes interest income earned on funds on deposit with the City Treasurer plus late charges from tenants.
(2) Includes certain non-recurring permit fees and income from developers as well as other operating revenues. For Fiscal Year 2013-14 also includes reimbursement from the City for rental income lost as a result of hosting the 34th America's Cup yacht races.
(3) Excludes non-cash charges associated with providing other post-employment benefit (OPEB) of approximately $2.67 million per year.
(4) Reflects debt service on the Port's Series 2010 Bonds and Series 2014 Bonds.
(5) Includes the following subordinate obligations: the loan from the California Division of Boating and Waterways, the SFPUC loan and the certificates of participation issued by the City. The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinate Bonds or other subordinate obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

Source: Port Commission of the City and County of San Francisco.

Effect on Revenues of Projects Funded, in part, by the 2014 Revenue Bonds. The Port Commission expects to generate new revenues from the projects to be funded, in part, by the Series 2014 Bonds. More specifically, new revenues will be generated from: (i) special events and parking revenues from the new James R. Herman Cruise Terminal at Pier 27, (ii) a new cruise passenger facility charge that will be implemented upon the opening of the new terminal, and (iii) repaired pier facilities located in the Port's northern waterfront. Revenues generated from these sources and included in the projections are as follows:

Table 15
PORT OF SAN FRANCISCO
Projected New Revenues from Series 2014 Bond-Funded Projects

Fiscal Year Ending June 30,	Revenues (in 000s)
2014	–
2015	$1,534
2016	2,906
2017	3,503
2018	3,945

Source: Port Commission of the City and County of San Francisco.

Major Assumptions Relating to Revenues from Maritime Operations. Maritime revenues are projected to increase by approximately $5.5 million or 3.7% from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase reflects increased rental income from scheduled rent increases and cost of living rent adjustments for the Port's maritime tenants, and additional revenues from cruise operations due to additional revenues anticipated from the new Pier 27 cruise terminal that is scheduled to open in September 2014, and a new passenger facility charge to be imposed in the fall of 2014. Cruise operations, which are discussed in more detail below, accounts for 73% of the $5.5 million revenue increase projected. Other assumptions incorporated into these projections are further described below.

Cargo. Cargo revenue increases principally reflect annual cost of living and scheduled rent increases for the Port's sand and aggregate tenant companies located in the Port's Southern Waterfront. The projections assume annual consumer price index ("CPI") increases of 2% in Fiscal Years 2014-15 and 2015-16, and 3% thereafter. The projections assume that no major new cargo business at Pier 80 will be added during the forecast period.

Ship Repair. Revenues from ship repair in Fiscal Year 2013-14 are projected to increase due to timing issues associated with the collection of certain rent revenues from April to June 2012. Thereafter, revenues from ship repair are projected to decline over the next four years due to increased competition from Vigor Marine in Oregon and the expansion of the Panama Canal which will permit larger, "post-panamax" ships to move much more easily from the Pacific Ocean to the Gulf of Mexico and the Atlantic Ocean. As a result, dry docks in the Southern and Eastern United States will be able to compete for West Coast ship repair business.

Cruise. Cruise revenues are projected to increase significantly over the forecast period from $2.8 million in FY 2012-13 to $6.8 million in FY 2017-18. The revenue growth stems from the following three factors:

(1) A new $6 per person passenger facility charge ("PFC") that will be imposed beginning November 2014, after the new cruise terminal at Pier 27 is completed and becomes operational. The PFC is designed to help pay for a portion of the costs of the new terminal and other improvements at the Port's other major cruise facility at Pier 35;

(2) New special event and parking revenues generated from the Pier 27 cruise facility beginning in November 2014; and

(3) An increase in the projected number of cruise passengers from 202,000 in Fiscal Year 2012-13 to approximately 261,000 in Fiscal Year 2014-15, based on scheduled booking with the cruise lines. As the new PFC is not scheduled to go into effect until November 2014, the projections assume that only about 155,000 passengers will be subject to the new charge in Fiscal Year 2014-15.

Revenues from the new PFC and the new cruise terminal over the forecast period are projected to be as follows:

Table 16
PORT OF SAN FRANCISCO
Projected Revenues
From PFC and New Cruise Terminal
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	2014	2015[(1)]	2016	2017	2018
Add'l Rev Due to New PFC	$0	$930	$1,567	$1,567	$1,567
Revenue from Pier 27 Special Events	0	304	557	749	757
Pier 27 Parking Revenue	0	300	601	722	866
Total Add'l Revenue Projected	$0	$1,534	$2,725	$3,038	$3,190

(1) Represents a partial year based on revenue streams assumed to begin November 2014.
Source: Port Commission of the City and County of San Francisco.

Major Assumptions Relating to Real Estate and Operations Revenues. Real Estate revenues are projected to increase by approximately $9.8 million, or 16.0%, from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase reflects higher commercial rental and parking income related to: (i) the ability to lease-up the facilities previously used by the America's Cup Event Authority during the races, (ii) increased base rents from scheduled rent increases and cost of living rent adjustments of tenant leases, and (iii) new lease income from the lease-up of newly renovated and repaired spaces at Piers 31 and 33, a new restaurant at Pier 50, and a major new tenant at the Port's Pier 94/96 facility.

Base rental income is projected to grow at 2% annually throughout the forecast period. Percentage rents are forecast to increase by 7.5% in Fiscal Year 2013-14, 5% in Fiscal Year 2014-15, and 2% annually thereafter. Vacancy rates are projected to remain stable throughout the forecast period, and uncollectable rents have been projected to total 1% of gross rental revenues throughout the forecast period. The projections also assume that leases expiring during the forecast period will be renewed or replaced with leases generating similar rents to those of the expiring leases.

America's Cup. As more fully discussed in "PORT REAL ESTATE OPERATIONS," the City hosted the 34th America's Cup sailing race. Most of the facilities and support services for the event were located on Port property, and the Port provided rent-free use of certain facilities for race events. The City and the Port entered into a memorandum of understanding ("MOU") for payments-in-lieu of rent, to reimburse the Port for certain race-induced lost revenues through December 2013. The projections assume that under the MOU the Port will receive close to $1 million for Fiscal Year 2013-14.

The projections assume that the America's Cup facilities will be leased for their prior permitted uses, beginning in July of 2014, and that full lease up of these facilities will take two years. Revenues projected from the leasing of these facilities are as follows:

Table 17
PORT OF SAN FRANCISCO
Projected Revenues from Release of America's Cup Facilities

Fiscal Year Ending June 30,	**Revenues (in 000s)**
2015	$2,122
2016	3,917
2017	5,279
2018	5,385

Source: Port Commission of the City and County of San Francisco.

As the successful defender of the America's Cup challenge, the Golden Gate Yacht Club has announced that it intends to negotiate with the City and with other locations for the right to host the 35th America's Cup. The City has made a proposal to the Golden Gate Yacht Club that seeks payment of rent for Port facilities. However, no assurances can be made that San Francisco will be selected to host the event or that a final host agreement will include full payment of Port rent if the City were selected. No impact on revenues from hosting this event has been assumed in these projections.

Planned Real Estate Developments. The Port Commission is currently in negotiations with developers on several major development projects. These projects are in various stages of negotiation and it is not known whether these projects will move forward on the schedules envisioned by their developers. Due to these uncertainties, no impact from these planned developments has been incorporated into these projections. For a discussion of these major development projects, along with their impact on the Port's real estate revenues, and debt service coverage see "– Major Assumptions Relating to Real Estate Development Projects" below.

Other major real estate assumptions incorporated into these projections include the following:

Pier 33. A large portion of this facility has been vacant for several years. A complete core and shell buildout, and ADA upgrade of the space has recently been completed, and the projections assume that the space will be leased up by the second quarter of Fiscal Year 2014-15.

Pier 31. The shed portion of this facility is currently red tagged. The projections assume that the shed will re-open and be re-leased beginning in Fiscal Year 2015-16, after structural and other repairs have been completed. Full lease up of the facility is projected to take 18 months. Funds from the Series 2014 Bonds will be used to finance the repairs to this facility.

Pier 38. This facility is currently vacant. The Port is currently negotiating a lease and development agreement with TMG Pier 38 Partners, LLC for the lease of the bulkhead portion of the facility. The projections assume that these negotiations are successful, and that the bulkhead will be re-opened and generating revenues starting in mid-Fiscal Year 2015-16.

Parking. The increase in parking revenues over the forecast period reflects, in large part, the additional revenue generated from the leasing of the America's Cup venue sites. Additional revenues from a new parking lot at 20th and Illinois Street are projected for Fiscal Year 2015-16 and thereafter. Existing parking revenues in all categories (meters, parking stalls, fines, and rent) are forecast to increase by 7.5% in Fiscal Year 2013-14, by 5% in Fiscal Year 2014-15, and by 2% annually thereafter.

General. Real Estate revenues are projected to grow at (a) 2% per annum throughout the forecast period for those leases that have fixed rental amounts with a lease provision for annual inflationary adjustments, or (b) 7.5% in Fiscal Year 2013-14, 5% in Fiscal Year 2014-15, and 2% annually thereafter for retail leases with rents based on a percentage of sales.

Major Assumptions Relating to Operations and Maintenance Expenses. Total operations and maintenance expenses are projected to increase by $9.2 million, or 14.0%, from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase is the result of rising personnel costs due in large part to higher health and retirement plan benefit costs, and general expense increases resulting from inflation, and higher utility expenses reflecting anticipated increases in water rates over the projected period. With the exception of personnel, the projections assume annual increases of 3% in most expense items throughout the forecast period.

The projections reflect salary increases of 3% in Fiscal Year 2013-14, 1% in Fiscal Year 2014-15, and 3% per year thereafter. In spite of the salary growth, total salary expense growth for Fiscal Year 2013-14 is projected to be relatively flat (growing by just 0.3%), due to sharp declines in temporary salary costs and, to a lesser extent, overtime costs. These costs were unusually high in Fiscal Year 2012-13 due to additional staffing required for the 34th America's Cup yacht races. Expenses in these areas have now returned to more normal levels. The projections assume the addition of three new staff positions in Fiscal Year 2014-15 and two new positions in Fiscal Year 2016-17. Increased personnel costs arising from these new positions are estimated to be $464,000 and $331,000 for Fiscal Years 2014-15 and 2016-17, respectively.

Assumptions for personnel benefit costs are based upon the Port's historical spending and the City's adopted Five Year Financial Plan for Fiscal Year 2013-14 through Fiscal Year 2017-18 (the "City's Financial Plan"). Health and dental insurance costs are projected to increase by 6.0% in Fiscal Year 2014-15 and in each fiscal year thereafter. The projections also include estimated charges for other post-employment benefits of $2.7 million annually. The City's Financial Plan assumes employer pension contributions to the San Francisco Employee Retirement System that were projected in 2012 by Cheiron (the City's actuarial consultant) and show a peak of employer contribution rates in Fiscal Year 2014-15 that fall slightly by Fiscal Year 2017-18. Based upon the foregoing, the Port projections assumed retirement plan net employer contributions of 20.1% of total salaries in Fiscal Year 2013-14, 23.1% in Fiscal Year 2014-15, 24.0% in Fiscal Year 2015-16, 23.1% in Fiscal Year 2016-17, and 22.8% in Fiscal Year 2017-18. For budget projections, the actuarially determined employer contribution rate is reduced by certain additional employee contributions (up to 4% depending on salary and type of employee) pursuant to Proposition C, a Charter amendment passed by City voters in November 2011.

Major Assumptions Relating to Real Estate Development Projects. The Port Commission is currently in negotiations or has recently concluded negotiations with developers on the following major development projects.

1. Seawall Lot 337 & Pier 48
2. Pier 70 – Waterfront site development
3. Pier 70 – 20th Street Historic Buildings and Historic Core
4. Seawall Lot 351

On May 13, 2014, the Port Commission approved a 66-year lease agreement with Orton Development, Inc. in connection with the development of the Pier 70 – 20th Street Historic Buildings and Historic Core area, and the project is expected to begin in the first quarter of calendar year 2015. The project, however, is not anticipated to have any impact on Port Commission revenues during the forecast period because of the length of time needed to fully construct and entitle the project, and the returns expected to be paid to the developer on its equity investment. The Port Commission currently generates no revenues from these facilities.

The other development projects are in various stages of negotiation and it is not known if these projects will move forward on the proposed schedules due to uncertainties as to the timing for entitlements. Should these projects proceed to construction as currently envisioned, they would have a significant effect on the Port Commission's Real Estate and Operations revenues during the forecast period. Real Estate and Operations revenues would be negatively affected as a result of revenues lost from the affected facilities when construction begins. In some cases, the losses are temporary, as the completed development generates more revenues for the Port Commission than it previously received from the site, but in other cases revenues will be permanently lost due to the terms of the development agreements that provide for rent credits or other rent relief necessary to make the projects financially feasible for private sector investment. In such cases the Port Commission will benefit from repairs and improvements to the affected facilities that the developer will undertake which would otherwise be the obligation of the Port Commission. As provided in the Port Commission's Ten-Year Capital Plan FY 2015-2024, development projects in the amount of $486 million are forecast to be the largest financial source to address both state-of-good-repair and enhancements in the plan. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

None of the projects discussed above has all of the entitlements and approvals needed for any of them to proceed to construction. With the exception of the Pier 70 – 20th Street Historic Buildings and Historic Core project (which is close to being fully entitled), it is uncertain that these major development projects will move forward as currently planned. The Seawall Lot 351 development project may not proceed as currently contemplated due to the passage of a November 2013 ballot measure in which the City's voters overturned the City's decision to grant the project an exemption from an existing zoning building height limitation that applies to the site. Additionally, a ballot measure to require voter approval of any exemption to existing zoning building height limitations on Port properties qualified for the June 2014 election. If this measure passes, any proposed Port development project that would exceed existing height limitations would be subject to voter approval as a criterion for entitlement thereof. Three of the four major projects currently under negotiation for development at the Port exceed existing height limitations (only the Pier 70 – 20th Street Historic Buildings and Historic Core project would be unaffected). See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue."

If all of these projects go forward as currently planned and are completed during the forecast period they are projected to have the following negative impacts to Port's Real Estate revenues.

Table 18
PORT OF SAN FRANCISCO
Projected Impact of Major Real Estate Development on Rental Revenues

Fiscal Year Ending June 30,	Revenues (in 000s)
2014	$0
2015	0
2016	0
2017	(1,465)
2018	(2,734)

Source: Port Commission of the City and County of San Francisco.

Debt Service Coverage inclusive of the effects of these major development projects would be as follows:

Table 19
PORT OF SAN FRANCISCO
Projected Debt Service Coverage
Including the Effects of Major Real Estate Developments
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	2014	2015	2016	2017	2018
Net Revenue	$19,185	$21,389	$23,986	$24,631	$23,447
Debt Service on Bonds	2,847	4,171	4,176	4,169	4,174
Projected Net Revenue Coverage of Debt Service on Bonds	6.74x	5.13x	5.74x	5.91x	5.62x

Source: Port Commission of the City and County of San Francisco.

Investment Policy and Investments

The Port Commission maintains its operating fund cash and investments and a portion of its restricted asset cash and investments, including moneys constituting Revenues of the Port, as part of the City's pool of cash and investments. Moneys deposited by the Port Commission with the Trustee in the funds and accounts relating to the Series 2014 Bonds are invested in investments constituting "Permitted Investments" under the Indenture, as described in Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – DEFINITIONS" and "– THE MASTER INDENTURE – Funds – Investment of Moneys" herein.

Information on the Port Commission's cash and investments is available in the Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013, attached hereto as Appendix B. For additional information on the external investment pool, the City's investment policies and risk exposure, contact the Office of the Treasurer, City & County of San Francisco, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Regulatory Environment

General. In addition to the Port Commission, a number of local and other regulatory agencies exercise control over Port property and activities including land use planning and development of Port properties. The Port Commission is required to comply with the provisions of a number of federal, State, and local laws and regulations designed to protect and enhance the environment and protect public health and safety. These laws and regulations address a wide range of topics including allowable uses of Port property, hazardous waste management and remediation, water quality, groundwater quality, sediment quality, air quality, environmental impact analysis, oil spill prevention and clean up, and occupational health and safety. These regulations and control measures determine many aspects of the Port Commission's use of its existing properties, as well as new developments on Port property. Four governmental bodies are of particular importance with respect to land use planning and development issues for the Port:

(1) *State Lands Commission ("SLC")* has jurisdiction and oversight responsibilities as to the Port Commission's obligation under the Burton Act to promote the use and development of the Port for public trust purposes of maritime related fisheries, commerce, navigation, recreation and open space; see "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement."

(2) *San Francisco Bay Conservation and Development Commission ("BCDC")* was established by the California Legislature pursuant to the McAteer Petris Act in 1965 to limit fill within the San Francisco

Bay, promote maximum feasible public access to the Bay, and protect the Bay and shoreline from inappropriate development. BCDC has permitting authority that applies to development and real estate leasing on the Port's pile supported piers and upland areas within 100 feet of the Bay. BCDC policies applicable to Port properties are contained in the San Francisco Bay Plan, the San Francisco Waterfront Special Area Plan and the Seaport Plan and influence allowable uses of Port property and prioritization of investment of Port resources.

(3) *San Francisco Board of Supervisors* has legislative authority to adopt zoning ordinances and General Plan amendments (in conjunction with action by the San Francisco Planning Commission), and to hear appeals on conditional use authorizations and the California Environmental Quality Act ("CEQA") documents issued by the Planning Commission. The Board of Supervisors also exercises budgetary and fiscal authority over the Port Commission, as with all City departments, including the authority to approve non-maritime leases that either exceed a ten year term or generate at least $1 million in total revenue over the term of the lease.

(4) *San Francisco Planning Commission* is the City's established forum for review and discussion of future land use plans and development regulations and projects, for the certification of environmental impact analysis documents pursuant to CEQA, and for the performance of traditional municipal planning review of development and use proposals to ensure compliance with applicable land use regulations and planning policies. See also "– Waterfront Land Use Plan and Waterfront Special Area Plan" below.

The San Francisco Planning Code and Zoning Map classifies the majority of Port waterfront property as "M-1" (Light Industrial), "M-2," (Heavy Industrial), or "C-2" (Commercial Business). These zoning classifications permit a broad range of commercial and industrial uses and provide for "conditional use authorization" of other specified uses such as housing. While hotels are conditional uses on Port land, San Francisco voters have passed a referendum that prohibits the construction of hotels on piers and on Port property within 100 feet of the shoreline. In addition, Port property between Fisherman's Wharf and China Basin is classified as within one of two "Waterfront Special Use Districts" established in the Planning Code, which set forth procedures for review of major non-maritime development projects by a Waterfront Design Advisory Committee. The San Francisco Zoning Map establishes a 40-foot height limit on most Port owned property sites. The Planning Commission has a specific responsibility for certifying CEQA evaluation documents, and in reviewing and approving certain mixed use Port development projects that include conditional uses. The Port Commission serves as a co-applicant with its tenants or development partners in applying for and securing all required regulatory permits from other public agencies. The Port issues its own building permits.

In addition, four agencies play a significant role in regulating Port Commission activities and have a direct impact on the Port Commission's activities in the Bay:

(1) *U.S. Coast Guard*, a member of the U.S. Department of Homeland Security, protects ports, waterways and provides coastal security; maintains aids to navigation; enforces laws governing the use of navigable waters; ensures marine safety; conducts search and rescue; performs a commercial vessel traffic monitoring function for the Bay and is responsible for marine environmental protection including the administration of a national oil spill response capability. In addition, the U.S. Coast Guard is the lead agency responsible for the enforcement of all maritime-related rules and regulations of the Department of Homeland Security.

(2) *U.S. Army Corps of Engineers* (the "Corps") provides vital public engineering services to strengthen U.S. security, reduce risks from disasters, develop and maintain Federal maritime infrastructure, and promote environmental restoration. As such, under the Federal Rivers and Harbors Act, the Corps has jurisdiction over fill located beyond the Port's pierhead line, dredging and dredge sediment disposal by the Port and new in-water Port construction. The Corps also consults with Federal resource agencies on projects that may entail issues involving the Federal Endangered Species Act.

(3) *San Francisco Regional Water Quality Control Board* is the local enforcement agency for the federal Water Pollution Control Act and the State Porter Cologne Water Quality Act, regulating discharges into the Bay, such as wastewater from the City's wastewater treatment facilities and storm water from municipal and industrial facilities, and discharges, or potential discharges, associated with activities on Port property.

(4) *Bay Area Air Quality Management District* is the public agency entrusted with regulating stationary sources of air pollution in the nine counties that surround San Francisco Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, southwestern Solano, and southern Sonoma counties. From time to time, air quality issues affect operations on land surrounding the Bay, including operations of the Port.

Waterfront Land Use Plan and San Francisco Waterfront Special Area Plan. In November 1990, the voters of San Francisco passed Proposition H which imposed a moratorium on non-maritime development on the Port's waterfront property pending the completion of a land use plan for the Port's piers and properties nearest to the shore. Proposition H also banned hotel development on piers and on Port property within 100 feet of the shoreline. In response to Proposition H, the Port Commission determined to develop a comprehensive plan, including all Port properties, and created the Waterfront Plan Advisory Board to recommend a land use plan for Port Commission adoption. In Fiscal Year 1997-98, the Port Commission and the Board of Supervisors adopted the San Francisco Waterfront Land Use Plan (the "Waterfront Land Use Plan"), and the San Francisco Planning Commission adopted conforming amendments to the City's General Plan and Planning Code. The Waterfront Land Use Plan reserves most Port properties for expansion of maritime operations, and requires creation of new public access, recreation and open space along the Bay. It also identifies sites for compatible new commercial development to improve or rehabilitate important historic buildings and capital assets and to provide additional revenues to subsidize maritime industries, fund new public access and open spaces, and stem the continuing deterioration of the Port's aging properties.

Following local adoption of the Waterfront Land Use Plan, the Port Commission commenced discussions with the BCDC concerning the Plan and related regulatory processes. In July 2000, the Port Commission approved amendments to its Waterfront Land Use Plan, and BCDC approved amendments to its San Francisco Bay Plan to create mutually consistent planning policies for the waterfront area between Pier 35 and China Basin (the San Francisco Waterfront Special Area Plan, referred to herein as the "Special Area Plan"). To achieve the objectives of the Special Area Plan, among other things, the Port Commission committed the Port to spend $30 million over a 20-year period pursuant to benchmarks set forth in the Special Area Plan for the removal of certain piers and the construction of major public plazas and other public access improvements. One of the major public access projects targeted in the Special Area Plan is the Brannan Street Wharf Public Plaza. Subsequent to the July 2000 Special Area Plan approval, State Legislation known as AB1389 was adopted in 2001 which accelerated the timing for the completion of the Brannan Street Wharf Public Plaza.

Under the Special Area Plan, the Port Commission is permitted to utilize other funding sources (such as grants and contributions) to finance the required pier removals and public access improvements. However, until sufficient funding from other sources is secured, the Port Commission must commit capital funds to produce the pier removal and public access projects described in the Special Area Plan projects. As of June 30, 2013, approximately $46.6 million had been appropriated, and $27.1 million had been expended, for projects under the Special Area Plan.

Environmental Compliance

The Port is an environmentally sensitive area with a long history of intensive commercial and industrial use, and the Port's environmental risk exposure is typical of other sites with a mix of light industrial activities dominated by transportation, transportation related, and warehousing activities. Due to 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 at the Port that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste. Port facilities are also vulnerable to oil spills and other hazards of maritime activity.

At any given time, there may be many such projects of varying size and scope underway at the Port, and the Port may be involved in any number of regulatory proceedings involving the environmental compliance agencies referred to above, relating to environmental conditions on its many properties. The Port properties contain several sites that are or have been subject to cleanup or monitoring orders by state agencies. There are a number of sites that may require additional remediation to achieve regulatory closure and compliance. For most of these sites, entities other than the Port Commission (*i.e.* the former facility operators) have been identified as primarily responsible for closure and remediation, however, in all cases, the Port, as the property owner, is also potentially liable. Certain of such matters are discussed in detail below.

Environmental compliance is managed by environmental professionals with varying backgrounds in environmental science, industrial hygiene, and regulatory analysis working within the Port's Engineering, Maintenance, Real Estate, Maritime, and Planning and Development divisions. Port environmental activities are coordinated by an Environmental Coordinating Committee that meets bi-weekly.

Port properties do not include any hazardous waste sites listed on the National Priority List by the US EPA ("Superfund sites") or the State equivalent.

Environmental matters impacting the Port are described in Note 18 of the Financial Statements of the Port Commission attached hereto as Appendix B. Crane Cove Park, an estimated $45 million park located in the northwest corner of Pier 70, is currently in the design phase. The construction of park improvements will be phased based on available funding. Previous investigation of the shoreline found that near-shore sediment in this area is contaminated with metals, petroleum hydrocarbons and polychlorinated biphenyls 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. Since the date of the Financial Statements, additional investigation concerning the scope of sediment contamination in the Crane Cove Park area has been completed. The Port's environmental consultant has also prepared a preliminary cost estimation assuming the installation of gravel/rock layer to cover the total area of impact (approximately $3.0 million) and expected costs for postremediation monitoring, on-going operation and maintenance, and future capital repair for a thirty-year period ($2.4 million). The Port is currently operating under a voluntary clean-up oversight agreement with the Regional Water Quality Control Board as the lead agency. The Port has not initiated any cleanup actions beyond the investigation and analysis of risk management alternatives. It is anticipated that a portion of the total impacted area (approximately 27%) will be covered as part of the first phase of Crane Cove Park construction. The extent and timing of other remedial work has not been determined.

A new municipal stormwater permit was adopted by the State of California in 2013 to reduce pollutants in stormwater runoff. This State-wide permit is a common standard that regulates storm water discharges and imposes more stringent requirements on municipal permitees, including the Port. The Port will incur added costs to develop, implement, and enforce permit program areas including public education and outreach, illicit discharge detection and elimination, construction site plan review, and post-construction stormwater control. The Port will largely assume the costs to comply with the new permit; although some post-construction stormwater design and control costs could be borne by tenants and private developers.

In 2006 the State of California Water Resources Control Board issued Waste Discharge Requirements to California municipalities requiring development of programs to control overflows from sanitary sewer collection systems (Order No. 2006-0003-DWQ, or the "Order"). Among the specific obligations specified in the Order, the Port is required to perform an assessment of its sanitary sewer infrastructure and develop a capital program to repair and replace deficient sewers. In 2010 the Port Commission completed an initial assessment of the sanitary sewer infrastructure over water. Based upon this assessment the Port Commission developed an under-pier utility improvement program. This includes an annual inspection of each facility with an annual capital budget of $250,000 for inspection and small repairs. This $250,000 level of annual funding is included in the Port's Ten-Year Capital Plan. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY." Larger repairs are beyond the scope of the annual inspection and response program. Additional capital monies will be assigned for specific large projects, such as the Pier 49 / J1 sewer replacement with an estimated cost of $750,000.

Port tenant operations at times pose an environmental risk to the Port area. Proposed Port tenant operations are reviewed by Port Commission staff for environmental risk and, where appropriate, tenants are required to make an environmental oversight deposit, maintain environmental management insurance, develop operations plans that describe major operations and associated environmental best management practices, and/or conduct operations in a manner that will reduce the risk of potential environmental hazards. Port Commission staff also conducts environmental inspections of tenant leaseholds periodically throughout the lease duration and as part of lease termination and tenant vacancy procedures.

There is no assurance that the costs to the Port Commission of compliance with environmental and health and safety laws will not increase significantly in the future. In addition, the Port currently estimates that a portion of its accumulated deferred maintenance and facility improvement needs for its maritime and commercial properties are attributable to environmental compliance. It is expected that the Port Commission will undertake these projects over the next several years as and if funding becomes available. See "CERTAIN RISK FACTORS – Condition of Port Facilities" and "– Risks Related to Environmental Liability; Hazardous Substances and Increased Environmental Regulation" herein.

Risk Management and Insurance

The Port Commission utilizes the services of the City's Risk Manager. The Risk Manager advises the Port Commission and is responsible for directing and coordinating the purchase of insurance and the recovery for insured and uninsured losses. Liability claims are administered by the City Attorney's Office and the Risk Manager. Additional information relating to risk management and insurance is provided under Note 19 of the Port's audited financial statements, attached hereto as Appendix B.

The Port Commission imposes certain risk transfer requirements on its tenants, vendors and contractors. The Port Commission's policies generally require that each agreement with an entity doing business with the Port contain provisions to defend and indemnify the Port Commission from losses arising out of that entity's activities and to maintain specified levels of insurance coverage as a financial guarantee. The Port Commission and the City are named as additional insureds under those policies. Rental income and business interruption insurance may be required from tenants to be maintained on property leased or assigned. Rental income insurance provides for the continuation of payments in case of fire or other extended coverage loss for the time required to repair or reconstruct damaged facilities.

In November 2007, the Port Commission adopted an environmental risk management policy and financial assurance requirements for Port tenants with real property agreements. The purpose of the policy is to manage risk and minimize the Port's potential environmental liability. Pursuant to the policy, every new lease, lease renewal, lease amendment, sublease, lease assignment, license, and permit-to-enter is subject to review for applicability of the Port financial assurance requirements. Tenants whose operations are determined by Port staff to pose a significant environmental risk are required to post a $10,000 environmental oversight deposit to be used to reimburse the Port for staff costs and administrative expenses associated with a notice of violation or enforcement action issued to the tenant by an environmental regulatory agency. In addition, an environmental performance deposit, in the form of cash, a standby letter of credit, or other form of deposit acceptable to the Port Commission, may be required to cover any cost incurred by the Port caused by the tenant's failure to meet any of its environmental obligations. The size of the environmental performance deposit is determined by Port environmental staff after an assessment of the tenant's operations and the estimated cleanup cost of a tenant caused environmental incident.

The Port Commission is required to maintain throughout the term of the Indenture insurance or Qualified Self-Insurance on the Port Area against such risks as are usually insured by other ports which are similar in their operations to the Port Area. Such insurance or Qualified Self-Insurance will be maintained in an adequate amount as to the related risk as determined by the Port Commission. The Port Commission need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity. The Port Commission may self-insure against any of the risks required to be insured against. The Indenture further provides that Qualified Self-Insurance is to include reserves or reinsurance in amounts which the Port Commission determines to be adequate to protect against risks assumed under such Qualified Self-Insurance including, without limitation, any potential retained liability in the event of the termination of such Qualified Self-Insurance.

The Port Commission purchases commercial insurance policies to cover catastrophic and other losses, other than earthquake risk, that cannot prudently be assumed by the Port Commission. Those policies currently include all categories of insurance coverage that the Port Commission deems reasonable in light of its current operations. Total commercial insurance premiums for all coverage for Fiscal Year 2013-14 are approximately $2.2 million.

The Port Commission pays worker's compensation costs out of current revenues and budgetary reserves. The Port Commission paid approximately $809,000 in Fiscal Year 2012-13 and $537,000 in Fiscal Year 2011-12 for this purpose.

The Port Commission does not maintain commercial insurance coverage for property damage resulting from earthquakes or tsunamis. Commercial earthquake or tsunami insurance is not available at commercially reasonable rates, with both premiums and deductibles being prohibitively high. The Port Commission does not expect to maintain commercial earthquake or tsunami insurance coverage in the foreseeable future. Other risks, such as losses to its fleet of vehicles from terrorist activities, are not covered by any Port commercial insurance policies. The Port Commission would expect to address any losses resulting from any uninsured casualty or occurrence, in whole or in part, from FEMA grant funds, as and to the extent such grant funds are available, and from its budgetary reserves.

With the assistance of the City Risk Manager, the Port Commission is in the process of implementing an enterprise risk management program. The goals of the program are to: (i) identify risks and their impact on Port operations, (ii) optimize risk taking by minimizing threats and enhancing opportunities; and (iii) reduce uncertainty. An enterprise risk management working group formed by the Port Commission has identified and assessed risks at the Port focusing on their impact and likelihood of occurrence. The Port Commission will develop a risk management policy, and tools will be implemented to monitor and manage risk. The first of these tools, a computer-based insurance certificate tracking system has been implemented to assist Port Commission staff in ensuring that Port tenants are in compliance with their insurance requirements.

Labor Relations

As the Port Commission is a department of the City, the Port's employment policies are governed by the City Charter which, since 1976, has prohibited strikes by City employees. The Charter authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement Charter mandates.

As of June 30, 2013, the Port Commission had 236 full-time equivalent employees. There are presently 17 labor unions representing Port employees. With the exception of the Port Executive Director, all Port employees bargain collectively for wages, hours, benefits and other conditions of employment.

Collective bargaining agreements are generally adopted for a term of one to three years. Impasses between the represented employees and the City in collective bargaining are resolved by an arbitration panel whose decisions are final. There have been no strikes by City employees since the adoption in 1976 of the strike prohibition.

The Port Commission's employees participate in the retirement plan established by the City for all City employees (the "Plan"). The Port Commission is responsible for employer contributions to the Plan on behalf of Port Commission employees. Employer contributions are a component of the Port Commission's Operation and Maintenance Expenses. Additional information on the Plan is provided under Note 10 of the Port's audited financial statements, attached hereto as Appendix B.

Under the various collective bargaining agreements of the City covering its employees, until 2003 the mandatory employee contributions had been made by the Port on the behalf of Port employees and for their account. Since Fiscal Year 2003-04, substantially all employees have assumed full responsibility for the mandatory employee contribution pursuant to the Plan. See "– Employee Benefit Plans."

Employee Benefit Plans

Port Commission employees are City employees, and Port benefit plans are the same as for other employees of the City. The following provides certain benefit plan information both on a City-wide basis and with respect to Port employees. The actuarial assessments herein are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the pension plan. Prospective purchasers of the Bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the Bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Retirement System Plan Description. The Port Commission participates in the City's single employer defined benefit retirement plan (the "Plan") which is administered by the San Francisco City and County Employees' Retirement System (the "Retirement System"). The Plan covers substantially all full-time employees of the Port along with substantially all other employees of the City and certain other employees. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The Charter and the Administrative Code establish 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, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020. Such report is not incorporated by reference herein. Additional information on the Plan is described under Note 12 of the Port's audited financial statements, attached hereto as Appendix B.

SFERS Financial Information. Table 20 below shows financial information concerning the Retirement System for Fiscal Years 2007-08 through 2011-12. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Market Percent Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligation. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for Fiscal Years 2007-08 through 2011-12.

Table 20
CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System
For the Fiscal Years 2007-08 through 2011-12
(Amounts in Thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contribution	Employer Contribution Rates[(1)]
2007-08	$15,832,521	$15,941,390	$15,358,824	103.0%	103.8%	$319,183	5.91%
2008-09	11,886,729	16,004,730	16,498,649	72.3	97.0	312,715	4.99
2009-10	13,136,786	16,069,100	17,643,400	74.5	91.1	413,562	9.49
2010-11	15,598,839	16,313,100	18,598,700	83.9	87.7	490,578	13.56
2011-12	15,293,700	16,027,700	19,393,900	78.9	82.6	608,957	18.09

(1) The actuarially-determined employer contribution rates for Fiscal Years 2012-13 and 2013-14 are 20.71% and 24.82%, respectively.
Source: SFERS Actuarial Valuation Reports for Fiscal Years 2008-09 through 2011-12.

Table 20 reflects that the Fiscal Year 2011-12 Actuarial Percent Funded ratio decreased to 82.6%, corresponding to an unfunded actuarial liability ("UAAL") of approximately $3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2012, for every dollar of pension benefits the City is obligated to pay, it had approximately $0.83 in assets available for payment, if the assets were liquidated as of such date.

City Projected Pension Costs; City Contributions. The latest actuarial report as of July 1, 2012 provides that future employer contribution rates are projected to increase to 28% for fiscal year 2014-2015 as the Retirement System recognizes certain economic assumption changes from 2011 and the losses incurred by the Retirement System in Fiscal Years 2007-08 and 2008-09. In its Five-Year Financial Plan for Fiscal Year 2013-14 through 2017-18, the City projected employee pension costs, wages and other benefit growth will be the single largest driver of cost growth and the imbalance between revenues and expenditures in the City's finances, growing by $459 million (43% of the total expenditure growth) between Fiscal Year 2013-14 and Fiscal Year 2017-18 (the City currently projects revenue growth of $578 million and expenditure growth of $1.065 billion over the same five-year period).

Port Contribution. Contributions are made to the Plan by both the Port Commission and its employees. Employee contributions are mandatory. Employee contribution rates for Fiscal Year 2012-13 varied from 7.5% to 11.0% and for Fiscal Years 2008-09 through 2011-12 varied from 7.5% to 8.0%, as a percentage of covered payroll costs. As the employer, the Port is required to contribute at an actuarially determined rate, which during the last five years ranged from 4.99% to 20.71% as a percentage of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"), as shown in the following Table 21. For Fiscal Year 2013-14, the Port's actuarially-determined contribution rate is 24.82% of Pensionable Salary or approximately $4.5 million (net of the additional employee contributions pursuant to Proposition C passed by City voters in November 2011).

Table 21
PORT OF SAN FRANCISCO
Required Retirement Contribution
For the Fiscal Years Ended June 30,

Year	Employer Contribution	Port Required Retirement Contribution
2009	4.99%	$994,000
2010	9.49	1,862,000
2011	13.56	2,559,000
2012	18.09	3,551,000
2013[(1)]	20.71	3,599,000

(1) For the fiscal year ended June 30, 2013, the Port's required retirement contribution represented approximately 0.81% of the total City contribution of $443 million. The Port's contribution is net of the additional employee contributions pursuant to Proposition C which were up to 3% depending on salary and type of employee.

Source: Port Commission of the City and County of San Francisco

Asset Management and Actuarial Valuation. The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. The Fund does not hold hedge funds. The investments, their allocation, transactions and proxy votes are regularly reviewed by the board of the Retirement System (the "Retirement Board") and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are measured annually by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

As of June 30, 2013, the Retirement System estimated that the market value of its assets was approximately $17.0 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are not subject to audit (other than at year end).

Accounting Standards Updates. In June 2012, the GASB issued two new standards, GASB Statement No. 67 ("GASB 67") and GASB Statement No. 68 ("GASB 68"), relating to the guidance for accounting and reporting on the pensions that governments provide to their employees. Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.

- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.

- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.

- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.

- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. The statements are intended to separate how the accounting and financial reporting is determined from how pensions are funded. Application of GASB 67 is effective for the Plan's financial statements for the fiscal year ending June 30, 2014. Application of GASB 68 is effective for financial statements for the Port Commission's fiscal year ending June 30, 2015.

Health Care Benefits. Health care benefits of the Port Commission employees, retired employees and eligible dependents are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port Commission's annual contribution is determined by a Charter provision based on similar contributions made by the ten most populous counties in the State. The Port Commission's payments for all health care benefits for the last five fiscal years are shown in the following Table 22.

Table 22
PORT OF SAN FRANCISCO
Health Care Benefit Payments
For the Fiscal Years Ended June 30,

Year	Health Care Benefit Payments
2009	$3,748,000
2010	3,918,000
2011	4,244,000
2012	4,460,000
2013	4,545,000

Source: Port Commission of the City and County of San Francisco

The Health Service System issues a publicly available financial report that includes financial statements for the health care benefits plan. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1700. Such report is not incorporated herein by this reference.

Postemployment Health Care Benefits. Eligibility of former employees for retiree health care benefits is governed by the City Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of service. Proposition B, passed by San Francisco voters on June 3, 2008, restricted post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by the City and these employees equal to three percent of salary into a new retiree health trust fund. See "– Pension and Health Care Cost Reforms" below.

The City was required to begin reporting the liability and related information for unfunded post-retirement medical and other benefits ("OPEBs") in its financial statements for the fiscal year ended June 30, 2008. This reporting requirement is defined under Governmental Accounting Standards Board Statement 45 ("GASB 45"). GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability. Rather, GASB 45 requires government agencies to determine on an actuarial basis the amount of its total OPEB liability and the annual contributions estimated to fund such liability over 30 years. Any underfunding in a year is recognized as a liability on the government agency's balance sheet.

For Fiscal Year 2012-13, the City estimated that the Fiscal Year 2012-13 annual OPEB cost was $418.5 million, of which the City funded $160.3 million which caused, among other factors, the City's long-term liability to increase by $258.2 million (as shown in Table 23 below). Table 23 below sets forth the City's annual OPEB cost, the percentage of OPEB cost funded and the net OPEB obligation for the past four fiscal years.

Table 23
CITY AND COUNTY OF SAN FRANCISCO
OPEB Funding Progress
(Amounts in Thousands)

June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2010	$374,214	33.9%	$852,782
2011	392,151	37.2	1,099,177
2012	405,850	38.5	1,348,883
2013	418,539	38.3	1,607,130

Source: City and County of San Francisco.

In its October 8, 2012 report, the City's actuary calculated that the City's unfunded liability was approximately $4.42 billion as of July 1, 2010. The City's actuary estimates that the City's total long-term actuarial liability will reach $5.7 billion by 2030. The actuary's calculations are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

The City's allocation of the OPEB related costs to the Port for Fiscal Years 2008-09 through 2012-13, based upon its percentage of City-wide payroll costs (0.96% for Fiscal Year 2012-13), is presented in Table 24 below. The Port makes contributions, on a pay-as-you-go basis, to provide postretirement benefits for retired employees in the City Health Service System, which contributions are included in the Port's payment amounts for all health care benefits shown in Table 22 above. However, the Port's annual OPEB contributions, as calculated by the City, are insufficient to defease the Port's annual OPEB obligation, causing the unfunded Port OPEB amount to grow annually.

Table 24
PORT OF SAN FRANCISCO
Annual OPEB Obligation
For the Fiscal Years Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Annual OPEB Cost (expense)	$3,944	$3,454	$3,694	$3,962	$4,002
Contribution Made	(933)	(1,002)	(1,256)	(1,278)	(1,336)
Increase in Net OPEB Obligation	3,011	2,452	2,438	2,684	2,666
Net OPEB Obligation – beginning of year	2,805	5,816	8,268	10,706	13,390
Net OPEB obligation – end of year	$5,816	$8,268	$10,706	$13,390	$16,056

Source: Port Commission of the City and County of San Francisco.

Pension and Health Care Cost Reforms. City voters have implemented pension and health care cost reforms in recent years to help mitigate future cost increases. These include the following propositions:

Proposition B. Proposition B was approved by voters in June 2008 and increased the years of service required to qualify for employer-funded retiree health benefits for City employees who retire under SFERS and were hired on or after January 10, 2009. Employees hired before January 10, 2009 became eligible to participate in the retirement health care system after five years of service and the employer pays 100% of the contribution. Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%.

Proposition D. In June 2010, the voters of the City approved a Charter amendment to create new benefit plans for City employees who are hired on or after July 1, 2010. The new benefit plan covering non-safety employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation. The Charter amendment also increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.

Proposition C. Proposition C was a Charter amendment approved by voters in November 2011 that changed the way the City and current and future employees share in funding SFERS pension and health benefits.

With regard to pension benefits, the base employee contribution rate remains at 7.5% for most employees when the City contribution rate is between 11% and 12% of City payroll. Employees making at least $50,000 will pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions will be decreased proportionately.

Proposition C creates new retirement plans for employees hired on or after January 7, 2012 that: (1) for miscellaneous employees, increased the minimum retirement age to 53 with 20 years of service or 65 with 10 years; (2) for safety employees, kept the minimum retirement age at 50 with five years of service, but increased the age for maximum benefits to 58; (3) for all employees, limited covered compensation, calculated final compensation from three-year average, and changed the multipliers used to calculate pension benefits, and (4) for miscellaneous employees, raised the age of eligibility to receive vesting allowance to 53 and reduced by half the City's contribution to vesting allowances. Proposition C limits cost-of-living adjustments for SFERS retirees.

With regard to health benefits, elected officials and employees hired before January 9, 2009 contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001 and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce.

PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY

Most capital assets comprising the Port range from 50 to 100 years old, were constructed for use in the pre-containerized cargo shipping industry and are reaching the end of their useful structural life. Many of the piers were originally constructed approximately 100 years ago and many of the building structures over 50 years ago. Of those, only 10 – AT&T Park, the Ferry Building, Pier 1, Piers 1½, 3 & 5, Pier 15, Pier 27, Pier 39, Pier 45, Pier 48 and Pier 80 – have been improved by a major rehabilitation since 1950. An additional 16 piers have been removed. Many Port facilities are historically significant structures. In recognition of this significance, the National Park Service designated the Port's northeast waterfront, from Pier 45 in the north to Pier 48 in the south, as the Embarcadero National Register Historic District. This District includes 20 historic piers as well as eight other structures of historic significance. In the Port's Southern Waterfront, the Pier 70 area also includes 35 buildings and many other features recognized to be of historical significance. The Port is in conversation with the National Park Service regarding the designation of a portion of the Pier 70 area as a National Register Historic District.

The age and condition of Port facilities, combined with their construction on filled tidelands in a high-risk seismic area, means that most Port facilities need capital improvements in order to be functional, code-compliant and in usable condition in service of the mission of the Port, whether they are continued in their current uses or transformed to a new or enhanced use. The Port has removed nearly one million square feet of pile supported structures over the past 30 years to create open vistas, build new marinas and eliminate public safety, navigational and fire hazards.

Many of the Port Commission's leased facilities are in need of repairs and seismic upgrades that limit the Port's ability to realize potential lease revenues. Without the needed repairs, the facilities will continue to deteriorate and will eventually be condemned, resulting in the loss of leasable space. Maintenance challenges for the Port tend to be related to the need to replace the piles supporting the piers and the aprons that surround the pier sheds, as well as the under pier utilities. These parts of the piers tend to degrade most rapidly because they are repeatedly exposed to wet and dry cycles due to tidal and storm movement of the Bay waters. Lack of maintenance and repairs to building or shed roofs may also lead to structural deterioration of the roof structural framing and eventual condemnation of the facility.

Port Commission staff conduct ongoing assessments of the condition of Port facilities. Using data from this assessment process, the Port has developed a Ten-Year Capital Plan (the "Capital Plan") to quantify all of the Port's outstanding capital needs and the sources of funding, if any, available to address those needs. The Capital Plan is updated annually, typically in the first quarter of each year and is submitted biennially to the City for review and approval by the Board of Supervisors and the Mayor. See "PORT COMMISSION FINANCIAL OPERATIONS – Port Commission Operating and Capital Budget Processes." The Port's current Capital Plan, updated for Fiscal Years 2015-2024 was adopted by the Port Commission on February 11, 2014, and is further described under "Ten-Year Capital Plan" below. Copies of the Capital Plan can be found on the Port's website at www.sfport.com. The Capital Plan and any information found in the Port's website is not incorporated herein by such reference.

The Port Commission prioritizes capital spending in a manner that reflects the Port's institutional values, namely, ensuring the safety of the public, fiscal responsibility, and fulfilling the Port's mission. As a practical matter, certain types of funding available to the Port for capital projects are earmarked for particular projects, so those projects are accelerated by virtue of having received funding. Capital improvement activity necessary to address such deferred maintenance is not part of annual Operation and Maintenance Expenses. See "PORT COMMISSION FINANCIAL OPERATIONS – Port Commission Operating and Capital Budget Processes " herein.

Facility Assessment Program

Formalized in 2002, the Port's Facility Assessment Program inspects, categorizes and records the condition of the over 350 piers, wharves and buildings in the Port area. The Port's Facility Assessment Team manages the program, conducts periodic inspections to identify health and safety issues, and informs tenants and the public about its findings. The Facility Assessment Team is comprised of civil and structural engineers (primarily Port staff, but also some outside contractors) who perform facility inspections and non-engineering Port staff who provide support in addressing legal and lease-related matters arising out of the inspections. The frequency of the inspections varies by facility and depends on the type of building material and the type of occupancy or use of the facility. Based on the structural condition of each facility, the Facility Assessment Team makes recommendations for barricades and warning signs. The inspection findings are used to document maintenance and repair needs for the Port facilities.

The Facility Assessment Team's inspection findings and recommendations are summarized in a report that includes a structural rating of each facility using the following categories: (i) green (good structural condition, no live load reductions/restrictions); (ii) yellow (fair structural condition, but needs some structural remediation, reduced/restricted live loading); and (iii) red (poor structural condition, restricted access).

Ten-Year Capital Plan

Capital Projects and Needs. The current Ten-Year Capital Plan identifies approximately $2.06 billion in work for Port piers and buildings, consisting of repair and replacement requirements and conditional seismic upgrades. The Capital Plan estimates the Port's accumulated deferred maintenance and capital improvement needs for its maritime and commercial properties to be approximately $1.59 billion. This figure represents the anticipated cost over the next ten years for deferred maintenance and subsystem renewals required on Port facilities in order to maintain such facilities in a state-of-good-repair. The Capital Plan also identifies an additional $464.3 million for conditional seismic work on Port facilities, which may or may not be required during the 10-year period.

Potential Funding Sources. The Ten-Year Capital Plan identifies $1.14 billion in existing or potential funding sources to finance the listed expenditures. These sources are distinguished between internally and externally generated sources. Internally-generated funding sources include Port capital funds, Port Commission 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 $419.3 million. The Port's current Ten-Year Capital Plan assumes no additional Port revenue bonds will be issued, but the Plan notes that the Port would revisit issuing bonds if projects were identified in the future that generate revenues in excess of the amount required to service debt costs. However, this is subject to change in the future. 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 $721.5 million. The Ten-Year Capital Plan reflects that approximately 59% of the identified funding sources ($669.5 million) will be applied towards state-of-good-repair projects and approximately 41% of identified funding sources ($471.3 million) will be applied towards enhancement projects.

Under the Ten-Year Capital Plan, development projects remain the principal drivers of potential waterfront improvements, representing 36% of the state-of-good-repair funding and 52% of the proposed capital enhancements during the ten-year period of the plan. These revenues are dependent on approval of the projects themselves. The Ten-Year Capital Plan identifies a significant change in the real estate market or a dramatic change in the political climate vis-à-vis waterfront development as risks to the funding strategy presented in such plan. Also specific development projects that are identified in the Plan may change, be delayed or cancelled. For example, on April 21, 2014 the Golden State Warriors announced that they were changing their plans to develop a new arena at Pier 30-32 to instead develop an arena in the Mission Bay area of the City. The Plan had projected $165 million in capital investment from this arena development.

Port Legislative Efforts

Since 2005, the Port Commission 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. The Port Commission 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 (see "PORT COMMISSION FINANCIAL OPERATIONS – Projected Debt Service Coverage – Major Assumptions Relating to Real Estate Development Projects"). The Port Commission has also received funding from two City general obligation bond measures approved by the voters in 2008 and 2012 to fund several Port waterfront parks and open space projects. A brief summary of major legislation passed to date which may benefit the Port is provided below:

- The 2005 adoption of SB 1085 added 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.

- The 2007 adoption of SB 815, which authorizes 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.

- The 2008 approval by City voters of Propositions A and D, and the 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.

Enactment of this legislation required a significant amount of favorable political will and cooperation among a variety of legislative and regulatory bodies, and further regulatory and legislative approvals will be required to realize the full benefit of recent legislation to the Port. The Port can give no assurances that such approvals will be granted.

Further information on the Port Commission's legislative efforts is provided in the Management Discussion and Analysis section of the Audited Financial Statements of the Port Commission for the Fiscal Year ended June 30, 2013, attached hereto as Appendix B.

Recently Completed Capital Improvement Projects

Since the Port Commission's first adopted ten-year capital plan in 2006, the Port has guided nearly $196 million non-development capital investment, of which $138 million occurred in the last three years. Below are summarized descriptions of examples of recent major capital projects (generally involving investments of $15 million or more) in Fiscal Year 2012-13:

James R. Herman Cruise Terminal at Pier 27. As discussed in detail under "THE SERIES 2014 PROJECTS" above, Pier 27 is being developed as a primary cruise terminal. Phase 1 of the project, construction for the "core and shell" of the building, was completed in March 2013 at a cost of approximately $62 million.

Pier 15 Substructure Improvements. The Exploratorium, a museum of science, art and human perception, was privately constructed at Pier 15, which was rehabilitated for this use. The Exploratorium opened in April 2013. The Exploratorium's total construction costs, reported as $220 million, were funded privately. The substructure work, including seismic upgrades for this project, exceeded $65 million.

AC34 Facility Requirements. Pursuant to the 34th America's Cup Lease Disposition Agreement between the City and the America's Cup Event Authority, the City was required to complete certain infrastructure improvements, certain identified repairs at venue facilities, and to implement certain mitigation measures pursuant to various regulatory and permit requirements. The Port, acting on the City's behalf, completed all improvements by July 2013. The Port has spent or committed $21 million for various improvements to its venue site facilities, and environmental mitigation measures required for the permit for America's Cup improvements.

The Brannan Street Wharf. Located on The Embarcadero Promenade between Piers 30-32 and Pier 38, the Brannan Street Wharf is a new 57,000 square foot public park over the water and parallel to the Embarcadero Promenade. The project was completed in July 2013 at a cost of approximately $26.0 million (including the demolition and removal of Pier 36). A small craft float and gangway was deferred due to insufficient funding, but is required to be installed by July 2018 under the terms of a permit for the project from the San Francisco Bay Conservation and Development Commission.

Ongoing and Future Capital Projects

The capital projects discussed herein are ongoing or have at least partial identified funding under the current Ten-Year Capital Plan. Many of these projects will be implemented concurrently, with progress made on each as and when funding for such project becomes available. In the forthcoming ten-year period, the Port intends to expend $669.5 million for state-of-good repair projects and $471.3 million for capital enhancement projects. State-of-good repair projects cover the existing backlog of deferred maintenance, capital renewal (regular facility maintenance) and certain projected one-time expenses. At the end of the Ten-Year Capital Plan period, the Port is projected to reduce its state-of-good repair needs by 42%, from $1.59 billion to $921.0 million. To the extent funds are available for discretionary application by the Port Commission, priority is given to projects that reflect the Port's institutional values, namely, ensuring the safety of the public, fiscal responsibility, and fulfilling the Port's mission. If the Port is unable to identify a funding source or a developer to repair and seismically upgrade structurally compromised facilities, eventually it will need to close those facilities that are no longer safe for use. Any closed piers will either deteriorate in place or be demolished (if the Port can secure funds for demolition). To date, 16 piers have been demolished. Funding sources for deferred projects are limited: (i) possible grant funding for open space and transportation projects, and (ii) possible real estate development projects, requiring significant equity contributions from private partners.

Ongoing Projects. Each year, the Port capital budget funds the deferred maintenance and improvement of existing systems and Port facilities, dredging so that the depth of the berths at the Port's piers remain suitable for water traffic, and projects which are designed to enhance the Port's facilities including infrastructure investments needed to attract new development on Port property.

Bond Funded Projects. For a description of projects proposed to be funded with proceeds of the Series 2014 Bonds, see "THE SERIES 2014 PROJECTS." With respect to projects to be funded with proceeds of City general obligation bonds, City voters approved Proposition A – Clean and Safe Neighborhood Park General Obligation Bonds at the February 2008 election, authorizing the issuance of $33.5 million of City general obligation bonds (the "2008 G.O. Bonds") to finance certain waterfront parks on Port property. In November 2012, City voters approved Proposition B – Clean and Safe Neighborhood Park General Obligation Bonds, authorizing the issuance of $34.5 million of City general obligation bonds (the "2012 G.O. Bonds"), to finance certain parks and waterfront open spaces on Port property. In Fiscal Year 2012-13, the Port received $18.2 million of proceeds from the City's 2012 G.O. Bonds to fund open space projects on Port property. Previously, the Port received $24.6 million of proceeds from the City's 2008 G.O. Bonds, for a total to date of $42.8 million in net general obligation bond proceeds.

Real Estate Development Projects. Since the 1970s, the Port's primary tool for redeveloping its property has been public-private partnerships with private entities for development of Port property. In the past, completed development projects have helped address the Port's deferred maintenance capital needs as well as being a source of new revenues. In evaluating potential development opportunities, the Port seeks to balance the proposed development as a source for addressing its deferred capital needs, against any negative impact to revenue as a result of the proposed development.

Major real estate development projects in which the Port is in active negotiations with private developer partners are planned to provide approximately $243 million of the Port's deferred maintenance capital needs over the next 10 years. These development projects involve a variety of project risks, including development, entitlement, financial, construction, project completion, market and operating risks; but with few exceptions, generally no immediate negative risk to revenues.

In its public-private development projects, the Port seeks to shift all or most of the project completion risk to the private development partner. The Port Commission does not typically subordinate its leases to the financing obtained by the private developers and the Port Commission does not deliver the leasehold to the developer until the developer is able to immediately start construction, with all entitlements, permits, equity and debt financing, construction contracts, insurance, and guarantees in place. Until the leasehold is delivered to the developer, the Port continues to receive rents from the interim tenants in occupancy. If a project does not proceed to construction, the Port's interim leasing revenues are maintained but the anticipated repairs and improvements and the other anticipated financial benefits are not achieved. In recognition of, and in exchange for, the project risks being assumed by the developer, the Port Commission typically grants the developer a long-term lease (50-66 years).

During the pre-development and development period, the Port is also subject to the risk of litigation from developers whose projects do not proceed, notwithstanding contract provisions that prohibit developers from making claims against the Port. Once a lease is executed, the Port is subject to economic risk affecting the tenant, lawsuits against the developer or the project and risks relating to the tenant's failure to perform, mismanagement and similar business risks, as any other owner lessor of commercial property. See "CERTAIN RISK FACTORS" herein.

To further minimize its exposure to project completion risk, in recent years, the Port has limited its contribution toward public-private partnership projects to the existing land and facilities, plus the time related expense of Port staff, attorneys and other consultants needed to coordinate and assist the developer. For some developments, the Port may grant rent credits towards specific construction components and minimize the direct contribution of Port funds. During the pre-development and development phases of a project, the amount of the interim lease revenue to the Port is typically reduced because of the uncertainty the pending project creates for interim tenants, with the Port being able to offer only very short-term leases. During the construction period for the project, the rent that the developer pays the Port is typically substantially less than the Port previously received.

The following real estate development projects on Port property are currently at various stages of negotiation and development with a private investor/partner and no assurances can be given that any of the described projects will result in a completed project or in increased Revenue. Further, certain projects include aspects that may decrease Revenue. In particular, should they proceed to construction, the following projects are expected to decrease rental revenue to the Port on a short-term and/or long-term basis. Such decreases are discussed and reflected in the projections described under "PORT COMMISSION FINANCIAL OPERATIONS – Projected Debt Service Coverage" herein.

Seawall Lot 337 & Pier 48. This 16-acre site is located on the south side of China Basin Channel near AT&T Park, bounded by Third, Terry Francois and Mission Rock Streets, adjacent to the Mission Bay development, and is planned to be developed with a major waterfront public open space, a new neighborhood park and approximately 3.6 million square feet of urban, transit-oriented mixed uses including retail, light manufacturing, commercial and residential. The proposed project would include new facilities that would require rezoning the site (currently zoned as open space, 0 feet) to a maximum of 380 feet in two to three locations. The Port's development partner, Seawall Lot 337 Associates, LLC has received approval for a project term sheet from the Port Commission and Board of Supervisors. The project team is currently pursuing project entitlements including a thorough environmental review in accordance with the California Environmental Quality Act ("CEQA"). The Port anticipates that this project could generate new lease revenues and result in higher property values. The current project schedule anticipates completing the CEQA process and gaining project approvals in early 2015 with lease payments commencing on sub parcels beginning in 2016. However, Proposition B on the June 2014 ballot, if passed, would require subsequent voter approval of the project. See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue." The total cost of the project is currently estimated at $1.8 billion and is expected to be financed through a combination of private debt, developer equity, development rights payments (partially prepaid rent) and Community Facilities District Bond proceeds and IFD proceeds.

Pier 70. The largest element of the Port's current Ten-Year Capital Plan is the rehabilitation and redevelopment of the heavily blighted Pier 70 area, with an estimated need of approximately $525 million in capital improvements and with a total preliminary estimated project development cost of $1.9 billion. The total cost of the project is expected to be paid with a combination of private debt, developer equity, IFD bond proceeds, land dispositions, and City general obligation bond proceeds. Pier 70 is a 65-acre brownfield site on the City's central waterfront bounded by Mariposa, 22nd and Illinois Streets. Pier 70 is home to a collection of historic facilities portions of which are expected to be eligible as a National Register Historic District. In early 2014, the Port nominated Pier 70 to be a National Register Historic District which nomination will be carefully reviewed by the National Park Service. The Port has produced a Pier 70 Master Plan, a result of a lengthy public process, to define a strategy to rehabilitate important historic buildings, environmentally remediate the site, improve street and utility infrastructure and public open spaces near the water's edge, and provide for over three million square feet of economic development.

Pier 70 redevelopment will require private and public funds. As a result, the Capital Plan financing includes a total of $140 million in CFD bond proceeds and IFD bond proceeds, as well as City general obligation bond funds for this redevelopment. In addition, Proposition D – Pier 70 Land Use and Financial Plan, approved by the City's voters at the November 2008 election, provides the Port with new financing tools to restore Pier 70. Proposition D permits the Board of Supervisors to dedicate City general fund revenues in an amount up to 75% of projected payroll and transient occupancy tax revenues generated by Pier 70 development for a period of up to 20 years to finance waterfront parks, environmental remediation, historic rehabilitation and other public improvements.

The redevelopment of Pier 70 has been divided into five distinct subareas: (1) the subarea lease to BAE Systems Ship Repair – San Francisco; (2) the 25-acre subarea called the Waterfront Site which is under an exclusive negotiation agreement with Forest City Development California, Inc. ("Forest City") for up to three million square feet of residential and commercial development; (3) the 6-acre Historic Core which is under an exclusive negotiation agreement with Orton Development Inc. ("ODI") for rehabilitation of certain historic buildings for new uses, (4) the 9 acres of public open spaces called the Crane Cove Park to be funded and constructed by the Port; and (5) the urban infill development opportunity sites along the eastern side of Illinois Street boundary of Pier 70 to be disposed for residential and commercial developments. Detailed information about each of the Pier 70 subareas follows.

Forest City Development Waterfront Site. This site consists of approximately 25 acres of land area and four historic buildings in dilapidated states to be rehabilitated for new uses, all on the south eastern edge of Pier 70. The Port, with the assistance of the Office of Economic and Workforce Development ("OEWD"), is in negotiations with Forest City over a proposed redevelopment of the site for the construction of approximately 950 residential units, 2.6 million square feet of office, retail and other commercial uses, adaptive reuse rehabilitation of a minimum of four historic buildings, seven acres of recreational and passive open space, and three parking structures. A term sheet approved by the Board of Supervisors is guiding further refinement of the concept toward the ideal mix of residential and commercial uses to develop, in how many phases, and at what density. The final concept is subject to review and approval under CEQA. The Waterfront Site is currently zoned at 40 feet, and will require rezoning and a Special Use District to permit construction of buildings at a range of heights, potentially including two to three 230 foot buildings. However, Proposition B on the June 2014 ballot, if passed, would require subsequent voter approval of the project. Forest City has recently filed an application with the City's Department of Elections to allow them to seek signatures to place a measure on the ballot as early as November 2014. See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue."

Forest City is working with the Port and OEWD on the infrastructure system required to support the proposed concept or development. The required infrastructure is anticipated to cost in excess of $180 million. The project is expected to be financed through a combination of private debt, developer equity, land proceeds and CFD bond proceeds and IFD bond proceeds. The Port is currently reviewing the feasibility of substituting portions of developer equity with certain public bond proceeds.

Orton Development Historic Core with 20th Street Historic Buildings**.** On May 13, 2014, the Port Commission approved a 66-year lease agreement with ODI to lease, rehabilitate and operate six historic buildings included in the Pier 70 Master Plan area. On October 9, 2012, the Port Commission endorsed the term sheet establishing the conceptual agreement by the parties of the terms of a transaction. Subsequently on December 4, 2012, the Board of Supervisors also endorsed the term sheet and conceptual project plans. Since then ODI and Port staff have been working to realize the project approved in concept. These buildings are in a state of dilapidation and require approximately $76 million of repairs and improvements to return them to active use. ODI will secure the required debt and equity, anticipated to include a loan from the City's Seismic Safety loan program as well as bank debt. The Port will contribute $1.8 million for structural upgrades. The transaction terms defer any payment of rent to the Port until the sooner of 20 years or the repayment of ODI's equity investment.

This project includes 267,000 square feet of existing buildings. The proposed project would add up to approximately 70,000 square feet of new space, primarily in mezzanines. Once rehabilitated, these historic office and industrial buildings would be used for a range of businesses, including light industrial, technology, life science, office, artisan/artist studios and showrooms, and restaurant uses. The proposed project would also create an indoor lobby/atrium in Building 113, and an outdoor courtyard/venue, both of which would be made accessible to the public.

Crane Cove Park. The Port is currently in the design phase of a $45 million park at the northwest corner of Pier 70. Approximately $18 million of the project will be financed using general obligation bonds approved by the voters of San Francisco in 2008 and 2012, and the remaining funding has yet to be secured. Construction will likely be phased, based on available funding.

Illinois Street Infill Development Opportunity Sites**.** There are between three to eight parcels that could be created out of the identified large land parcels at three separate locations on the east side of Illinois Street at Pier 70 designated for infill developments. When combined, the parcels will comprise approximately nine acres.

Seawall Lot 351. This two-thirds of an acre site is currently a surface parking lot located along the Ferry Building waterfront at The Embarcadero and Washington Street. It is to be merged with the adjacent tennis club property in a $345 million residential-commercial development agreement between the Port and San Francisco Waterfront Partners ("SFWP"), an affiliate of Pacific Waterfront Partners that developed Piers 1½, 3 and 5 and the Pier 24 Annex. The approved project is the subject of a recently passed legislative referendum revising the increase in building height granted the development. SFWP, therefore, is considering its options to reevaluate the proposed development, including project funding structure. The Port is awaiting the developer's decision on proceeding with this project following its reevaluation.

Impact of Dissolution of Redevelopment Agencies

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 (the "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 to the City of the Agency's non-affordable housing assets and functions pursuant to AB26. In June 2012, Assembly Bill No. 1484 ("AB1484") was adopted by the California Legislature. AB1484, signed by the Governor on June 27, 2012, 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 holds leasehold interests to certain Port properties in the South Beach area pursuant to sixteen ground leases. Prior to AB1484, it was planned for the Port to resume management and control on July 1, 2012 of these leased properties, including the leasehold improvements completed by the Agency. The Port and the Office of Community Investment and Infrastructure ("OCII"), the Successor Agency to the Redevelopment Agency, are in discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets and certain obligations. The Port Commission is still in the process of evaluating the economic impact of these matters and its approach to them which is expected to be memorialized in an MOA (described below) . The Port Commission estimates that in 2013 the revenue from the Agency subleases, other than the leases relating to the South Beach Harbor as described below, was approximately $670,000.

South Beach Harbor is within the Rincon Point-South Beach Redevelopment Project and its revenues are pledged to a 1986 Agency revenue bond issue and certain loans. South Beach Harbor revenues, including certain tax increments, are currently used by the Agency/OCII to pay the debt service on the 1986 Agency revenue bonds and approximately $7.3 million in loans from the California Division of Boating and Waterways (the "SBH Loans"). South Beach Harbor is ground leased by the Port to OCII pursuant to a series of ground leases (the "SBH Ground Leases").

The Port Commission and OCII are currently negotiating a memorandum of agreement (the "MOA") relating to South Beach Harbor and certain other Agency/OCII matters. The Port Commission currently expects to provide for the following in the MOA with respect to South Beach Harbor:

- the SBH Ground Leases would terminate;
- all existing subleases between OCII and South Beach Harbor tenants would be assigned to the Port Commission;

- operation of South Beach Harbor would be assumed by the Port Commission;
- OCII would transfer all leasehold improvement assets and associated obligations to the Port Commission, including all or a portion of the obligations under the SBH Loan (but not including the Agency revenue bonds); and
- the Port would agree to transfer to OCII revenues from the South Beach Harbor operations to meet annual debt service requirements for the 1986 Agency revenue bonds through final maturity in December 2016.

Concurrent with the South Beach Harbor MOA taking effect, the Port Commission anticipates that South Beach Harbor will be designated as a Special Facility pursuant to the Indenture, that South Beach Harbor revenues will be Special Facility Revenue, and that all or a portion of the obligation under the SBH Loans and/or the South Beach Harbor MOA will be Special Facility Bonds. As a condition precedent to these designations, the Port Commission will be required to comply with the requirements under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Pledge of Net Revenue Under the Indenture" and "– Additional Bonds and Other Obligations."

CERTAIN RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2014 Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2014 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2014 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2014 Bonds or adversely affect the ability of the Port Commission to make timely payments of principal of or interest on the Series 2014 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Limitation on Remedies

The Indenture provides only limited remedies to Bondholders in the event of a default by the Port Commission. The enforceability of the rights and remedies of the owners of the Series 2014 Bonds and the Trustee under the Indenture in the event of a default by the Port Commission may be subject to the following: limitations on legal remedies available against cities in California; the federal bankruptcy code and other bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; and the delay and uncertainty inherent in legal proceedings. The enforceability opinion of Co-Bond Counsel will be made subject to such limitations on remedies. See Appendix E – "PROPOSED FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL" herein.

Condition of Port Facilities

Most capital assets comprising the Port range from 50 to 100 years old and require significant repair for continued use. The age and condition of Port facilities, combined with their construction on filled tidelands in a high-risk seismic area, mean that most Port facilities will need future capital improvements in order to continue to be functional, code compliant and in usable condition in service of the mission of the Port. The Port has demolished or removed from service a number of facilities over the past 45 years, including some facilities that had been generating revenue for the Port, and, in the absence of funding for needed capital improvements, the Port will remove additional revenue-generating facilities from service in the future. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY." The Port envisions the need for further public and/or private development of its facilities and property, much of which requires legislative and regulatory approvals, to address its capital shortfall. If the Port fails to complete these development projects, Port facilities will continue to deteriorate, which may lead to reductions in Net Revenue.

Certain Economic and Other Constraints on Port Revenue

The ability of the Port to maintain or increase revenue growth in the future may be affected by a variety of economic, legislative and regulatory factors that are outside of its direct control.

The Port operates pursuant to many legislative and regulatory constraints that significantly restrict its ability to maximize the revenue generating activities of its waterfront properties. Public objectives set by many of these legislative and regulatory requirements, including the Port's Waterfront Land Use Plan and BCDC's Waterfront Special Area Plan, limit the Port's ability to maximize the commercial revenue generating opportunities available for many of the Port's properties. In addition, the Port is subject to many of the same economic and competitive factors affecting other commercial and real estate business enterprises in the region.

The transfer of the Port to the jurisdiction of the City in 1969 was made in trust for the people of California. The public trust doctrine directs the use and development of Port properties. The public trust doctrine, as codified in the Burton Act and the related Transfer Agreement, mandated the following missions for the Port: (1) to promote navigation, fisheries and maritime commerce; (2) to protect natural resources; and (3) to develop recreational facilities that attract people to enjoy the Bay and the waterfront. See "Burton Act and Transfer Agreement" below. The public trust doctrine has been interpreted over time by the courts, the Attorney General, the SLC and the BCDC.

The Port's properties are also subject to the Waterfront Land Use Plan, adopted in June 1997, which was developed by the Port Commission through a public consensus process to provide a framework for all future development of Port property. Analyses conducted concurrently with the development of the Waterfront Land Use Plan concluded that, while the Waterfront Land Use Plan had significantly expanded the scope of revenue generating activities that could be developed on Port property, changes in the regulatory environment were required and other funding and financing mechanisms were needed for the Port to carry out its missions. Required regulatory changes have been achieved with the City and with BCDC, and additional regulatory changes are being pursued by the Port and will likely be required in the future. The Port can give no assurances that such changes will be granted.

Under the Charter of the City, the San Francisco Municipal Elections Code and the California Elections Code, City voters may seek to nullify certain ordinances approved by the Board of Supervisors through the process of referendum (generally, the referendum power does not extend to the annual budget or appropriations ordinances, annual salary ordinances, ordinances authorizing the City Attorney to settle litigation, ordinances that relate to purely administrative affairs, ordinances necessary for the Mayor's exercise of emergency powers, and ordinances providing for the issuance of general obligation bonds). A referendum is a petition protesting certain ordinances 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 operation of the ordinance is suspended until approved by the voters. As a recent example, City voters overturned a June 2012 decision of the Board of Supervisors allowing the construction of a luxury high-rise residential development along the Embarcadero in the November 2013 elections, through the referendum process.

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 a ballot measure to be placed before the San Francisco electorate on June 3, 2014 as Proposition B preliminarily titled "Voter Approval for Waterfront Height Increases" ("Proposition B"). If approved by the voters and upheld after any legal challenges, Proposition B would require voters' approval prior to any development on Port property that exceeds the height limits in effect as of January 1, 2014. Proposition B would apply 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 would require that any future ballot question to increase height limits on Port property must specify both the existing and proposed height limits. Three of the four major projects currently under negotiation for development at the Port exceed existing height limitations (only the Pier 70 – 20th Street Historic Buildings and Historic Core project would be unaffected). As described under "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ongoing and Future Capital Projects," Forest City has recently filed an application with the City's Department of Elections to allow them to seek signatures to place a measure on the ballot as early as November 2014. The Port is unable to predict the outcome of the June ballot and its impact on the Port's finances and operations.

The processes of initiative and referendum are available to California voters at the State level and may be used by voters to effect changes to the State Constitution, statutes or charters. The Port's ability to maintain or increase revenue growth and develop the Port Area may be limited by the processes of initiative and referendum at the City and State levels. The Port Commission is unable to predict any future actions by the voters of the City or the State and their impact on the Port Commission's operations.

The Port's properties suffer from a significant amount of deferred maintenance and/or desirable capital improvements. In order to promote its mission to foster and promote navigation, fisheries and maritime commerce, the Port is obligated to preserve significant waterfront historic resources that have great significance to the region and the nation but that are very costly for the Port to maintain and upgrade. The cost of needed repairs to the Port's properties has been estimated in the current Ten-Year Capital Plan to be approximately $1.59 billion over the next ten years. The Port currently reviews these costs on an annual basis and anticipates that this estimate will continue to be refined as information is known and costs escalate. These estimates do not include the cost to repair the Port's seawall or to address sea level rise. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein.

The public trust doctrine gives priority to maritime, visitor serving retail and other uses which do not necessarily generate maximum revenue from the Port's waterfront land. Certain maritime revenue sources, such as the Port's cargo shipping lines, have declined. In response, the Port has focused its efforts on expanding bulk cargo, harbor services, cruise and ship repair maritime lines and its commercial (non-maritime) real estate operations. Other priority public trust uses, such as protection of natural resources and open spaces do not provide any direct revenue and involve on going Operation and Maintenance Expense. The public trust doctrine prohibits housing on Port property and limits general office use to portions of historic Port facilities that are rehabilitated according to standards published by the U.S. Secretary of the Interior. The public trust doctrine permits interim leasing of Port property for uses that are not consistent with the public trust (*e.g.*, general office) for short periods of time, in most cases not to exceed 10 years, in order to generate funds for the Port's Harbor Fund. Additionally, as a result of Proposition H passed by the San Francisco electorate in 1990, hotels are prohibited on the Port's waterside properties.

Burton Act and Transfer Agreement

The Port Area was transferred to the City by the State pursuant to special legislation, California Statutes 1968, Chapter 1333 (the "Burton Act"). The transfer was conditioned on the passage of certain Charter amendments, which were approved by the voters of the City at an election held on November 5, 1968. The transfer was effected pursuant to an agreement entered into between the State and the City, in accordance with the Burton Act, dated as of January 24, 1969 (the "Transfer Agreement"). The provisions of the Transfer Agreement generally follow those of the Burton Act itself. The amendments to the Charter were approved by the State Legislature as required by the Transfer Agreement.

The Burton Act provided for the transfer to the City, in trust for purposes of commerce, navigation and fisheries, of all of the real property located in the City and then under the jurisdiction of the San Francisco Port Authority of the State, and of all related personal property. The Burton Act and the Transfer Agreement provide that the Port Commission shall have complete authority to use, conduct, operate, maintain, manage, regulate, improve and control the harbor of the City (*i.e.*, the Port Area), and to do all things necessary in connection therewith.

The Legislature reserved the right to amend, modify or revoke, in whole or in part, the transfer of lands in trust under the Burton Act, provided that the State assumes all lawful obligations related to such lands as may revert to the State. The State has never exercised this right, other than as part of the State's budget for Fiscal Year 1992-93 when certain Port revenues were required to be diverted to the State. The transfer may also be revoked, by an action brought by the State Attorney General, for gross and willful violation of the terms of the transfer or the provisions of the Burton Act or other legislative enactment. No such action has ever been brought or threatened by the State Attorney General, nor is the Port Commission aware of any possible grounds for such an action.

Under the Burton Act, revocation, in whole or in part, of any transfer of lands in trust to the Port Commission may not impair or affect the rights or obligations of third parties, including bondholders and lessees, arising from existing leases, contracts or other agreements.

General Economic Risk and Real Estate Risk

Most revenues of the Port Commission are derived from long term leases. Absent tenant turnover, the Port Commission has limited ability to increase rents under such long term leases to offset any reduction of other revenues or increase in expenses of the Port Commission. Thus, the ability of the Port Commission to respond to unanticipated shortfalls in Net Revenue is limited.

The Port's Revenue is derived primarily from property leases to commercial and industrial enterprises. The Port's tenants are subject to competitive conditions and other business and economic factors that may affect their ability to pay rent to the Port, including local and regional economic conditions and levels of tourism. See "PORT REAL ESTATE OPERATIONS" herein. Any tenant of the Port may elect not to renew its lease upon expiration of the lease term. The ability of such businesses to continue in operation, and to pay rent to the Port, may be compromised in the event of an economic downturn, failure of such businesses or their tenants to perform, mismanagement, lawsuits, increased operating expenses, and similar business risks, or in the event of a natural or other disaster and similar occurrences, and may be adversely affected by their ability to collect under their insurance policies in the event of any occurrence of a casualty. In the event of a business downturn, a Port tenant may fail to make lease payments when due, may decline to renew an expiring lease, may become insolvent or may declare bankruptcy or may fail to maintain the premises. Any such non-performance or default by a tenant under the lease will have an adverse impact on the Port's Revenue. Nonperformance by a significant tenant could have a serious long-term impact on the Port's financial condition. Even if, under the terms of the lease, the Port is able to terminate the lease and evict the tenant, the Port may have difficulty in securing another tenant. The terms of any new lease may not be as favorable as the prior lease.

The Port Commission's ability to make principal and interest payments on the Series 2014 Bonds is dependent upon the generation of Revenue, which is derived from the collection of rents, rates, tariffs and charges. A number of factors could adversely affect the Port Commission's ability to generate Revenue and pay its operating costs through its lease, rates and tariffs structure including, but not limited to, increased capital improvement needs and the costs thereof, increased Operation and Maintenance Expenses, competition in the real estate market and maritime industry for the property and services offered by the Port, limits imposed by standards for historic preservation, changes in the cost and terms of debt financing, increased federal, state and city/county restrictions or requirements, and general economic conditions. These factors are not within the Port's control, to a large degree. The ability of the Port to generate or maintain Revenue through its real estate development activities is affected by the same factors. Any adverse change in any of the foregoing factors could make the ongoing development of the Port's properties more difficult or impossible, even if only for a period of time.

The Port competes with certain other port facilities in the immediate area and the region and is subject to competitive factors and market conditions in a number of sectors. See "Certain Economic and Other Constraints on Port Revenue" above.

Risk of Earthquake

The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about three miles to the southeast of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant recent seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and environs. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (the "U.S.G.S."), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of about magnitude 6.7 or larger will occur in the San Francisco Bay Area before the year 2038. Such earthquakes may be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost $100 billion of damage. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly longer-term harm to the City's economy, tax receipts, and residential and business real property values.

As indicated by the report, a significant earthquake in the City is probable during the time the Series 2014 Bonds will be outstanding. As stated in the Seismic Hazards Mapping Act of 1990, the effects of strong ground shaking, liquefaction, landslides or other ground failure account for approximately 95% of economic losses caused by an earthquake. The Seismic Hazards Mapping Act of 1990 requires sellers and agents of real property located within a Seismic Hazard Zone to disclose the zone designation to buyers at the time of sale. The Port Area is located within a liquefaction zone according to a report prepared by the California Geologic Survey. Liquefaction is a significant loss of soil strength resulting from increased pore water pressure during earthquakes. Loss of soil strength can cause damage to Port facilities and infrastructure (including the seawall) due to ground settlement or lateral spreading. The Seismic Hazards Mapping Act also requires cities or counties to regulate certain development projects within the zones by withholding approval until the soil conditions of the project sites are investigated and appropriate mitigation measures are incorporated into the development plans. As a part of the building permit review for waterfront projects that trigger a seismic code upgrade, the Port requires geotechnical investigations be conducted that profile the soils, determine the potential for liquefaction, and identify measures to mitigate seismic impact.

The Port does not carry earthquake insurance and the Port does not anticipate obtaining earthquake insurance for the Port Area. In addition, in the event facilities located within the Port Area are damaged or destroyed in an earthquake, the business operations and finances of the Port could be materially adversely affected.

FEMA Flood Zone

On September 21, 2007, Federal Emergency Management Agency ("FEMA") published a preliminary Flood Insurance Rate Map ("FIRM") for San Francisco depicting Special Flood Hazard Areas ("SFHAs"). A SFHA is defined as an area subject to flooding during a flood having a 1% chance of occurrence in any given year (also referred to as the 100-year flood or base flood.) The preliminary FIRM shows SFHAs along San Francisco's coastline, including most of the Port's finger piers. Initial analysis by the Port's Chief Harbor Engineer indicates that currently most of the Port's finger piers have a freeboard (or clearance) of one foot or more above the Total Water Elevations projected by FEMA during the occurrence of the base flood. Port staff submitted detailed comments to FEMA regarding its preliminary FIRM demonstrating the absence of significant flood hazards on portions of Port property and the ability of finger piers to withstand forces associated with the base flood. In 2008, the Port's Chief Harbor Engineer certified the Port's comments submitted to FEMA. The analysis and certifications included in the Chief Harbor Engineer's report show that:

1. The Port's piers and wharfs are structurally sufficient to withstand the effects of wave action and most of the pier decks are above the expected wave heights. Therefore, the Port's piers and wharves should be removed from the SFHA;

2. The Port's seawall sections are structurally sufficient and have adequate height above the expected wave heights to provide protection against the base flood. Therefore, the landside improvements should be removed from the SFHA; and

3. The breakwaters are structurally sufficient to provide protection to many areas of the Port waterfront by reducing the wave height. Since the breakwaters provide significant wave and thus flood protection, the Port requested that FEMA re-analyze the projected Base Flood Elevations in the areas behind the breakwaters to account for the breakwater's effect on wave action.

FEMA is currently evaluating these comments and performing detailed coastal engineering analyses and mapping of the San Francisco Bay shoreline within the nine Bay Area counties. The analysis and mapping will provide the flood and wave data for the City's Flood Insurance Study and FIRM map panels along the Bay shoreline. FEMA is expected to issue a final FIRM for San Francisco in 2015.

In 2008 the City published an Interim Floodplain Map and adopted a floodplain management ordinance that FEMA has approved, to ensure any construction within the City's identified flood prone areas is built to standards to withstand the base flood. The Port Commission Building Code contains equivalent standards for new construction and substantial rehabilitation of non-historic structures on Port land and, since 2010, standards for additions to, and substantial rehabilitation of, historic structures.

Risk of Tsunami

The California Geological Survey ("CGS"), in concert with the California Emergency Management Agency and the Tsunami Research Center at the University of Southern California, has produced statewide tsunami inundation maps. CGS has identified the Port Area as being located in the San Francisco Tsunami Inundation Zone. Port facilities could be impacted by a tsunami that breaches San Francisco Bay. The Port does not carry tsunami insurance and the Port does not anticipate obtaining tsunami insurance for the Port Area. In the event facilities located within the Port Area are damaged or destroyed by a tsunami, the business operations and finances of the Port could be materially adversely affected.

Sea Level Rise

One of the most 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 analysis 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 waterfront roadway, The Embarcadero. 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.

Acts of Terrorism and Force Majeure Events

The federal Department of Homeland Security has identified the major ports on the California coast, including the Port, and other ports in the United States, as facilities subject to a high level of risk of terrorist attacks. In addition, certain facilities on the Port are subject to regulation under the Maritime Transportation Security Act of 2002 ("MTSA") and regulations adopted thereunder, which require the Port to implement security measures designed to protect the ports and waterways of the U.S. from a terrorist attack. Regulated facilities at the Port include cargo, cruise and ferry facilities. In response to such concerns and in compliance with MTSA and other applicable regulations, the Port has undertaken additional security measures – both at facilities regulated under MTSA, and to protect Port facilities and public access areas not regulated under MTSA. However, the Port Commission cannot predict the likelihood of a terrorist attack on any of its facilities or the extent of damage or disruption that might result or the degree to which such compliance measures will be successful in preventing an attack. In addition, the Port Commission is not able to assess the ultimate cost of the security measures which are currently required by the MTSA and applicable regulations or which may be required in the future. Required security measures are reevaluated and modified frequently by the federal Department of Homeland Security. Such measures, and the cost of their implementation, could increase in the future. The Port's facilities are not insured by the Port Commission against terrorist attack. See "No Insurance For Certain Losses" below.

The Port's facilities and its ability to generate Revenue from its properties are also at risk from other events of force majeure, such as extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots. While the Port Commission has attempted to address the risk of a loss from many of these sorts of occurrences through the purchase of commercial property and casualty insurance, certain of these events may not be covered by standard property and casualty insurance coverages. Notwithstanding that the Port Commission may seek recovery under its insurance policies in the event of the occurrence of an insured loss, there exists the possibility that an insurer may deny coverage and refuse to pay a claim and there is an attendant risk of litigation and delay in receipt of any loss claim payment. In the event of damage to the Port's facilities, the collection of lease rentals or other tariffs, fees and charges for the use of Port properties and other amounts comprising the Revenue could be impaired for an undetermined period.

No Insurance for Certain Losses

The Port Commission does not currently maintain insurance insuring against loss resulting from earthquake, tsunami, flood, losses to its fleet of vehicles from terrorist activity and certain other types of loss. The Port Commission would be required to pay for the costs resulting from any catastrophic loss from its budgetary reserves. It is expected that grant moneys from FEMA would be available to the Port Commission to pay a portion of such costs. However, such FEMA grant funds, if available at all, might not be available in amounts sufficient to pay a significant portion of such costs, and there can be no assurance that the Port Commission's budgetary reserves will be adequate to address any casualty or loss which its facilities might experience. See "PORT COMMISSION FINANCIAL OPERATIONS – Risk Management and Insurance."

Operation and Maintenance Expenses

The payment of principal of and interest on the Series 2014 Bonds will be made from the Net Revenue of the Port, which is comprised of the Revenue of the Port available after payment of the Operation and

Maintenance Expenses of the Port. There can be no assurance that the Operation and Maintenance Expenses of the Port will continue at the levels that currently prevail. Such expenses could increase substantially and could cause the Port Commission to be unable to meet the debt service coverage requirement of the Indenture. The Port Commission has a limited ability to increase its rates, tariffs and charges and in all cases, such increases are subject to prevailing market conditions, which could cause such increases to raise the number of defaults under the Port's agreements with its tenants or to reduce the market demand for the Port's properties. See "PORT COMMISSION FINANCIAL OPERATIONS – Operation and Maintenance Expenses" herein.

Risks Related to Environmental Liability; Hazardous Substances and Increased Environmental Regulation

The Port is subject to a wide variety of local, State, and federal transportation and environmental laws. Such laws include mandates with respect to the Port's properties and operations conducted thereon, including regulations governing uses of Port property, air emissions, stormwater compliance and discharges to San Francisco Bay, and handling of hazardous materials. The regulations governing the use of Port property and activities conducted on it are likely to evolve and become more restrictive over time.

The Port is currently subject to environmental compliance orders issued by regulatory agencies with purview over Port property or voluntary oversight by such agencies associated with known or suspected contamination of Port property or groundwater. These agencies include the San Francisco Bay Regional Water Quality Control Board and the San Francisco Department of Public Health. These orders and voluntary oversight typically arise from the activities of former Port tenants who are the primary responsible parties for such contamination. It is likely that future environmental investigations of Port property will result in identifying contamination that will result in additional orders and/or voluntary oversight. In some of these cases, the Port may have difficulty identifying parties responsible for the subject contamination. The costs to the Port to implement the compliance measures required by such orders and mandates are included as Operation and Maintenance Expenses of the Port, and are substantial. Such regulations are subject to amendment from time to time, and any such amendments could require the Port to undertake additional, costly compliance measures. The costs of such compliance measures and amendments could materially increase the Port's operating costs and thereby adversely affect Net Revenue.

The Port Area includes properties on which hazardous substances have been located. It is likely, due to the nature of past operations on Port properties, that additional Port properties will be found to have hazardous substances located on them. See "PORT COMMISSION FINANCIAL OPERATIONS – Environmental Compliance" herein. The Port as the owner of contaminated property may be liable in the event of a determination of the presence or discharge of hazardous substances on its property, irrespective of its knowledge of the presence or discharge of such substances, or its lack of responsibility for the existence of such substances on its property. Costs of remediation of these substances, if required, could be extremely high and could exceed the value or revenue generation potential of such properties. The costs of remediation could materially increase the Port's Operation and Maintenance Expenses and could thereby adversely affect the Net Revenue available to pay the Series 2014 Bonds. Insurance coverage for the costs of environmental liability of the Port may be limited and many such costs are not covered by commercial insurance policies.

Construction Risk

Construction on Port property involves difficulties peculiar to construction over water and on landfill such as tide-limited work hours and unanticipated soil conditions or buried objects. Construction of Port facilities is also subject to ordinary construction risks and delays applicable to projects of their kind, such as (i) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; or (vi) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards.

Constitutional and Statutory Restrictions on Fees and Charges; Change in Law

The Port is subject to State, federal and City laws that restrict its operations. Such laws may be amended at any time. Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law that could limit the ability of the Port to impose and increase revenue sources and to spend such revenues, and that, under certain circumstances, could permit existing revenue sources of the Port to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the Port's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

Articles XIII C and XIII D of the California Constitution. Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. The applicability of Proposition 218 to enterprise departments of cities, such as the Port, is unclear, but the Port believes that Proposition 218 is inapplicable to the fees and charges imposed by it. The voter approval requirements of Article XIII C reduce the flexibility of local governments to deal with fiscal problems by raising revenue through new, extended or increased assessments, fees and charges. No assurance can be given that the Port will be able to raise assessments, fees and charges in the future to meet increased expenditure requirements, if it is later determined that the Port's fees and charges are subject to Proposition 218.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to the collection of revenues to repay bonds. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges by the Port.

Article XIII D contains several provisions intended to restrict the ability of local agencies to levy and maintain "assessments" and "fees" (as defined in Article XIII D) for "property related services." Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." A "property related service" is defined as "a public service having a direct relationship to property ownership." The Port is of the opinion that charges for its services are not property related fees or charges and therefore are not subject to the limits of Article XIII D. The Port cannot predict the future impact of Proposition 218 on the finances of the Port, and no assurance can be given that, due to subsequent interpretations of Proposition 218 by the courts, Proposition 218 will not have a material adverse impact on the Port's revenues.

Proposition 26. Proposition 26 was approved by voters of the State in November 2010 and revises the California Constitution to expand the definition of "taxes." Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments. The applicability of Proposition 26 to the Port is unclear, but the Port believes that Proposition 26 is inapplicable to the fees and charges imposed by it.

Future Changes in Laws. No assurance can be given that the State electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the laws or the Constitution of the State of California, resulting in a reduction of Net Revenue and, consequently, having an adverse effect on the security for the Series 2014 Bonds. No assurance can be given that the City electorate will not at some future time adopt an initiative or Charter amendment having an impact on the Port's operations and, consequently, having an adverse effect on the security for the Series 2014 Bonds.

Bankruptcy or Financial Failure of Tenant

The financial failure or bankruptcy of a Port tenant could adversely affect the ability of such tenant to honor its obligation under its lease, may affect the Port Commission's ability to enforce the terms of the lease against such tenant and could allow such tenant to reject its lease. Further, the Port Commission's right to receive payment of rent accrued prior to bankruptcy may be limited to the rights of an unsecured creditor of the bankrupt entity.

Two former Port co-tenants who had a lease at Pier 38 are in bankruptcy proceedings. The Port Commission is in ongoing litigation with the former Pier 38 co-tenants. See "LITIGATION" herein. The Port Commission is not aware of the existing or impending financial failure or bankruptcy of any other Port tenant, but there can be no assurance that a financial failure or bankruptcy of another tenant will not occur.

Uncertainties of Projections and Assumptions; Forward Looking Statements

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under "PORT COMMISSION FINANCIAL OPERATIONS – Projected Debt Service Coverage." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the Port Commission assumes no responsibility for the accuracy of such projections.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." All forward-looking statements are predictions and are subject to known and unknown risks and uncertainties. No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this official statement. Given their uncertainty, investors are cautioned not to place undue reliance on such statements.

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers

As discussed under "TAX MATTERS," interest on the Series 2014A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the Series 2014A Bonds as a result of future acts or omissions of the Port Commission in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Series 2014A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2014 Bonds or, if a secondary market exists, that the Series 2014 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

AUDITED FINANCIAL STATEMENTS

Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013 are attached as Appendix B. See Appendix B – "PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013." The Financial Statements have been audited by Macias Gini & O'Connell LLP, independent certified public accountants. The Port Commission prepares financial statements that are audited annually.

The Port has not requested nor did the Port obtain permission from Macias Gini & O'Connell LLP to include its report on the audited financial statements in Appendix B to this Official Statement. Macias Gini & O'Connell LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The Port Commission has covenanted for the benefit of the Owners of the Series 2014 Bonds to provide certain financial information and operating data relating to the Port Commission not later than 270 days after the end of the Port Commission's Fiscal Year (which currently ends on June 30), commencing with the report for Fiscal Year 2013-14 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Port Commission with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website.

The specific nature of the information to be contained in the Annual Report or the notices of certain events is summarized in Appendix C – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Port Commission is not in default with respect to any previous undertaking made with regard to said Rule.

In the last five years, the Port Commission has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual financial information or notices of material events.

TAX MATTERS

Series 2014A Bonds – Federal Tax Law

In the opinion of Jones Hall, A Professional Law Corporation, and Schiff Hardin LLP, Co-Bond Counsel, subject, however, to certain qualifications set forth below, under existing law, the interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except during any period while a Series 2014A Bond is held by a "substantial user" of the facilities financed by the Series 2014A Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Tax Code"). It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations.

The opinion of Co-Bond Counsel is subject to the condition that the Port Commission comply with certain requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series 2014A Bonds. The Port Commission has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2014A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2014A Bonds.

Series 2014B Bonds – Federal Tax Law

The interest on the Series 2014B Bonds is not intended by the Port Commission to be excluded from gross income for federal income tax purposes.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, Co-Bond Counsel informs owners of the Series 2014B Bonds that any U.S. federal tax advice contained in this Official Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Series 2014B Bonds. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

State Law

In the further opinion of Co-Bond Counsel, interest on the Series 2014 Bonds is exempt from California personal income taxes.

Original Issue Discount; Original Issue Premium

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Series 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2014 Bonds under federal individual and corporate alternative minimum taxes.

Limitation

Co-Bond Counsel expresses no opinion regarding any federal tax consequences arising with respect to the Series 2014A Bonds and the Series 2014B Bonds other than as expressly described above. Owners of the Series 2014A Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014A Bonds may have federal or state tax consequences other than as described above for certain taxpayers, including without limitation, foreign corporations subject to the branch profits tax, financial institutions, property and casualty insurance companies, S corporations and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations. Prospective investors, particularly those who may be subject to special rules, should consult their own tax advisors regarding the tax consequences of owning the Series 2014A Bonds.

Form of Opinion

The form of opinion of Co-Bond Counsel is set forth as Appendix E hereto.

RATINGS

Moody's Investors Service, Inc. ("Moody's), Standard & Poor's Ratings Services ("S&P"), and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of "A1," "A-" (positive outlook) and "A" (stable outlook), respectively, to the Series 2014 Bonds. The ratings issued reflect only the views of such rating agencies and are not a recommendation to buy, sell or hold the Series 2014 Bonds. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. There is no assurance that such ratings will be retained for any given period or that the same will not be revised downward or withdrawn entirely by such rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the marketability or the market price of the Series 2014 Bonds.

UNDERWRITING

The Series 2014 Bonds are being purchased by Siebert Brandford Shank & Co., L.L.C., as representative of itself and Stifel (together, the "Underwriters"). The Underwriters have agreed to purchase the Series 2014A Bonds at a purchase price of $20,501,091.69 (comprised of the principal amount of the Series 2014A Bonds, plus a net original issue premium of $712,623.30, less an Underwriters' discount in the amount of $91,531.61). The Underwriters have agreed to purchase the Series 2014B Bonds at a purchase price of $$2,784,748.76 (comprised of the principal amount of the Series 2014B Bonds, less an Underwriters' discount in the amount of $10,251.24).

The purchase contract pursuant to which the Series 2014 Bonds are being sold provides that the Underwriters will purchase all of the Series 2014 Bonds if any Series 2014 Bonds are purchased, and the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2014 Bonds to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Port Commission, threatened against the Port Commission affecting the existence of the Port Commission or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Series 2014 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Series 2014 Bonds, the Indenture or any action of the Port Commission contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Port Commission with respect to the Series 2014 Bonds or any action of the Port Commission contemplated by any of said documents, nor, to the knowledge of the Port Commission, is there any basis therefor.

There are a number of litigation matters pending against the Port Commission for incidents at the Port, involving claims and suits which arise out of the ordinary course of business and operations of the Port. The Port Commission is also a named party in various other environmental and regulatory matters that are presently in the course of regulatory investigation and compliance review. Certain of such matters are discussed herein under the caption "PORT COMMISSION FINANCIAL OPERATIONS – Environmental Compliance." In the opinion of the Port General Counsel, an adverse judgment on any of these pending matters, either individually or in the aggregate, will not have a material adverse effect on the Net Revenue or on the financial condition of the Port. Most of such claims involve claims relating to personal injury and property damage and most such claims are covered by a comprehensive insurance program maintained by the Port Commission. See "PORT COMMISSION FINANCIAL OPERATIONS – Risk Management and Insurance" herein.

CERTAIN LEGAL MATTERS

The validity of the Series 2014 Bonds and certain other legal matters are subject to the approving opinions of Jones Hall, A Professional Law Corporation, San Francisco, California, and Schiff Hardin LLP, San Francisco, California, Co-Bond Counsel. Complete copies of the proposed forms of Co-Bond Counsel opinions are contained in Appendix E hereto, and will be made available to the Underwriters of the Series 2014 Bonds at the time of the original delivery of the Series 2014 Bonds. None of Co-Bond Counsel, Disclosure Counsel or Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Port Commission by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Curls Bartling P.C., Oakland, California

Hawkins Delafield & Wood LLP has served as disclosure counsel to the Port Commission and in such capacity has advised the Port Commission with respect to applicable securities laws and participated with responsible Port Commission officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel has not undertaken to independently verify any of such statements or information and is therefore not responsible for the accuracy or completeness of the statements or information presented in this Official Statement. Rather, the Port Commission is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the issuance of the Series 2014 Bonds, Disclosure Counsel will deliver a letter to the Port Commission which advises the Port Commission, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of such firm which caused them to believe that this Official Statement as of its date and as of the date of issuance of the Series 2014 Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Series 2014 Bonds, or other person or party other than the Port Commission, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the Port Commission.

ROLE OF THE FINANCIAL ADVISORS

Public Financial Management, Inc., San Francisco, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California are acting as Financial Advisors to the Port Commission with respect to the Series 2014 Bonds. The Financial Advisors have assisted the Port Commission in the preparation of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Series 2014 Bonds. The Financial Advisors have not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Port Commission to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisors will not purchase or make a market in any of the Series 2014 Bonds.

Compensation to be received by the Financial Advisors from the Port Commission for services provided in connection with the planning, structuring, execution and delivery of the Series 2014 Bonds is contingent upon the sale and delivery of the Series 2014 Bonds.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

The appendices to this Official Statement are integral parts of this Official Statement. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Port Commission and the purchasers or owners of any of the Series 2014 Bonds. The preparation and distribution of this Official Statement has been authorized by the Port Commission. For copies, written request may be made to the Manager of Communications, Port of San Francisco, Pier 1, The Embarcadero, San Francisco, CA 94111.

APPROVAL AND EXECUTION

The execution and delivery of this Official Statement has been authorized by the Port Commission.

PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Monique Moyer
Executive Director

APPENDIX A

SUMMARY OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture of Trust dated as of February 1, 2010 (the "**Master Indenture**"), the First Supplement to Indenture of Trust dated as of February 1, 2010 (the "**First Supplemental Indenture**"**)**, and the Second Supplement to Indenture of Trust dated as of May 1, 2014 (the "**Second Supplemental Indenture**"; together with the Master Indenture and the First Supplemental Indenture, the "**Indenture**")." Following delivery of the Series 2014 Bonds, the Indenture will be on file with the Trustee. This summary is not intended to be definitive and investors are advised to refer to the actual Indenture for the complete terms of the documents summarized below.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. The following is a summary of certain of the defined terms from the Indenture.

"Act" means the Charter of the City and County of San Francisco, as supplemented and amended, and all enactments of the Board adopted pursuant thereto, including Ordinance No. 258-09 adopted by the Board of the City on December 8, 2009 and signed by Mayor Gavin Newsom on December 18, 2009, and codified as Chapter 43, Article XII of the San Francisco Administrative Code.

"Amortized Bonds" means those Bonds subject, pursuant to their terms, to optional or mandatory tender for purchase prior to maturity by or on behalf of the Commission or a Credit Provider.

"Annual Debt Service" means in any Fiscal Year (i) the amount scheduled to become due and payable on the Outstanding Bonds or any one or more Series thereof in any Fiscal Year as (a) interest, plus (b) Principal Amount at maturity, plus (c) mandatory sinking fund redemptions, (ii) Swap Payments scheduled to be paid under an Interest Rate Swap and (iii) Repayment Obligations. For purposes of calculating Annual Debt Service, the following assumptions shall be used:

(i) All Principal Amount payments and mandatory sinking fund redemptions will be made as and when the same becomes due;

(ii) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of the actual rates on such Variable Rate Bonds for each day during the 365 consecutive days (or any lesser period such Bonds have been outstanding) ending on the last day of the month next preceding the date of computation, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such Variable Rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

(iii) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon, as set forth in a certificate of the Commission prior to the date of delivery of such Bonds, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such variable rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

(iv) If any Interest Rate Swap is in effect pursuant to which the Commission pays Swap Payments at a variable rate, and such Interest Rate Swap is payable on a parity with the fixed rate Bonds to which it relates, amounts payable under such Interest Rate Swap shall be included in the calculation of Annual Debt

Service and calculated by the same method as variable rate interest pursuant to paragraphs (ii) and (iii) above, and the Annual Debt Service on such Bonds shall be adjusted to reflect the fixed rate to be received under such Interest Rate Swap;

(v) If any Bonds are Paired Obligations, the interest rate on such Bonds shall be the resulting fixed interest rate to be paid by the Commission with respect to such Paired Obligations;

(vi) Amortized Bonds shall be deemed to be amortized on a level debt service basis over the period beginning on the date of calculation to the date of final maturity of such Amortized Bonds at the then current Index Rate;

(vii) Capitalized interest on any Bonds and accrued interest paid on the date of initial delivery of any Series of Bonds shall be excluded from the calculation of Annual Debt Service if cash and/or Permitted Investments have been irrevocably deposited with and are held by the Trustee or other fiduciary for the Owners of such Bonds sufficient to pay such interest;

(viii) Repayment Obligations proposed to be entered into which are secured by Net Revenue on a parity with the Bonds as provided in the Indenture shall be deemed payable to the extent such Repayment Obligations are drawn upon and remain outstanding, and in such event, the amounts scheduled to be due under the Repayment Obligation shall be taken into account as Annual Debt Service; and

(ix) the interest rate on Build America Bonds shall be deemed to be reduced by the expected amount of Refundable Credit.

"Authenticating Agent" means, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Authorized Commission Representative" means the Executive Director or Deputy Director of Finance and Administration or the Finance Manager of the Commission, or the respective successors to the powers and duties thereof, or such other person as may be designated to act on behalf of the Commission by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Commission by the Executive Director or Deputy Director of Finance and Administration or the Finance Manager of the Commission, or their respective successors.

"Board of Supervisors" means the Board of Supervisors of the City and County of San Francisco, as duly elected, appointed and qualified from time to time in accordance with the provisions of the Charter.

"Bond Counsel" means an attorney or firm of attorneys of national recognition selected or employed by the Commission with knowledge and experience in the field of municipal finance.

"Bonds" means any evidences of indebtedness for borrowed money issued from time to time by the Commission under the Indenture or under a Supplemental Indenture pursuant to the Indenture, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation in the Indenture. Bonds may also include, for the purposes of any particular provision of the Indenture as provided in a Supplemental Indenture, any other obligation, including but not limited to contractual obligations, entered into by the Commission pursuant to the terms thereof with a lien on Net Revenue on a parity with other Outstanding Bonds.

"Build America Bonds" means a Series of Bonds that are subject to Section 54AA of the Code pursuant to an irrevocable election of the Commission or similar tax credit bonds.

"Business Day" means, unless otherwise specified by Supplemental Indenture, any day of the week other than Saturday, Sunday or a day which shall be, in the State of California, the State of New York or in the jurisdiction in which the Corporate Trust Office of the Trustee or the principal office of the Registrar is located, a legal holiday or a day on which banking institutions are authorized or obligated by law or executive order to close.

"Capital Appreciation Bonds" means Bonds the interest on which is compounded and accumulated at the rate or rates and on the date or dates set forth in the Supplemental Indenture authorizing the issuance thereof and which is payable only upon redemption and/or on the maturity date thereof.

"Charter" means the Charter of the City and County of San Francisco, as supplemented and amended, and any new or successor Charter.

"City" means the City and County of San Francisco, a chartered city and county and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations, rulings and procedures proposed or promulgated thereunder or under the Internal Revenue Code of 1954, as amended.

"Commission" means the Port Commission of the City and County of San Francisco as duly constituted from time to time under the Charter, and all commissions, agencies or public bodies which shall succeed to the powers, duties and obligations of the Commission.

"Corporate Trust Office" means the office of the Trustee at which its corporate trust business is conducted designated in writing to the Commission, which initially is located in San Francisco, California.

"Coverage" will have the meaning provided in the Indenture.

"Credit Facility" means a letter of credit, line of credit, standby purchase agreement, municipal bond insurance policy, surety bond or other financial instrument which obligates a third party to pay or provide funds for the payment of the Principal Amount or purchase price of and/or interest on any Bonds and which is designated as a Credit Facility in a Supplemental Indenture.

"Credit Provider" means the person or entity obligated to make a payment or payments with respect to any Bonds under a Credit Facility.

"Debt Service Fund" means the Debt Service Fund established pursuant to the Indenture.

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the Commission relating to the authorization, issuance, sale and delivery of the Bonds, including, but not limited to, printing expenses, filing and recording fees, fees and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, bond insurance premiums or other fees in connection with credit enhancement or other credit facilities obtained in connection with Bonds, rating agency fees and any other cost, charge or fee in connection with the original issuance of Bonds.

"Delivery Costs Funds" means, collectively, the Delivery Costs Funds established pursuant to the Indenture.

"Depository" means (a) initially, DTC, and (b) any other securities depository acting as Depository pursuant to the Indenture.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Enterprise Fund" means the San Francisco Harbor Trust Fund created pursuant to Section B6.406 of the Charter and held by the Treasurer, and any successor to such fund.

"Event of Default" means any one or more of those events described as events of default under the Indenture.

"First Supplemental Indenture" means the First Supplement to Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee, as successor trustee.

"Fiscal Year" means the one-year period beginning on July 1 of each year and ending on June 30 of the succeeding calendar year, or such other one-year period as the Commission shall designate as its Fiscal Year.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Fund" or "Account" means any fund or account established pursuant to the Indenture.

"Government Certificates" means evidences of ownership of proportionate interests in future principal or interest payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Government Obligations" means direct and general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Holder," "Bondholder," "Owner" and "Bondowner" means the person or persons in whose name any Bond or Bonds are registered on the records maintained by the Registrar.

"IFD Revenues" means revenues available to the Commission from an Infrastructure Financing District.

"Indenture" means the Master Indenture, as amended and supplemented.

"Independent Auditor" means a firm or firms of independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing selected or employed by the Commission.

"Index Rate" means the rate equal to the SIFMA Municipal Swap Index, or if such index ceases to be published, a comparable index published by the SIFMA or its successor or, if no comparable index then exists, eighty percent (80%) of the interest rate on actively traded ten (10) year United States Treasury Obligations.

"Infrastructure Financing District" means any district established pursuant to Chapter 2.8 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California or a similar law.

"Insolvent" shall be used to describe the Trustee, any Paying Agent, Authenticating Agent, Registrar, other agent appointed under the Indenture or any Credit Provider, if (a) such person shall have instituted proceedings to be adjudicated a bankrupt or insolvent, shall have consented to the institution of bankruptcy or insolvency proceedings against it, shall have filed a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall have consented to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator or other similar official of itself or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to the entry of an order for relief under the federal Bankruptcy Code or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due; or (b) a decree or order by a court having jurisdiction in the premises adjudging such person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such person under the federal Bankruptcy Code or any other similar applicable federal or state law or for relief under the federal Bankruptcy Code after an involuntary petition has been filed against such person, or appointing a receiver, liquidator, assignee, trustee or sequestrator or other similar official of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, shall have been entered and shall have continued unstayed and in effect for a period of 90 consecutive days.

"Interest Payment Date" means, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of interest on such Bonds.

"Interest Rate Swap" means an agreement between the Commission and a Swap Counter Party related to Bonds of one or more Series whereby a variable rate cash flow (which may be subject to an interest rate cap) on a principal or notional amount is exchanged for a fixed rate of return on an equal principal or notional amount.

"Master Indenture" means the Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee.

"Maximum Annual Debt Service" means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Net Revenue" means Revenue less Operation and Maintenance Expenses.

"Nominee" means "CEDE & CO." or any successor nominee designated by the Depository pursuant to the terms of the Indenture.

"Operation and Maintenance Expenses" means, for any period, all expenses of the Commission incurred for the operation and maintenance of the Port Area, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest (including capitalized interest) on any Bonds, Subordinate Bonds, general obligation bonds issued by the City for Port Area purposes or other Port indebtedness; (b) any allowance for amortization, depreciation or obsolescence of the Port Area; (c) any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenue, including, but not limited to, Special Facility Revenue; (d) any extraordinary items arising from the early extinguishment of debt; (e) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Port Area which, under generally accepted accounting principles, are properly chargeable to the capital account or any reserves for depreciation; (f) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Port Area properties; (g) items that are unusual or unrelated to the Commission's ordinary activities and would occur infrequently, including but not limited to litigation settlements or awards or other items not included in the annual budget or non-cash items paid over a number of years; (h) non-cash expenses arising from pension and post-employment pension benefits; and (i) dredging costs.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

"Opinion of Counsel" means a written opinion of an attorney or firm of attorneys acceptable to the Trustee and the Commission, and who (except as otherwise expressly provided in the Indenture) may be either counsel for the Commission or for the Trustee.

"Outstanding" when used with reference to a Series of Bonds means, as of any date of determination, all Bonds of such Series which have been executed and delivered under the Indenture except: (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds which are deemed paid and no longer Outstanding as provided in the Indenture or in any Supplemental Indenture authorizing the issuance thereof; (c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Indenture or of any Supplemental Indenture authorizing the issuance thereof; and (d) for purposes of any consent or other action to be taken under the Indenture by the Holders of a specified percentage of Principal Amount of Bonds of a Series or all Series, Bonds held by or for the account of the Commission.

"Paired Obligations" means any one or more Series (or portion thereof) of Bonds, designated as Paired Obligations in a Supplemental Indenture or a certificate of the Commission, which are simultaneously issued, executed or delivered and (i) the principal or notional amount of which, as applicable, is of equal amount and (ii) the interest rates on which, taken together, result in an irrevocably fixed rate obligation of the Commission for the term of such Bonds.

"Paying Agent" means, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission under the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Payment Date" means, with respect to any Series of Bonds, each Interest Payment Date and Principal Payment Date.

"Permitted Investments" means and include any of the following, if and to the extent the same are at the time legal for the investment of the Commission's money:

(a) Government Obligations and Government Certificates.

(b) Obligations issued or guaranteed by any of the following:

Export-Import Bank of the United States;

Farmers Home Administration;

Federal Farm Credit System;

Federal Financing Bank;

Federal Home Loan Bank System;

Federal Home Loan Mortgage Corporation;

Federal Housing Administration;

Federal National Mortgage Association;

Government National Mortgage Association;

Private Export Funding Corporation

Resolution Funding Corporation;

Student Loan Marketing Association; and

any other instrumentality or agency of the United States.

(c) Prerefunded municipal obligations rated at the time of purchase of such investment in the highest rating category by the Rating Agencies then rating the Bonds and meeting the following conditions:

(i) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal and premium payments of such obligations;

(iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such prerefunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations or Government Certificates serving as security for the obligations have been irrevocably deposited with and are held by an escrow agent or trustee; and

(v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

(d) Direct and general long-term obligations of any State of the United States of America or the District of Columbia (a "State") to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in either of the two highest rating categories by the Rating Agencies then rating the Bonds.

(e) Direct and general short-term obligations of any State to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in the highest rating category by the Rating Agencies then rating the Bonds.

(f) Interest-bearing demand or time deposits with, or banker's acceptances from, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC"). Such deposits must be at least one of the following: (i) continuously and fully insured by FDIC; (ii) if they have a maturity of one year or less, with or issued by banks that are rated in one of the two highest short-term rating categories by the Rating Agencies then rating the Bonds; (iii) if they have a maturity longer than one year, with or issued by banks that are rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds; or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government

Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depositary, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Long-term or medium-term corporate debt guaranteed by any corporation that is rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds.

(h) Repurchase agreements longer than one year with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition.

(i) Prime commercial paper of a corporation, finance company or banking institution rated at the time of purchase of the investment in the highest short-term rating category by the Rating Agencies then rating the Bonds.

(j) State or public agency or municipality obligations rated at the time of purchase of the investment in the highest credit rating category by the Rating Agencies then rating the Bonds.

(k) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by the Rating Agencies then rating the Bonds.

(l) Money market accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by the Rating Agencies then rating the Bonds.

(m) Investment agreements the issuer of which is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds.

(n) The City and County of San Francisco Treasurer's Investment Pool.

(o) Any other debt or fixed income security specified by an Authorized Commission Representative and rated at the time of purchase of the investment in the highest short-term rating category or one of the three highest long-term rating categories by the Rating Agencies then rating the Bonds.

"Port Area" means all real and personal property, which are owned, controlled or operated by the Commission or over which the Commission has management, supervision or control, or which the Commission deems to be of benefit to the Port Area.

"Port Consultant" means a firm or firms of national recognition with knowledge and experience in the field of real estate and/or in the field of advising the management of ports as to the planning, development, operation and management of ports and port facilities, selected and employed by the Commission from time to time.

"Principal Amount" means, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof, and (b) with respect to any other Bonds, the stated principal amount thereof.

"Principal Payment Date" means, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of the Principal Amount of such Bonds either at maturity or upon prior redemption from mandatory sinking fund payments.

"Project Funds" means, collectively, the Project Funds established pursuant to the Indenture.

"Qualified Facility" means a dock or wharf and property that is functionally related and subordinate to a dock or wharf, including storage or training facilities directly related to the dock or wharf and physically located on or adjacent to the dock or wharf as described in Treasury Regulation section 1.103-8(3).

"Qualified Project Costs" means costs paid with respect to the portion of the Series 2014 Projects financed with Series 2014A Proceeds that meet each of the following requirements: (i) the costs are properly chargeable to the capital account (or would be so chargeable with a proper election by the Commission or but for a proper election by the Commission to deduct such costs) in accordance with general federal income tax principles and in accordance with United States Treasury Regulations §1.103-8(a)(1), provided, however, that only such portion of interest accrued during rehabilitation or construction of the portion of the Series 2014 Projects financed with Series 2014A Proceeds shall be eligible to be a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all costs of the portion of the Series 2014 Projects financed with Series 2014A Proceeds; and provided further that interest accruing after the date of completion of the portion of the Series 2014 Projects financed with Series 2014A Proceeds shall not be a Qualified Project Cost; (ii) the costs are paid with respect to a qualified facility or facilities within the meaning of Section 142(c) of the Code, (iii) the costs are paid after the earlier of 60 days prior to the date of a declaration of "official intent" to reimburse costs paid with respect to the portion of the Series 2014 Projects financed with Series 2014A Proceeds (within the meaning of §1.150-2 of the United States Treasury Regulations) or the date of issue of the Series 2014A Bonds, and (iv) if the costs relating to the portion of the Series 2014 Projects financed with Series 2014A Proceeds were previously paid and are to be reimbursed with Series 2014A Proceeds such costs were (A) costs of issuance of the Series 2014A Bonds, (B) preliminary capital expenditures (within the meaning of United States Treasury Regulations §1.150-2(f)(2)) with respect to the portion of the Series 2014 Projects financed with Series 2014A Proceeds (such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the portion of the Series 2014 Projects financed with Series 2014A Proceeds that do not exceed twenty percent (20%) of the issue price of the Series 2014A Bonds (as defined in United States Treasury Regulations §1.148-1), or (C) were capital expenditures with respect to the portion of the Series 2014 Projects financed with Series 2014A Proceeds that are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the portion of the Series 2014 Projects financed with Series 2014A Proceeds is placed in service (but no later than three (3) years after the expenditure is paid). Qualified Project Costs shall include only (A) the actual out-of-pocket costs incurred by the Commission in constructing or rehabilitating the portion of the Series 2014 Projects financed with Series 2014A Proceeds (or any portion thereof), and (B) any reasonable fees for supervisory services actually rendered by the Commission.

"Qualified Reimbursable Costs" means (i) expenditures paid for costs of issuance of the Series 2014A Bonds, (ii) preliminary capital expenditures (within the meaning of Treasury Regulation section 1.150-2(f)(2)) with respect to the Series 2014 Projects, such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the Series 2014 Projects that do not exceed 20% of the issue price of the Series 2014A Bonds, and (iii) capital expenditures that (A) were paid no earlier than 60 days before the date of the adoption (being December 12, 2013 with respect to the Series 2014A Bonds) by the Commission of a declaration of intent to reimburse such expenditures from the proceeds of obligations, and (B) are reimbursed no later than 18 months after the later of the date the expenditure was paid or the date the Series 2014 Projects is placed in service (but no later than 3 years after the expenditure is paid).

"Qualified Self-Insurance" means either (a) a program of self-insurance, or (b) insurance maintained with a fund, company or association in which the Commission shall have a material interest and of which the Commission shall have control, either singly or with others, and in each case which meets the requirements of the Indenture.

"Rating Agency" means Moody's, Standard & Poor's and/or Fitch and any other rating agency designated by the Commission.

"Record Date" means, with respect to any Series of Bonds, each date, if any, specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof as a Record Date.

"Refundable Credit" means, with respect to a Series of Bonds that are Build America Bonds, the amounts which are payable by the Federal government under Section 6431 of the Code, which the Commission has elected to receive under Section 54AA(g)(1) of the Code.

"Registrar" means, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Repayment Obligation" means an obligation under a written agreement between the Commission and a Credit Provider to reimburse the Credit Provider for amounts paid under or pursuant to a Credit Facility for the payment of the Principal Amount or purchase price of and/or interest on any Bonds.

"Reserve Fund" means the Reserve Fund established pursuant to the Indenture.

"Reserve Requirement" means, as to each Series of Bonds and as of any calculation date, the amount provided in the Supplemental Indenture providing for the issuance of such Series of Bonds.

"Responsible Officer" when used with respect to the Trustee means any corporate trust officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Revenue" means all revenue earned by the Commission from or with respect to its management, supervision, operation and control of the Port Area, as determined in accordance with generally accepted accounting principles. Revenues shall include IFD Revenues to the extent permitted by law and designated as Revenues in a Supplemental Indenture. Revenue shall not include: (a) Special Facility Revenue and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenue by the Commission, (b) grants-in-aid, donations and/or bequests, which by their terms would be restricted to uses inconsistent with the purposes provided hereunder or (c) IFD Revenues unless designated by the Commission as Revenues in a Supplemental Indenture.

"Revenue Stabilization Fund" means the amounts designated by the Commission on deposit in one or more funds of the Commission (including amounts designated in one or more existing funds or accounts of the Commission) which amounts are generally available to pay debt service on the Bonds and/or Operation and Maintenance Expenses.

"Second Supplemental Indenture" means the Second Supplement to Indenture of Trust, dated as of May 1, 2014, by and between the Commission and the Trustee.

"Series of Bonds" or "Bonds of a Series" or "Series" means a series of Bonds issued pursuant to the Indenture.

"Series 2010 Bonds" means collectively the Series 2010A Bonds and the Series 2010B Bonds.

"Series 2010A Bonds" means the $14,220,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt).

"Series 2010B Bonds" means the $22,430,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Taxable).

"Series 2010 Continuing Disclosure Certificate" means the Continuing Disclosure Certificate executed by the Commission, dated the closing date of the Series 2010 Bonds, as originally executed and as may be amended from time to time.

"Series 2010A Project Costs Fund" means that certain fund established pursuant to the First Supplemental Indenture.

"Series 2010B Project Costs Fund" means that certain fund established pursuant to the First Supplemental Indenture.

"Series 2010A Reserve Account" means the Series 2010A Reserve Account in the Reserve Fund established pursuant to the First Supplemental Indenture.

"Series 2010B Reserve Account" means the Series 2010B Reserve Account in the Reserve Fund established pursuant to the First Supplemental Indenture.

"Series 2014 Bonds" means, collectively, the Series 2014A Bonds and the Series 2014B Bonds.

"Series 2014 Payment Date" means each Series 2014 Interest Payment Date and Series 2014 Principal Payment Date.

"Series 2014 Projects" means the design, construction, reconstruction, repair and/or improvement of various facilities of the Port of San Francisco.

"Series 2014 Record Date" means the close of business on the fifteenth day of the month preceding each Series 2014 Interest Payment Date, whether or not such fifteenth day is a Business Day.

"Series 2014A Bonds" means the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt).

"Series 2014A Delivery Costs Fund" means the fund by that name established pursuant to the Indenture.

"Series 2014A Proceeds" means the sale proceeds of the Series 2014A Bonds, plus any investment earnings thereon.

"Series 2014A Project Costs Fund" means that certain fund established pursuant to the Indenture.

"Series 2014A Reserve Account" means the Series 2014A Reserve Account in the Reserve Fund established pursuant to the Indenture.

"Series 2014A Reserve Requirement" means, as of any date of calculation, the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2014A Bonds, (ii) 125% of average annual debt service on the Series 2014A Bonds and (iii) 10% of the initial Principal Amount of Series 2014A Bonds, and (iv) the sum of (A) $650,614.56, which is the initial deposit to the Series 2014A Reserve Account established pursuant to the Indenture, plus (B) any amounts available to be transferred from the Series 2014B Reserve Account pursuant to the Indenture. To the extent a future Series of Bonds is designated in a

Supplemental Indenture to benefit from the Series 2014A Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

"Series 2014B Bonds" means the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable).

"Series 2014B Project Costs Fund" means that certain fund established pursuant to the Indenture.

"Series 2014B Reserve Account" means the Series 2014B Reserve Account in the Reserve Fund established pursuant to the Indenture.

"Series 2014B Reserve Requirement" means, as of any date of calculation, Maximum Annual Debt Service on the Series 2014B Bonds. To the extent a future Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014B Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

"Special Facility" means any existing or planned facility, structure, equipment or other property, real or personal, which is at the Port Area or a part of any facility or structure at the Port Area and which is designated as a Special Facility pursuant to the Indenture.

"Special Facility Bonds" means any revenue bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by, or certificates of participation executed on behalf of, the Commission to finance a Special Facility, the principal, premium, if any, and interest with respect to which are payable from and secured by the Special Facility Revenue derived from such Special Facility, and not from or by Net Revenue.

"Special Facility Revenue" means the revenue earned by the Commission from or with respect to a Special Facility and which is designated as such by the Commission, including but not limited to contractual payments to the Commission under a loan agreement, lease agreement or other written agreement with respect to the Special Facility by and between the Commission and the person, firm, corporation or other entity, either public or private, as shall operate, occupy or otherwise use the Special Facility.

"Standard & Poor's" means Standard & Poor's Rating Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Subordinate Bonds" means any evidences of indebtedness for borrowed money issued from time to time by the Commission pursuant to the Indenture, including but not limited to, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation.

"Supplemental Indenture" means an indenture supplementing or amending the provisions of the Indenture which is adopted by the Commission pursuant to the Master Indenture.

"Swap Counter Party" means a member of the International Swap Dealers Association rated in one of the three top rating categories by both Rating Agencies.

"Swap Payments" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Swap Counter Party by the Trustee, on behalf of the Commission.

"Swap Receipts" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Trustee for the account of the Commission by the Swap Counter Party.

"Tax Certificate" means a certificate executed by an Authorized Commission Representative on behalf of the Commission with respect to any Series of Bonds relating to the federal tax aspects of the use of the proceeds of such Bonds and other related matters.

"Treasurer" means the Treasurer of the City, and any successor to his or her duties under the Indenture.

"Trustee" means U.S. Bank National Association, and any successor to its duties under the Indenture.

"Variable Rate Bonds" means any Bonds the interest rate on which is not fixed to maturity as of the date of calculation.

THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture.

Transfer of Bonds

The Commission will appoint a Registrar or Registrars with respect to each Series of Bonds to act as Registrar of the Bonds. Each Registrar will keep or cause to be kept sufficient records for the registration, transfer and exchange of the Bonds of such Series, which, at all times, will be open to inspection by the Commission; and, upon presentation for such purpose, each Registrar will, under such reasonable regulations as it may prescribe, register, transfer or exchange, or cause to be registered, transferred or exchanged, on said records, the Bonds of such Series as provided in the Indenture.

Any Bond may, in accordance with its terms, be transferred, upon the records required to be kept by the Registrar, by the person in whose name it is registered, in person or by the Holder's attorney duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. Whenever any Bond or Bonds are surrendered for transfer, the Commission will execute and the Authenticating Agent will authenticate and deliver in the name of the transferee a new fully registered Bond or Bonds in authorized denominations of the same Series, interest rate and maturity date and for a like aggregate principal amount.

As to any Bond, the person in whose name such Bond will be registered will be deemed and regarded as the absolute owner thereof for all purposes, and payment of Principal Amount of, premium, if any, and interest on any Bond will be made, as provided in the Indenture, only to or upon the written order of the Holder of the Bond or Bonds. Such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the amount so paid.

Funds

Creation of Funds and Accounts. The Enterprise Fund has previously been created and will be continued and held by the Treasurer. There is created a Debt Service Fund and a Reserve Fund to be held by the Trustee in trust for the benefit of the Bondholders. The Commission may create such other Funds or Accounts for the allocation and application of Revenue or other moneys as it will deem necessary or desirable.

Debt Service Fund. The Commission will establish with the Trustee a separate account or accounts in the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein will be held in trust by the Trustee and applied to pay Principal Amount and purchase price of and interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the Indenture and in the Supplemental Indentures with respect thereto; provided, however, that each Supplemental Indenture will require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any regularly scheduled payment of Principal Amount of or interest on the Bonds are on deposit therein at least one (1) Business Day prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto.

If and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

Reserve Fund. The Reserve Fund will be funded in an amount at least equal to the Reserve Requirement; provided, however, that the Commission may by Supplemental Indenture establish a separate Account or Accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein will be held in trust by the Trustee for the benefit and security of the Holders of the Bonds to which such accounts are pledged, and will not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund will be funded and replenished in the amounts, at the times and in the manner provided in the Indenture or in the Supplemental Indentures with respect thereto. Moneys in the respective Accounts in the Reserve Fund will be applied to pay and secure the payment of such Bonds as provided in the Indenture or in the Supplemental Indenture with respect thereto. Moneys in an Account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indenture with respect thereto.

The Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Bonds.

Investment of Moneys. Moneys in all Funds and Accounts held by the Trustee will be invested as soon as practicable upon receipt in Permitted Investments as directed in writing by an Authorized Commission Representative; provided, that (i) pursuant to such written direction, the maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof will coincide as nearly as practicable with (but in no event will be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof, and (ii) in the absence of direction from an Authorized Commission Representative, the Trustee will invest moneys in the Permitted Investments described in clause (l) of the definition thereof or such other Permitted Investment identified in writing by an Authorized Commission Representative. Anything in the Indenture to the contrary notwithstanding, moneys in all Funds and Accounts held by the Treasurer will be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time.

Investment of amounts in any Fund or Account will be made in the name of such Fund or Account.

Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment; provided, however, that (i) each such investment complies in all respects with the provisions of the Indenture as they apply to each Fund or Account for which the joint investment is made, and (ii) separate records are maintained for each Fund and Account and such investments are accurately reflected therein.

The Trustee may make any investment permitted by the Indenture through or with its own commercial banking or investment departments, unless otherwise directed by the Commission, provided, however, that the details of such transactions and relationships and all fees charged or received by the Trustee in such transactions will be disclosed to the Commission.

Except as otherwise specifically provided in the Indenture, in computing the amount in any Fund or Account, Permitted Investments purchased as an investment of moneys will be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, in either event inclusive of accrued interest.

Any transfer to or deposit in any Fund or Account required by the Indenture may be satisfied by transferring or depositing an investment with a market value equal to the required transfer or deposit in lieu of transferring or depositing cash.

Earnings in any Fund or Account will remain on deposit in such Fund or Account unless otherwise provided in the Indenture or in a written direction of an Authorized Commission Representative.

General Covenants of the Commission

Payment of Principal and Interest; Negative Pledge. (a) The Commission covenants and agrees that it promptly will pay or cause to be paid the Principal Amount and purchase price of, premium, if any, and interest on each Bond issued under the Indenture at the place, on the dates and in the manner provided in the Indenture, in any applicable Supplemental Indenture and in said Bond according to the terms thereof but solely from the sources pledged to such payment or from such other sources or revenue as may lawfully be used for such payment.

(b) The Commission covenants and agrees that it will not create any pledge of, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Revenue or Net Revenue except as provided in the Indenture for the benefit of the Bonds or except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest provided for the benefit of the Bonds.

(c) The Commission covenants that it will not issue, or cooperate with the issuance of, any bonds or other obligations secured by Net Revenue prior to the Bonds so long as any Bonds remain Outstanding under the Indenture.

Covenant to Maintain Net Revenue Coverage. The Commission covenants and agrees that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Commission in connection with the Port Area so that Net Revenue in each Fiscal Year as a percentage of Annual Debt Service for such Fiscal Year ("Coverage") will be at least equal to 130%.

The Commission covenants that if Net Revenue in any Fiscal Year is less than the amount specified in the Indenture, the Commission will retain and direct a Port Consultant to make recommendations as to the revision of the Commission's business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Commission in connection with the Port Area and will take such recommendations into account for future budgets and management.

In the event that Net Revenue for any Fiscal Year is less than the amount specified in the Indenture, but the Commission promptly has taken prior to or during the next succeeding Fiscal Year all reasonable measures to revise its business operations and/or its schedule of rentals, rates, fees and charges as required by the Indenture, such deficiency in Net Revenue will not constitute an Event of Default under the provisions thereof. Nevertheless, if after taking the measures required thereunder to revise its business operations and/or its schedule of rentals, rates, fees and charges, Net Revenue in such next succeeding Fiscal Year (as evidenced by the audited financial statements of the Commission for such Fiscal Year) is less than the amount specified thereunder, such deficiency in Net Revenue will constitute an Event of Default under the provisions of thereof.

In determining Net Revenue pursuant to the Indenture, the Commission may take into account as a credit the amount on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year; provided that the Commission will maintain Coverage equal to at least 100% without regard to any credit for any such amounts or deposits in the Revenue Stabilization Fund.

Operation and Maintenance of Port Area. The Commission covenants that it will operate and maintain the Port Area as a revenue producing enterprise in accordance with law, including but not limited to the Charter and the Act. The Commission will make such repairs to the Port Area as will be required to enable it to perform its covenants contained in the Indenture, including, without limitation, the covenants contained in the Indenture.

The Commission will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Port Area or upon any part thereof, or upon the revenue from the operation thereof, when the same will become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon the Port Area or such revenue, or which might materially impair the security of the Bonds. Notwithstanding the foregoing, the Commission need not pay or discharge any tax, assessment or other governmental charge, or claim for labor, materials or supplies, if and so long as the Commission will contest the validity or application thereof in good faith.

The Commission will continuously operate the Port Area so that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with, but the Commission will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith.

Maintenance of Powers; Retention of Assets. The Commission covenants that it will use its reasonable efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to materially, adversely impact the payment of the Bonds or any other obligation secured under the Indenture or the performance or observance of any of the covenants contained in the Indenture.

The Commission covenants that it will not dispose of assets necessary to operate the Port Area in the manner and at the levels of activity required to enable it to perform its covenants contained in the Indenture, including, without limitation, the covenants contained in the Indenture.

The Commission covenants that it will not apply Revenue or any other revenue of the Commission generated at or with respect to the Port Area for other than Port Area purposes as provided in the Charter.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

The Commission will procure or provide and maintain, at all times while any of the Bonds will be outstanding, insurance or Qualified Self-Insurance on the Port Area against such risks as are usually insured by other ports which are similar in their operations to the Port Area. Such insurance or Qualified Self-Insurance will be in an adequate amount as to the risk insured against as determined by the Commission. The Commission need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity.

Any Qualified Self-Insurance will be established in accordance with applicable law; will include reserves or reinsurance in amounts which the Commission determines to be adequate to protect against risks assumed under such Qualified Self-Insurance, including without limitation any potential retained liability in the event of the termination of such Qualified Self-Insurance.

The proceeds of any material claim on insurance will be applied solely for Port Area purposes. Further, the proceeds of any casualty insurance will, within a reasonable period of time, be applied to (1) replace the Port Area facilities which were damaged or destroyed, (2) provide additional revenue-producing Port Area facilities, (3) redeem Bonds or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Financial Records and Statements. The Commission will maintain proper books and records in which full and correct entries will be made in accordance with generally accepted accounting principles, of all its business and affairs. The Commission will have an annual audit made by an Independent Auditor and will within 210 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the Commission for such Fiscal Year.

All such books and records pertaining to the Port Area will be open upon reasonable notice during regular business hours to the Trustee or the representatives thereof duly authorized in writing.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the Commission covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Commission will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) Arbitrage. The Commission will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The Commission will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The Commission will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) Miscellaneous. The Commission will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated and incorporated by reference in the Indenture.

(f) Taxable Bonds and Build America Bonds. Notwithstanding the foregoing, the Commission may issue Series of Bonds that are intentionally not exempt from taxation and may issue Series of Bonds that are Build America Bonds.

Eminent Domain. If a Port Area facility or Port Area facilities are taken by eminent domain proceedings or conveyance in lieu thereof, the Commission will create within the Port Area Enterprise Fund a special account and credit the net proceeds received as a result of such taking or conveyance to such account and will within a reasonable period of time, not to exceed three years after the receipt of such amounts, use such proceeds to (1) replace the Port Area facilities which were taken or conveyed, (2) provide additional revenue-producing Port Area facilities, (3) redeem Bonds or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Default and Remedies

Events of Default. Each of the following is declared an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) if payment of the Principal Amount of any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Indenture providing for the issuance of such Bond shall not be made in full when due;

(d) if the Commission shall fail to observe or perform any other covenant or agreement on its part under the Indenture, other than the covenant or agreement set forth in the Indenture, for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Commission by the Trustee, or to the Commission and the Trustee by the Owners of at least 25% in aggregate Principal Amount of Bonds then Outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default as long as the Commission has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy;

(e) subject to the Indenture, if the Commission is required pursuant thereto to take measures to revise its business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and Net Revenue for the Fiscal Year in which such adjustments are made are less than the amount specified under the Indenture;

(f) if either the Commission or the City institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Commission or of any substantial part of its property, or fails to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or consents to entry of an order for relief under the federal Bankruptcy Code, or shall make an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due;

(g) The occurrence of any other Event of Default as provided in a Supplemental Indenture.

Acceleration. (i) In each and every such case of the continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Credit Provider or Providers as provided in any Supplemental Indenture or the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds then Outstanding shall, by notice in writing to the Commission, declare the Principal Amount of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon such declaration of the same, payment of the Principal Amount of all of the Bonds then Outstanding, and the interest accrued thereon, shall be and shall become immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

(ii) Promptly after any acceleration of the Bonds, the Trustee will cause a notice thereof to be mailed, first class, postage prepaid, to all Holders of Bonds and, if provided by a Supplemental Indenture, to one or more Credit Providers. Failure to mail any such notice, or any defect in any notice so mailed, will not affect such acceleration.

(iii) Notwithstanding paragraph (i) above, if at any time after the Principal Amount of the Bonds will have become due and payable pursuant to an acceleration thereof, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, (i) sufficient moneys (other than moneys drawn by the Trustee under any Credit Facility) shall have accumulated in the Debt Service Fund to pay the Principal Amount of all matured Bonds of each Series and all arrears of interest, if any, upon all such Bonds then Outstanding (except the Principal Amount of any such Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last Interest Payment Date), (ii) the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the Commission under the Indenture shall have been paid or moneys sufficient to pay the same shall have been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds of each Series or in the Indenture (other than a default in the payment of the Principal Amount of such Bonds then due and payable only because of a declaration under the Indenture) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee shall, by a notice in writing to the Commission, rescind and annul such acceleration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Remedies and Enforcement of Remedies. Subject to the provisions of Supplemental Indentures regarding the rights of any Credit Providers, the occurrence and continuance of an Event of Default, the Trustee may, or upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Indenture and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Actions to recover money or damages due and owing;

(ii) Actions to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds; and

(iii) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the Indenture, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the Commission of actions required by the Act or the Indenture, including the fixing, charging and collection of fees or other charges.

Application of Revenue and Other Moneys After Default. During the continuance of an Event of Default, all moneys held and received by the Trustee with respect to the Bonds pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings which result in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect to such Event of Default, be applied as follows; provided, however, that any proceeds of a Credit Facility, if any, and amounts held in the Debt Service Fund and the Reserve Fund pledged to a particular Series of Bonds will be applied solely to pay Principal Amount, premium, if any, purchase price, if any, of or interest, as applicable, on the related Series of Bonds:

First: To the payment to the persons entitled thereto of all installments of interest then due on such Bonds in the order of maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amounts and premium, if any, of any such Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at maturity, upon tender or purchase or acceleration or by proceedings for redemption or otherwise, in the order of their due dates as provided in the Indenture and in the Supplemental Indenture under which they were issued, and if the amounts available will not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the Principal Amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee after a default, such moneys will be applied by it at such times, and from time to time, as the Trustee will determine in accordance with the Indenture, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee will give such notice as it may deem appropriate in accordance with the Indenture of the deposit with it of any such moneys, and will not be required to make payment to the Holder of any Bond until such Bond will be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever the Principal Amount, premium, if any, purchase price, if any, and interest thereon of all Bonds of a Series have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, and each Credit Provider, if any, has been reimbursed for all amounts drawn under the applicable Credit Facility, if any, and used to pay Principal Amount, premium, if any, purchase price, if any, and interest on the Bonds and no Repayment Obligation will be outstanding, any balance remaining will be paid first to such Credit Provider to the extent any other amounts are then owing to such Credit Provider under the applicable agreement, and then to the Commission or as a court of competent jurisdiction may direct.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders or any Credit Provider is intended to be exclusive of any other remedy but each and every such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute, including the Act, on or after the date of the Indenture.

Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee may be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of the Indenture, any recovery or judgment will be for the equal benefit of the Holders of the Outstanding Bonds.

Control of Proceedings. If an Event of Default shall has occurred and is continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Bonds of one or more Series then Outstanding has the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the Indenture; provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of such Series of Bonds not joining in such direction; and provided further, that nothing in the Indenture will impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper and in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to shall has occurred and is continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of all Bonds then Outstanding has the right, at any time, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting any proceeding to be taken with respect to Net Revenue or other assets securing all Bonds in connection with the enforcement of the terms and conditions under the Indenture, provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders not joining in such direction; and provided further, that nothing thereunder will impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

Individual Bondholder Action Restricted. (a) No Holder of any Bond has any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy under the Indenture unless:

(i) an Event of Default has occurred with respect to such Series (A) under subsection (a), (b), (c) or (g) of the definition of an Event of Default of which the Trustee is deemed to have notice, or (B) under subsection (d), (e) or (f) of the definition of Event of Default as to which the Trustee has actual knowledge, or (C) as to which the Trustee has been notified in writing by the Commission, or (D) as to which the Commission and the Trustee have been notified in writing by the Holders of at least twenty-five percent (25%) in aggregate Principal Amount of the Bonds then Outstanding;

(ii) the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of Bonds then Outstanding have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; and

(iii) such Bondholders has offered the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee has failed or refused to exercise the powers granted in the Indenture or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

(b) No one or more Holders of Bonds of any Series has any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner provided in the Indenture and for the equal benefit of the Holders of all Bonds then Outstanding.

(c) Nothing contained in the Indenture will affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on such Bond on or after the due date thereof, or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment under the Indenture if, and to the extent that, the institution or prosecution of such suit or the entry of judgment in the Indenture would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, funds and properties pledged under the Indenture for the equal and ratable benefit of all Holders of Bonds.

Termination of Proceedings. In case any proceeding taken by the Trustee on account of an Event of Default has been discontinued or abandoned for any reason or has been determined adversely to the Trustee or to the Bondholders, then the Commission, the Trustee and the Bondholders will be restored to their former positions and rights under the Indenture, and all rights, remedies and powers of the Trustee and the Bondholders will continue as if no such proceeding had been taken.

Waiver of Event of Default. (a) No delay or omission of the Trustee, of any Holder of the Bonds or, if provided by the Indenture or by Supplemental Indenture, any Credit Provider, to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or, an acquiescence in the Indenture. Every power and remedy given by the Indenture to the Trustee, the Holders of the Bonds and, if provided thereby or by Supplemental Indenture, any Credit Provider, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Trustee, with the consent of any Credit Provider if required by Supplemental Indenture (provided, however, that such Credit Provider's consent may be required only in connection with an Event of Default on a Series of Bonds with respect to which such Credit Provider is providing a Credit Facility), may waive any Event of Default with respect to the Bonds that, in its opinion, has been remedied at any time, regardless of whether any suit, action or proceeding has been instituted, before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

(c) Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of (i) the Credit Provider, if any, if required by Supplemental Indenture, or (ii) Holders of at least fifty-one percent (51%) of the aggregate Principal Amount of Bonds then Outstanding, with the consent of the applicable Credit Provider, if any, if provided for thereby or by Supplemental Indenture, will waive any such Event of Default under the Indenture and its consequences; provided, however, that a default in the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on any such Bond, when the same becomes due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds then Outstanding of such Series to which such Event of Default applies and any consent of the applicable Credit Provider, if any, if provided for by the Indenture or by Supplemental Indenture.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the Commission, the Trustee, the Bondholders and, if required by Supplemental Indenture, the Credit Provider, if any, will be restored to their former positions and rights under the Indenture, respectively, but no such waiver extends to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee will not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with the Indenture.

Notice of Default. (a) Promptly, but in any event within 30 days after the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture, the Trustee will, unless such Event of Default has theretofore been cured, give written notice thereof by first class mail to each Holder of registered Bonds then Outstanding, provided that, except in the case of a default in the payment of Principal Amounts, sinking fund installments, purchase price or the redemption price of or interest on any of the Bonds, the Trustee may withhold such notice to such Holders if, in its sole judgment in accordance with the Indenture, it determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

(b) The Trustee will promptly notify the Commission, the Treasurer, the Registrar and any Credit Provider, if required by the Indenture or by a Supplemental Indenture, of the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture.

Limitations on Remedies. It is the purpose and intention of the Indenture to provide rights and remedies to the Trustee and Bondholders which lawfully may be granted under the provisions of the Act, but should any right or remedy granted in the Indenture be held to be unlawful, the Trustee and the Bondholders will be entitled as above set forth to every other right and remedy provided in the Indenture and by law.

Credit Providers to Control Remedies. While a Credit Facility (other than a Credit Facility on deposit in the Reserve Fund) with respect to any Bonds is in effect, notwithstanding anything else in the Indenture to the contrary, a Supplemental Indenture may provide that so long as the Credit Provider is not Insolvent and is not in default under its Credit Facility, no right, power or remedy under the Indenture with respect to such Bonds may be pursued without the prior written consent of such Credit Provider. The Supplemental Indenture may further provide that the Credit Provider will have the right to direct the Trustee to pursue any right, power or remedy available under the Indenture with respect to any assets available under the Indenture which secure no Bonds other than the Bonds secured by such Credit Facility.

Incontestability of Bonds. The provisions of the Indenture will constitute a contract between the Commission and the Owners of the Bonds, and from and after the issuance of a Series of Bonds and their sale and delivery by the Commission, the Bonds will be incontestable by the Commission.

Limitation on Commission's Obligation. The Owners of the Bonds issued thereunder expressly understand and agree by their acceptance of the Bonds, that as of the date of the Indenture the Commission has no taxing power whatsoever, and nothing in the Indenture will be deemed to require the Commission to advance any moneys derived from the levy or collection of taxes by the City for the payment of the Principal Amount of, purchase price, if any, premium, if any, or interest on the Bonds. Neither the credit nor the taxing power of the City is pledged for the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on the Bonds, and the general fund of the City is not liable for the payment of the Bonds or the interest thereon. The Owners of the Bonds cannot compel the exercise of the taxing power by the City or the forfeiture of its property or the property of the Commission.

The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not a debt of the Commission nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or on any of its income, receipts or revenue except the Net Revenue and other funds that may be legally applied, pledged or otherwise made available to their payment as in the Indenture provided.

Neither the Commission nor any officer thereof will be liable or obligated for the payment of the Principal Amount, premium, if any, purchase price, if any, of or interest on the Bonds or for any payment agreed to be made or contemplated to be made pursuant to any of the terms of the Indenture, save and except solely and exclusively from Net Revenue and the other moneys pledged thereto pursuant to the Indenture or any Supplemental Indenture authorizing the issuance thereof. Nothing in the Indenture will prevent the Commission from making advances of its funds howsoever derived to any of the uses and purposes in the Indenture mentioned, provided such funds are derived from any source legally available for such purpose and may be used by the Commission for such purpose without incurring indebtedness.

The Trustee

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee will have a right to payment prior to the Bonds as to all property and funds held by it (other than the Rebate Fund) for any reasonable amount owing to it or any predecessor Trustee pursuant to the Indenture and the rights of the Trustee to reasonable compensation for its services and to payment or reimbursement for its reasonable costs or expenses will have priority over the Bonds in respect of all property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the Holders of particular Bonds; provided, however, that neither the Trustee nor any predecessor Trustee will have any lien or claim for payment of any such compensation, reimbursement or other amounts against moneys paid under any Credit Facility or proceeds of a remarketing.

Trustee Not Required To Take Action Unless Indemnified

The Trustee will not be required to institute any suit or action or other proceeding in which it may be a defendant, nor to take any steps to enforce its rights and expose it to liability, nor will the Trustee be deemed liable for failure to take any such action, unless and until it shall have been indemnified, to its satisfaction, against any and all reasonable costs, expenses, outlays, counsel and other fees, other disbursements including its own reasonable fees and against all liability and damages.

The Trustee, nevertheless, may begin suit, or appear in and defend suit, or do anything else which in its judgment is proper to be done by it as the Trustee, without prior assurance of indemnity, and in such case the Commission will reimburse the Trustee for all reasonable costs, expenses, outlays, counsel and other fees, and other reasonable disbursements including its own fees, and for all liability and damages suffered by the Trustee in connection therewith, except for the Trustee's own negligent action, its own negligent failure to act, its own willful misconduct or self-dealing constituting a breach of trust under applicable law. If the Trustee begins, appears in or defends such a suit, the Trustee will give prompt notice of such action to the Commission and will give such notice prior to taking such action if possible. If the Commission fails to make such reimbursement, the Trustee may reimburse itself for any costs and expenses in accordance with the Indenture.

Removal and Resignation of Trustee

The Trustee may resign at any time. Written notice of such resignation will be given to the Commission and such resignation will take effect upon the later of the date 90 days after receipt of such notice by the Commission or the date of the appointment and qualification of a successor Trustee. In the event a successor Trustee has not been appointed and qualified within 60 days after the date notice of resignation is given, the Trustee or the Commission may apply to any court of competent jurisdiction for the appointment of a successor Trustee to act until such time as a successor is appointed as provided in the Indenture.

In addition, the Trustee may be removed at any time by the Commission so long as (a) no Event of Default has occurred and is continuing and (b) the Commission determines that the removal of the Trustee will not have an adverse effect upon the rights or interests of the Bondholders. Subject to clause (b) of the preceding sentence, in the event the Trustee becomes Insolvent, the Commission may remove the Trustee by written notice effective immediately upon the appointment and qualification of a successor Trustee.

In the event of the resignation or removal of the Trustee or in the event the Trustee is dissolved, becomes Insolvent or otherwise becomes incapable to act as the Trustee, the Commission will be entitled to appoint a successor Trustee. In such event, the successor Trustee will cause notice to be mailed to the Holders of all Bonds then Outstanding in such manner deemed appropriate by the Commission. If the Trustee resigns, the resigning Trustee will pay for such notice. If the Trustee is removed, is dissolved, or becomes insolvent or otherwise becomes incapable of acting as Trustee, the Commission will pay for such notice.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Trustee will be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business within the State of California and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Bondholders. The Commission may adopt, without the consent of or notice to any of the Holders, one or more Supplemental Indentures for one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Indenture;

(b) to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising thereunder that will not have a material adverse effect on the interests of the Holders;

(c) to grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) to secure additional revenue or provide additional security or reserves for payment of any Bonds;

(e) to preserve the excludability of interest on any Bonds from gross income for purposes of federal income taxes, or to change the tax covenants set forth in the Indenture, pursuant to an Opinion of Bond Counsel that such action will not affect adversely such excludability;

(f) to provide for the issuance of, and to set the terms and conditions of, each additional Series of Bonds under the Indenture, including covenants and provisions with respect thereto which do not violate the terms of the Indenture;

(g) to add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to any Series of Bonds;

(h) to confirm, as further assurance, any interest of the Trustee in and to the Net Revenue or in and to the Funds and Accounts held by the Trustee or in and to any other moneys, securities or funds of the Commission provided pursuant to the Indenture;

(i) to comply with the requirements of the Trust Indenture Act of 1939, as amended, to the extent applicable;

(j) to provide for uncertificated Bonds or for the issuance of coupon or bearer Bonds;

(k) to accommodate the use of a Credit Facility for specific Bonds or a Series of Bonds; and

(l) to make any other change or addition to the Indenture which, in the Opinion of Bond Counsel, will not have a material adverse effect on the interests of the Holders.

Supplemental Indentures Requiring Consent of Bondholders. (a) Other than Supplemental Indentures referred to above and subject to the terms, provisions and limitations contained in the Indenture, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Outstanding Bonds of all Series affected by such amendment may consent to or approve, which consent to or approval will be in writing, the execution by the Commission of such Supplemental Indentures as will be deemed necessary and desirable by the Commission for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions with respect to such Series contained in the Indenture; provided, however, nothing in the Indenture will permit or be construed as permitting a Supplemental Indenture which would:

(i) extend the stated maturity of or time or change the currency for paying the Principal Amount or purchase price of, premium, if any, or interest on any Bond or reduce the Principal Amount or purchase price of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) except as expressly permitted by the Indenture, prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) permit the creation of a lien not expressly permitted by the Indenture upon or pledge of the Net Revenue ranking prior to or on a parity with the lien of the Indenture or reduce the aggregate Principal Amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indenture, without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Commission will propose the adoption of a Supplemental Indenture pursuant to Bondholder consent, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed adoption of such Supplemental Indenture to be mailed by first class mail, postage prepaid, to all Holders of Bonds of any affected Series then outstanding at their addresses as they appear on the registration books provided for in the Indenture. The Trustee, however, will not be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required, and any such failure will not affect the validity of such Supplemental Indenture when consented to and approved as provided. Such notice will set forth briefly the nature of the proposed Supplemental Indenture and will state that copies thereof are on file at the office of the Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding one year, as will be prescribed by the Commission, following the first giving of a notice as provided in subsection (b) above, the Trustee will receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate Principal Amount of Bonds specified in subsection (a) above for the Supplemental Indenture in question which instrument or instruments will refer to the proposed Supplemental Indenture described in such notice and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may accept such Supplemental Indenture in substantially such form, without liability or responsibility to any Holder of any Bond, regardless of whether such Holder has consented thereto.

(d) Any such consent will be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (regardless of whether such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the acceptance by the Trustee of such Supplemental Indenture, such revocation. At any time after the Holders of the required Principal Amount of Bonds will have filed their consents to the Supplemental Indenture, the Trustee will make and file with the Commission a written statement to that effect. Such written statement will be conclusive that such consents have been so filed.

(e) If the Holders of the required Principal Amount of the Bonds Outstanding have consented to and approved the adoption by the Commission of such Supplemental Indenture as provided, no Holder of any Bond will have any right to object to the adoption thereof, or to object to any of the terms and provisions contained in the Indenture or the operation thereof, or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the Commission from adopting the same or taking any action pursuant to the provisions thereof.

Satisfaction, Discharge and Defeasance

Discharge. If payment of all Principal Amount of, premium, if any, and interest on a Series of Bonds in accordance with their terms and as provided in the Indenture is made, or is provided, and if all other sums payable by the Commission under the Indenture with respect to such Series of Bonds will be paid or provided for, then the pledge, lien, and security interests granted thereby will cease with respect to such Series; provided, however, that the rebate provisions, if any, of the Indenture or of the related Supplemental Indenture will survive so long as there is any amount due to the federal government pursuant to the provisions of the Indenture or of such Supplemental Indenture. Thereupon, upon the request of the Commission, and upon receipt by the Trustee of an Opinion of Counsel stating that all conditions precedent to the satisfaction and discharge as provided above of the lien of the Indenture have been satisfied with respect to such Series of Bonds, the Trustee will execute and deliver proper instruments acknowledging such satisfaction and discharging the lien of the Indenture with respect to such Series of Bonds. If the lien thereof has been discharged with respect to all Series of Bonds, the Trustee will transfer all property held by it thereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the Bonds, to the Commission or such other person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge will be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection with the Indenture.

The Commission may at any time surrender to the Trustee for cancellation any Bonds previously authenticated and delivered which the Commission at its option may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation will be deemed to be paid and retired.

Defeasance. Payment of any Bonds may be provided for by the deposit with the Trustee of moneys, noncallable Governmental Obligations, noncallable Government Certificates or prerefunded municipal obligations described in paragraph (c) of the definition of Permitted Investments in the Indenture, or any combination thereof. The moneys and the maturing principal and interest income on such Government Obligations, Government Certificates or prerefunded municipal obligations, if any, must be sufficient and available without reinvestment to pay when due the Principal Amount, whether at maturity or upon fixed redemption dates, or purchase price of and premium, if any, and interest on such Bonds. The moneys, Government Obligations, Government Certificates and prerefunded municipal obligations will be held by the Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the Principal Amount or purchase price or redemption price of, including premium, if any, and interest on such Bonds as the same will mature or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee to give notice of redemption and to notify all Owners of affected Bonds that the deposit required by the Indenture has been made and that such Bonds are deemed to be paid in accordance with the Indenture and stating the applicable maturity date or redemption date and redemption price.

The Trustee will receive a verification report from an Independent Auditor as to the sufficiency of moneys and investments to provide for payment of any Bonds in the case of a defeasance thereof.

Bonds the payment of which has been provided for in accordance with the Indenture will no longer be deemed Outstanding thereunder. The obligation of the Commission in respect of such Bonds will nevertheless continue but the Holders thereof will thereafter be entitled to payment only from the moneys, Government Obligations, Government Certificates and prerefunded municipal obligations deposited with the Trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond with respect to which an Opinion of Bond Counsel has been rendered that such interest is excluded from gross income for federal income tax purposes is made subject to federal income taxes. The Trustee will receive and may rely upon an Opinion of Bond Counsel to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds.

Payment of Bonds After Discharge. Notwithstanding the discharge of the lien as provided in the Indenture, the Trustee nevertheless will retain such rights, powers and duties under the Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Bonds, including without limitation pursuant to any mandatory sinking fund redemptions, and the registration, transfer, exchange and replacement of Bonds as provided in the Indenture. Nevertheless, any moneys held by the Trustee or any Paying Agent for the payment of the Principal Amount of, premium, if any, or interest on any Bond remaining unclaimed for one (1) years after such payment has become due and payable, or such other period provided by law, whether at maturity or upon proceedings for redemption, will be disposed of pursuant to the provisions of the Indenture. After discharge of the lien thereof, but prior to payment of such amounts to Holders or as provided pursuant to the Indenture, the Trustee will invest such amounts in Government Obligations or prerefunded municipal obligations described in the definition of Permitted Investments in the Indenture for the benefit of the Commission.

FIRST SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the First Supplement to Indenture of Trust.

Series 2010 Interest and Principal Accounts. Moneys accumulated in the Enterprise Fund will be transferred by the Commission to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following accounts are created in the Debt Service Fund held by the Trustee with respect to the Series 2010 Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2010 Bonds or otherwise, the deposits below need not be made:

(a) *Series 2010 Interest Account*. On or before the Business Day prior to each Series 2010 Interest Payment Date, the Commission will transfer from the Enterprise Fund to the Trustee for deposit in the Series 2010 Interest Account within the Debt Service Fund (which account is created by the First Supplement to Indenture), the interest to become due on the Series 2010 Bonds on such Series 2010 Interest Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2010 Interest Account will be equal to the aggregate amount of interest becoming due and payable on the then Outstanding Series 2010 Bonds on the next succeeding Series 2010 Interest Payment Date. The obligation to make the foregoing transfers will be on a parity with the obligation to fund any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(b) *Series 2010 Principal Account*. On or before the Business Day prior to each Series 2010 Principal Payment Date, the Commission will transfer from the Enterprise Fund to the Trustee for deposit in the Series 2010 Principal Account within the Debt Service Fund (which account is created by the First Supplement to Indenture), the Principal Amount to become due on the Series 2010 Bonds on such Series 2010 Principal Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2010 Principal Account will be equal to the aggregate Principal Amount becoming due and payable on the then Outstanding Series 2010 Bonds on the next succeeding Series 2010 Principal Payment Date. The obligation to make the foregoing transfers will be on a parity with the obligation to fund any principal accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(c) *Reserve Fund*. Immediately after making the transfers described in paragraphs (a) and (b) above, transfers will be made by the Commission to the Trustee from the Enterprise Fund to the Series 2010A Reserve Account and the Series 2010B Reserve Account, on or before the first Business Day of each month, commencing April 1, 2011 in an amount equal to that sum, if any, necessary to restore the Series 2010A Reserve Account to an amount equal to the Series 2010A Reserve Requirement and the Series 2010B Reserve Account to an amount equal to the Series 2010B Reserve Requirement. The obligation to make the foregoing transfers to the Series 2010A Reserve Account and the Series 2010B Reserve Account will be on a parity without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers will be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

Reserve Fund. The Series 2010A Reserve Account in the Reserve Fund is established with the Trustee. The Reserve Requirement for the Series 2010A Bonds will be the Series 2010A Reserve Requirement. The Series 2010A Reserve Account will benefit only the Series 2010A Bonds and any additional Series of Bonds designated in a Supplemental Indenture. The amounts on deposit in the Series 2010A Reserve Account will secure on a parity basis the Series 2010A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2010 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2010A Bonds on such Series 2010 Payment Date (or any Series of Bonds to the extent so designated in a Supplemental Indenture on its Payment Dates), then the Trustee will withdraw the amount of any such deficiency from the Series 2010A Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2010A Reserve Account in excess of the Series 2010A Reserve Requirement will be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2010A Reserve Account will be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

The Series 2010B Reserve Account in the Reserve Fund is established with the Trustee. The Reserve Requirement for the Series 2010B Bonds will be the Series 2010B Reserve Requirement. The Series 2010B Reserve Account will benefit only the Series 2010B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2010B Reserve Account will secure on a parity basis the Series 2010B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2010 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2010B Bonds on such Series 2010 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee will withdraw the amount of any such deficiency from the Series 2010B Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2010B Reserve Account in excess of the Series 2010B Reserve Requirement will be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2010B Reserve Account will be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest) provided that such amounts released upon redemption or maturity of the Series 2010B Bonds will first be transferred to the Series 2010A Reserve Account to the extent needed to satisfy the Series 2010A Reserve Requirement.

SECOND SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the Second Supplement to Indenture of Trust.

Series 2014 Interest and Principal Accounts. Moneys accumulated in the Enterprise Fund will be transferred by the Commission to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following accounts are created in the Debt Service Fund held by the Trustee with respect to the Series 2014 Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2014 Bonds or otherwise, the deposits below need not be made:

(a) *Series 2014 Interest Account*. On or before the Business Day prior to each Series 2014 Interest Payment Date, the Commission will transfer from the Enterprise Fund to the Trustee for deposit in the Series 2014 Interest Account within the Debt Service Fund (which account is hereby created), the interest to become due on the Series 2014 Bonds on such Series 2014 Interest Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2014 Interest Account will be equal to the aggregate amount of interest becoming due and payable on the then Outstanding Series 2014 Bonds on the next succeeding Series 2014 Interest Payment Date. The obligation to make the foregoing transfers will be on a parity with the obligation to fund interest on the Series 2010 Bonds pursuant to the First Supplemental Indenture and any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(b) *Series 2014 Principal Account*. On or before the Business Day prior to each Series 2014 Principal Payment Date, the Commission will transfer from the Enterprise Fund to the Trustee for deposit in the Series 2014 Principal Account within the Debt Service Fund (which account is hereby created), the Principal Amount to become due on the Series 2014 Bonds on such Series 2014 Principal Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2014 Principal Account will be equal to the aggregate Principal Amount becoming due and payable on the then Outstanding Series 2014 Bonds on the next succeeding Series 2014 Principal Payment Date. The obligation to make the foregoing transfers will be on a parity with the obligation to fund the principal account for the Series 2010 Bonds pursuant to the First Supplemental Indenture and any principal accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(c) *Reserve Fund*. Immediately after making the transfers described in paragraphs (a) and (b) above, transfers will be made by the Commission to the Trustee from the Enterprise Fund to the Series 2014A Reserve Account and the Series 2014B Reserve Account, on or before the first Business Day of each month, commencing March 1, 2015 in an amount equal to that sum, if any, necessary to restore the Series 2014A Reserve Account to an amount equal to the Series 2014A Reserve Requirement and the Series 2014B Reserve Account to an amount equal to the Series 2014B Reserve Requirement.

The obligation to make the foregoing transfers to the Series 2014A Reserve Account and the obligation to make the foregoing transfers to the Series 2014B Reserve Account will be on a parity with each other without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. The obligation to make the foregoing transfers to the Series 2014A Reserve Account and the Series 2014B Reserve Account will be on a parity with the obligation to make similar transfers to the Series 2010A Reserve Account and the Series 2010B Reserve Account without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers and those to the Series 2010A Reserve Account and the Series 2010B Reserve Account will be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

Reserve Fund. The Series 2014A Reserve Account in the Reserve Fund is hereby established with the Trustee. The Reserve Requirement for the Series 2014A Bonds will be the Series 2014A Reserve Requirement. The Series 2014A Reserve Account will benefit only the Series 2014A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2014A Reserve Account will secure on a parity basis the Series 2014A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2014 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2014A Bonds on such Series 2014 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee will withdraw the amount of any such deficiency from the Series 2014A Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2014A Reserve Account in excess of the Series 2014A Reserve Requirement will be transferred to the Series 2014 Interest Account to be used to pay interest on the Series 2014A Bonds; and for this purpose all investments in the Series 2014A Reserve Account will be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

The Series 2014B Reserve Account in the Reserve Fund is hereby established with the Trustee. The Reserve Requirement for the Series 2014B Bonds will be the Series 2014B Reserve Requirement. The Series 2014B Reserve Account will benefit only the Series 2014B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2014B Reserve Account will secure on a parity basis the Series 2014B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2014 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2014B Bonds on such Series 2014 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee will withdraw the amount of any such deficiency from the Series 2014B Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2014B Reserve Account in excess of the Series 2014B Reserve Requirement will be transferred to the Commission or to such account as the Commission may designate and shall be used for any lawful purpose; and for this purpose all investments in the Series 2014B Reserve Account will be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest); provided that such amounts released upon redemption or maturity of the Series 2014B Bonds will first be transferred to the Series 2014A Reserve Account to the extent needed to satisfy the Series 2014A Reserve Requirement and shall be valued at their fair market value at that time.

Certain Covenants Relating to the Bonds.

(a) *Qualified Bonds*. The Commission will assure that the sale proceeds of the Series 2014A Bonds, plus any investment earnings thereon (the "Series 2014A Proceeds") are used in a manner such that the Series 2014A Bonds will satisfy the requirements of section 142(a)(2) and 142(c) of the Code (including the Treasury Regulations thereunder) relating to qualified docks and wharves, and the Commission will use that portion of the Series 2014 Projects financed with the Series 2014A Proceeds in such a manner that it qualifies as a dock or wharf within the meaning of section 142(a)(2) of the Code for so long as the Series 2014A Bonds remain outstanding.

(b) *Public Use Requirement*. The portion of the Series 2014 Projects financed with the Series 2014A Proceeds will satisfy the public use requirement either (a) by being located in a public port or (b) by being available for use by members of the general public.

(c) *Governmental Ownership Requirement*. The Commission covenants that the portion of the Series 2014 Projects financed with Series 2014A Proceeds will be owned by the Commission or by a governmental unit within the meaning of section 142(b)(1) of the Code. For this purpose, leased property is treated as owned by a governmental unit only if (A) the lessee irrevocably elects (which election is binding on the lessee and all successors under the lease) not to claim depreciation or investment credits for such property; (B) the lease term does not exceed 80% of the reasonably expected economic life of the property financed; and (C) any option to purchase is at a price equal to the fair market value at the time of exercise of the option.

(d) *Prohibited Private Business Uses*. The Commission covenants that no Series 2014A Proceeds will be used to finance the following facilities if such facilities are used for a private business use:

(i) lodging facilities;

(ii) retail facilities (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the port facility;

(iii) retail facilities (other than parking) located outside of the port terminal;

(iv) office buildings for use by individuals other than employees of a governmental unit or of the operating authority; and

(v) industrial parks or manufacturing facilities.

(e) *Costs of Issuance Limitation*. The Commission covenants that, from the Series 2014A Proceeds, an amount not in excess of 2% of the Series 2014A Proceeds will be used for costs of issuance of the Series 2014A Bonds, all within the meaning of section 147(g)(1) of the Code. For this purpose, if the fees of the original purchaser of the Series 2014A Bonds are retained as a discount on the purchase of the Series 2014A Bonds, such retention will be deemed to be an expenditure of Series 2014A Proceeds for said fees.

(f) *Limitation of Expenditure of Proceeds*. The Commission covenants that not less than 95% of the net Series 2014A Proceeds (within the meaning of section 150(a)(3) of the Code) will be paid for Qualified Project Costs.

(g) *Limitation on Land Acquisition*. The Commission covenants that less than 25% of the Series 2014A Proceeds will be used, directly or indirectly, for the acquisition of land.

(h) *Existing Facilities Limit*. The Commission covenants that no Series 2014A Proceeds will be used for the acquisition of any tangible property or an interest therein, other than land or an interest in land, unless the first use of such property is pursuant to such acquisition; provided, however, that this limitation will not apply with respect to any building (and the equipment therefor) if rehabilitation expenditures (as defined in section 147(d) of the Code) with respect to such building equal or exceed 15% of the portion of the cost of acquiring such building (and equipment) financed with Series 2014A Proceeds; and provided, further, that this limitation will not apply with respect to any structure other than a building if rehabilitation expenditures with respect to such structure equal or exceed 100% of the portion of the cost of acquiring such structure financed with the Series 2014A Proceeds.

(i) *Certain Uses Prohibited*. The Commission covenants that no Series 2014A Proceeds will be used directly or indirectly to provide any airplane, skybox or other private luxury box, health club facility, facility used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) *Limitation on Office Space*. The Commission covenants that no Series 2014A Proceeds will be used to finance office space unless the office is located on the premises of that portion of the Series 2014 Projects financed with the Series 2014A Proceeds and not more than a de minimis amount of the functions to be performed at such office is not directly related to the day-to-day operations at that portion of the Series 2014 Projects financed with the Series 2014A Proceeds.

APPENDIX B

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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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, 2013 and 2012

Certified Public Accountants.

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

For the Years Ended June 30, 2013 and 2012

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MGO Certified Public Accountants.

Walnut Creek
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Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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, 2013 and 2012, 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 Port'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, 2013 and 2012, 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 Matter

As discussed in Note 1, 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, 2013 and 2012, 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. Also as described in Note 2 to the financial statements, effective July 1, 2011, the Port adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 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 25, 2013, 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 25, 2013

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 56 of this report.

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

Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30,			2013-2012	2012-2011
	2013	**2012**	**2011**	**Change**	**Change**
Current and other assets	$136,343	$158,553	$157,489	$ (22,210)	$ 1,064
Capital assets	409,032	294,718	263,834	114,314	30,884
Total assets	545,375	453,271	421,323	92,104	31,948
Current liabilities	61,249	35,938	20,378	25,311	15,560
Noncurrent liabilities	120,960	81,857	91,438	39,103	(9,581)
Total liabilities	182,209	117,795	111,816	64,414	5,979
Net position:					
Net investment in capital assets	319,829	257,919	241,647	61,910	16,272
Restricted	27,139	16,193	12,177	10,946	4,016
Unrestricted	16,198	61,364	55,683	(45,166)	5,681
Total net position	$363,166	$335,476	$309,507	$ 27,690	$ 25,969

Changes in Net Position (in thousands)

	Year Ended June 30,			2013-2012	2012-2011
	2013	**2012**	**2011**	**Change**	**Change**
Revenues:					
Operating revenues	$ 81,512	$ 77,260	$ 72,266	$ 4,252	$ 4,994
Nonoperating revenues	5,789	11,734	2,065	(5,945)	9,669
Capital contributions	25,832	16,955	3,027	8,877	13,928
Total revenues	113,133	105,949	77,358	7,184	28,591
Expenses:					
Operating expenses	79,982	70,540	66,565	9,442	3,975
Nonoperating expenses	5,461	9,440	2,491	(3,979)	6,949
Total expenses	85,443	79,980	69,056	5,463	10,924
Change in net position	27,690	25,969	8,302	1,721	17,667
Net position, beginning of the year	335,476	309,507	301,205	25,969	8,302
Net position, end of the year	$363,166	$335,476	$309,507	$ 27,690	$ 25,969

Financial Analysis

Total net position at June 30, 2013 of $363,166,000 was $27,690,000 higher than the net position at June 30, 2012. This follows prior increases of $25,969,000 and $8,302,000 at the end of 2012 and 2011, respectively. Significant capital asset investments have been made in recent years. The net increase to capital assets of $114,314,000 in 2013 compares to $30,884,000 and $2,795,000 increases for the years ended June 30, 2012 and 2011, respectively. 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 certain rent credits due to tenants. 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 increase in current liabilities of $25,311,000 in 2013 is largely attributable to the utilization of the General Fund's commercial paper program (Note 8). The increase of $15,560,000 in 2012 reflects higher accounts payable obligations generated from a larger volume of in-progress capital project work, accrued costs for clean-up, temporary stabilization and other emergency protective measures following the Pier 29 fire (Note 16), and a reclassification of $3,000,000 portion of accrued disposition costs of Drydock #1 from noncurrent to current liabilities (Note 18). The net increase in noncurrent liabilities of $39,103,000 in 2013 includes the noncurrent portion of the future rent credits due to tenants (see Note 9 – The Exploratorium), with an offsetting decrease in pollution remediation obligations (Note 18). The decrease of $9,581,000 in 2012 is largely comprised of a decrease in pollution remediation obligations and net decrease in the noncurrent portion of the accrued disposition costs of Drydock #1 (Note 18).

Operating revenues increased in 2013 and 2012 and supported current operation and maintenance expenses. Nonoperating expenses reflect costs of pier removal, demolition work and other asset disposition costs totaling $4,021,000 in 2013 and $7,673,000 in 2012. Capital contribution revenues typically fluctuate with the level of capital grant revenues realized from grant-funded construction activities. In recent years, capital contribution revenues included City general obligation bond proceeds allocated to fund Port open space and park improvement projects, $18,200,000 in 2013 and $10,395,000 in 2012. Information concerning significant variances and nonrecurring items is in the more detailed discussion that follow.

The largest portion of the Port's net position is represented by the net investment in capital assets: 88% at June 30, 2013, 77% at June 30, 2012, and 78% at June 30, 2011. The total net investment in capital assets ($319,829,000 at June 30, 2013) 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, 2013 consists of $27,139,000 restricted for specific capital project expenditures and $16,198,000 that is unrestricted and available to meet future capital requirements and ongoing obligations.

In 2013, the net investment in capital assets includes capital asset acquisitions temporarily financed by the City's commercial paper program prior to the issuance of the certificates of participation authorized to finance those acquisitions (Note 8). The commercial paper debt is reported by the City. The Port's outstanding obligation of $26,785,000 at June 30, 2013 is reported as an advance (Due to the General Fund), which currently reduces the Port's unrestricted net position. The certificates of participation, after they are issued, will be accounted for as offsetting debt reducing the Port's net investment in capital assets and restoring accessible resources includible in the unrestricted net position.

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, 2013 increased $4,252,000 or 5.5%, which compares to an increase of $4,994,000 or 6.9% for the year ended June 30, 2012. Property rentals across all revenue types for the year ended June 30, 2013 posted a net decrease of $592,000, comprised of a $744,000 decrease in minimum or base rentals and a modest offsetting increase of $152,000 from percentage rents. In contrast for the year ended June 30, 2012, property rentals across all revenue types posted a net increase of $3,341,000, comprised of a $1,360,000 increase in minimum or base rentals and a $1,981,000 increase 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, 2013 increased $615,000 or 3.6%, which compares to an increase of $2,054,000 or 13.6% for the year ended June 30, 2012. Parking meter revenues for on-street parking continue to increase due to some expansion of metered parking and the coordinated progressive implementation of congestion pricing in the City parking program.

San Francisco was selected on December 31, 2010 to host the 34th America's Cup (AC34) and related events under terms set forth in the Host and Venue Agreement (HVA) between the City and the America's Cup Event Authority, LLC (Event Authority). After a period of review and negotiation, the Board of Supervisors approved, on March 27, 2012, a Lease Disposition Agreement (LDA) between the City and the Event Authority, which was subsequently executed by the Port on August 14, 2012. The LDA replaced a previously proposed Development and Disposition Agreement and revised the HVA, setting forth an agreed framework for the City to host the AC34 events. Among other things under the LDA, the City through the Port is providing rent-free use of facilities for certain race activities occurring in 2012 and 2013. The current year's decrease in base rents from buildings and in parking rents is largely attributable to AC34 usage. The City and the Port entered into a memorandum of understanding (MOU) for payments-in-lieu of rent, to reimburse the Port for certain AC34 race-induced lost revenues as defined in the MOU.

Facility rentals for maritime uses and certain activity-based revenues from Cruise and Ship Repair in 2013 and 2012 remain fairly consistent. 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. While 2013 ship repair revenue is $153,000 less than 2012, the tenant continues to be able to pay the Port additional percentage rent, after certain rent credits granted to support the drydock expansion. Cruise revenues of $2,825,000 for 2013 were higher than 2012 by $559,000. Comparatively, 2012 was higher than 2011 by $363,000. There were 65, 59 and 56 passenger cruise calls in 2013, 2012 and 2011, respectively. Noteworthy is that Princess Cruises has based a ship in San Francisco year-round from May 2013 to April 2014 for roundtrip cruises to Alaska during the summer months, followed by a schedule of Mexico, California Coastal and Hawaiian Islands sailings.

Other operating revenues usually include permit fees and various one-time fees realized 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 development transactions. In particular, fees and transaction cost and expense recoveries from developers were approximately $1,878,000 higher in 2013 versus 2012. Pursuant to the AC34 MOU for payments-in-lieu of rent, the City transferred $1,310,000 to the Port. This estimated payment-in-lieu of rent through June 30, 2013 is reported as Other Operating Revenue.

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 widely, based on grant funds availability and the capital work actually in progress at the Port. In addition, the Port received $18,200,000 of proceeds from the City's issuance of 2012 Clean and Safe Neighborhood Parks General Obligation Bonds to fund designated open space projects on Port property. In 2012, the Port received additional proceeds of $10,395,000 from the previous 2008 issuance of Clean and Safe Neighborhood Parks General Obligation Bonds.

Total expenses of $87,243,000 (condensed summary on page 4) for 2013 represent a $7,263,000 increase from 2012. Comparatively, total expenses of $79,980,000 for 2012 represent a $10,924,000 increase from 2011. Operating expense changes in 2013 and 2012 are highlighted below:

	Increase / (Decrease)	
	2013	**2012**
Personal services	$ 576,000	$ 2,226,000
Contractual services	1,283,000	586,000
Utilities	(71,000)	342,000
Materials and supplies	497,000	(412,000)
Depreciation and amortization	1,297,000	375,000
General and administrative	100,000	(118,000)
Services provided by other City departments	826,000	1,901,000
Pollution remediation	5,240,000	(2,302,000)
Other	(306,000)	1,377,000

Salary and mandatory fringe benefit costs, pursuant to collective bargaining arrangements, continue to rise, particularly for pension and health plan costs. Year-to-year cost fluctuations can be attributed to various factors, including headcount changes, retirement plan contributions, 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). In recent years there have been only modest headcount changes. The increase in personnel related costs is attributable to higher retirement (Note 10) and health care benefit (Note 11) contributions with some offset by capitalized labor. These cost increases have more than offset salary and wage reductions negotiated in 2011. The full-time equivalent headcount at June 30, 2013 was 236 versus 231 in 2012 and 239 in 2011. A $2.7 million charge was recorded in 2013 and 2012 for the future cost of retiree benefits other than pensions (i.e. retiree medical benefits or "OPEB"). Currently, OPEB is principally funded on a "pay-as-you-go" basis. 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.

The level of contractual services recorded as operating expense fluctuates with the volume of project-related activities and the work phase of these projects. Preliminary conceptual design work, feasibility analyses, environmental investigations, hazardous material removal and demolition costs are typically expensed when incurred. Pollution remediation obligations and related changes in estimates are discussed in Note 18. The preparations for the AC34 events, the Phase 1 construction of the James R. Herman Cruise Terminal at Pier 27, and the emergency building stabilization project after a June 20, 2012 fire in the Pier 29 bulkhead building, all added to an already full plate of capital maintenance projects in progress along the waterfront requiring the attention of the Port's Engineering and Maintenance progress along the waterfront requiring the attention of the Port's Engineering and Maintenance Divisions. 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. Additional professional and other contractual service costs were incurred in 2013 and 2012 to support or supplement Port staff work on these project activities.

Total service reimbursements to other City departments were $17,221,000 in 2013 and $16,395,000 in 2012. 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. In 2013 there was a $826,000 increase on top of the $1,901,000 increase for the fiscal year ended June 30, 2012. The additional costs incurred in 2013 and 2012 were largely attributable to supplemental services procured from the Department of Public Works to implement certain construction projects at Port facilities and additional legal services from or through the City Attorney's Office in support of various development projects.

In May 2012, the Port Commission appointed the Office of Economic and Workforce Development (OEWD) as lead negotiator on behalf of the City and Port in all negotiations with respect to the Golden State Warriors Arena Project at Piers 30-32, the Pier 70 Projects and the Mission Rock Project at Seawall Lot 337 and Pier 48. Within the City structure, OEWD is the agency that regularly assumes the lead role in negotiations for the City on large, mixed-use development projects that require coordination and cooperation of numerous City Departments. Depending on the terms of the agreement for exclusive negotiations with each developer, third-party transaction costs and certain City costs may be counted as reimbursable transaction costs.

Pollution remediation obligations are covered in the environmental matters section of the Contingencies footnote (Note 18). As noted above in the liabilities discussion, updated estimates have reduced the likely total remediation costs at Pier 70. The reduced estimate at June 30, 2013 follows a larger reduction recorded as of June 30, 2012. The increase variance of $5,240,000 in pollution remediation expense is largely attributable to the difference between these successive reductions of $2,810,000 and $8,070,000 in 2013 and 2012, respectively.

Following execution of the AC34 LDA in August 2012, the Port purchased from the Event Authority for $1.0 million the engineering plans completed by its contractor for Piers 30-32. The technical due-diligence work completed to date on facility conditions can be useful to inform the Port and prospective tenants or developers in connection with future capital improvements and repairs at this site. The fee was accrued as an Other Expense at June 30, 2012.

Nonoperating revenues and expenses, other than interest income and expense, tend to fluctuate widely based on largely nonrecurring transaction activities or events. Interest income for the year ended June 30, 2013 reflects an adjustment for the change in fair value in the City's pooled investments, including the Port's $130,000 share of net unrealized losses at June 30, 2013, along with the reversal of net unrealized gains of approximately $1,068,000 recorded at June 30, 2012. Operating grants consist of financial assistance received from various agencies for noncapital purposes, including $1,300,000 for the demolition of Pier ½ in 2013 and $4,100,000 for the demolition of Pier 36 in 2012.

Insurance proceeds totaling $11,450,000 have been received pursuant to preliminary claims filed by the Port through June 30, 2013 (Note 16). The Port is involved in discussions with its insurer as to additional insurance proceeds which the Port believes it should be entitled. As a result of the amounts received or receivable to date, the Port recognized a net gain from insurance of $4,296,000 in 2013 and $4,500,000 in 2012.

Asset disposition costs in 2013 consist principally of the costs incurred for pier demolition and removal (Pier ½, Pier 36 and Pier 43) and other dispositions required to prepare for new construction. In addition, the accrued cost for the disposition of Drydock #1 was reduced by $1,800,000 (Note 18). Asset disposition costs in 2012 consist principally of initial Pier 36 demolition costs and additional accrued cost for the final disposition of Drydock #1 (Note 18).

Capital Asset and Debt Administration

Capital assets

The Port's capital assets as of June 30, 2013 and 2012, respectively, were $409.0 million and $294.7 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. Major capital asset related events of FY2012-2013 included the following:

- ***James R. Herman Cruise Terminal at Pier 27.*** Pier 27 is being developed as a primary cruise terminal to meet modern ship and current operational requirements of the cruise industry. Construction of the Cruise Terminal is being carried out in two phases in coordination with the AC34. Phase 1 construction for the "core and shell" of the building was completed in February 2013; and the building was then used temporarily for AC34 events. Phase 1 expenditures including demolition and remediation costs were approximately $62 million.

- ***Pier 15 Substructure Improvements.*** The Exploratorium, a museum of science, art and human perception, relocated from its former location at the Palace of Fine Arts to Pier 15 and opened to the public in April 2013. The museum raised significant funds to finance repair, rehabilitation, and seismic upgrades to the Pier 15 bulkhead building, shed and connector building. In consideration for completing certain substructure repair and other work, the Port lease granted to the tenant rent credits equivalent to 100% of future Pier 15 minimum rentals due under the lease for the first fifty years (Note 9). The Exploratorium's total construction costs were reported as $220 million. The project's substructure work, including seismic upgrades, exceeded $65 million.

- ***AC34 Facility Requirements.*** The LDA, executed with the Event Authority on August 14, 2012, required to complete certain infrastructure improvements, certain identified repairs at venue facilities, and to implement certain mitigation measures pursuant to various regulatory and permit requirements. In addition to the expeditious completion of Phase 1 construction of the Pier 27 cruise terminal, approximately $8.5 million was incurred for infrastructure improvements at other facilities including: Piers 30-32 to support the team bases, the south apron of Pier 19, the Pier 29 substructure and an electrical upgrade at Pier 23. Mitigation measures included the installation of shoreside power at the Pier 70 ship repair facility and the disposal of poly-chlorinated biphenyls (PCB) transformers removed as part of the project ($5.7 million) and the demolition and removal of Pier ½ ($1.6 million). Approximately $1.0 million was incurred for dredging to support AC34 event uses. Also required by the LDA, certain smaller capital maintenance and repair projects valued at approximately $1.0 million were completed in 2013.

- ***The Brannan Street Wharf.*** Located on The Embarcadero Promenade between Piers 30-32 and Pier 38, the Brannan Street Wharf is a new 57,000 square foot public park over the water and parallel to the Embarcadero Promenade. The Wharf features a neighborhood green, a waterside walkway with seating and picnic tables, a shade structure, and interpretative exhibits about the height of the tide and the site's history. The Port worked at many levels to secure funding from multiple sources to implement this approximately $26.0 million project (including the demolition and removal of Pier 36). The assembled project funding was insufficient to cover all components of the approved project and, as a consequence, construction of a small craft float and gangway has been deferred. The major permit from the San Francisco Bay Conservation and Development Commission requires completion of the entire project, including the float and gangway, by July 2018. Supplemental funding is anticipated within the required timeframe.

- ***Pier 43 Bay Trail Link.*** The Pier 43 Bay Trail Link is a $9.7 million Port-sponsored project to create a new waterfront public open space destination in Fisherman's Wharf, along The Embarcadero between Powell and Taylor Streets. The majority of the funding for this project is from the 2008 Clean & Safe Neighborhood Parks General Obligation Bond. Project work included: demolition of a previously condemned pier, construction of a new pile-supported concrete promenade along the water's edge, seawall replacement (520 lineal feet), sidewalk and street improvements, security lighting, and site furnishings.

- ***Pier 33½ Improvement Project.*** This $3.5 million project implemented various Port Building Code upgrades, necessary substructure repairs to the Pier 33½ bulkhead building and a new electrical metering and switchboard service to the Pier 33 Shed, as well as North and South Bulkhead Buildings. These improvements converted vacant space into rentable space.

- ***Heron's Head Park Improvement Project.*** This $2.4 million project is largely funded by the 2008 Clean and Safe Neighborhood Parks General Obligation Bond and is part of the Blue Greenway. The project expands the existing Heron's Head Park by converting 58,000 square feet of underutilized asphalt-covered parking area at the entrance into new green space. Project work included: site clearing, grading, drainage improvements, fencing, site paving, landscaping, irrigation, site furnishings, electrical work, and a self-composting restroom.

Major capital asset related events of FY2011-2012 included the following:

- ***Hyde Street Harbor Joint Operations Building.*** This $2.3 million project rehabilitated an existing warehouse building located at the north end of Hyde Street. The project work entailed selective demolition, refurbishment of the existing structural system and select utilities, construction of a new building envelope and interior improvements including new public restrooms with showers, offices, meeting rooms, equipment storage, and site work to improve the open spaces. The renovated building functions as a joint operations center, housing the offices of the Port harbormaster for the Fisherman's Wharf area and the Police Department's marine unit.

- ***Mission Bay Shoreline for Bayfront Park Project.*** This $2.3 million project provided for the stabilization of the existing seawall and rebuilt a shoreline slope with riprap for wave protection. This project rebuilt the Bay edge south of Pier 54 to Agua Vista Park and allows for the Mission

Bay's Bayfront Park to be built to the water's edge. This shoreline project includes the installation of a temporary eight-foot wide mixed-use pathway to allow the public to access the shoreline until the park improvements are completed as part of the Mission Bay Redevelopment Project.

- ***Port Security Fence Phase 3.*** This $1.6 million project entailed the construction of replacement fencing at Pier 94, Pier 90, Pier 50, Pier 48, Pier 28, Pier 26, Pier 19, and Pier 45. These improvements move the Port toward compliance with security mandates applicable to facilities at the Port regulated under the Maritime Transportation Security Act of 2002. The current work and earlier phases of fencing improvements were completed with the assistance of grant funding.

- ***Energy Efficiency Project***. In 2006, the Port partnered with the San Francisco Public Utilities Commission (SFPUC) and completed an energy audit that covered lighting; heat, ventilating, and air conditioning (HVAC); and refrigeration systems in areas for which the Port directly paid energy bills. Contract work for recommended lighting retrofits was completed in 2009 ($728,000) and for HVAC and refrigeration work in 2012 ($417,000).

The City has been working with the Fisherman's Wharf Community Benefit District on improvements to the area since 2006. One such improvement, the Jefferson Street Public Realm project improves accessibility for businesses, people, and fishermen who work in the neighborhood as well as for visitors. A ribbon-cutting on June 20, 2013 celebrated completion of the first phase of improvements on Jefferson Street, covering the two blocks from Hyde Street to Jones Street. The improved street area provides twice as much sidewalk space, new two-way traffic configuration to ease traffic congestion and accommodate bicyclists, new lighting and crosswalk bulb-outs for safer crossings in a distinctive decorative roadway. The City is working to secure funding for the next phase which contemplates covering the blocks from Jones Street to Powell Street. Jefferson Street is a City-accepted street, maintained by the Department of Public Works.

The Port had firm purchase and contract commitments at June 30, 2013 for approximately $11 million for capital projects. As of June 30, 2013, the budget file indicates over $114 million in appropriations for Port projects. These project appropriations include amounts supported by the City's commercial paper program (Note 8) prior to the issuance of $45 million in certificates of participation authorized in May 2012, and $25 million in revenue bonds authorized in June 2013. In addition to the Port's regular projects for pier repair and major maintenance, future work also includes the Phase 2 construction of the James R. Herman Cruise Terminal and open space projects funded by general obligation park bonds. Facility condition surveys are performed by Port Engineering to identify and prioritize immediately required maintenance projects that preserve and extend the economic life of the Port's productive assets.

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, 2013, the Port had long-term debt obligations of $37,907,000 including $1,068,000 that is due during the next fiscal year. Total debt outstanding consists of $34,800,000 in revenue bonds, $2,603,000 in loans that are secured by specified revenue sources and $504,000 advance from SFPUC for the energy efficiency project.

No new bonds were issued in 2013 and 2012. As part of a plan of finance to accommodate immediately required changes to the Port's capital program, the Port Commission approved in April 2012, the use of

City Certificates of Participation (COPs) instead of additional Port revenue bond debt. Use of the City's higher credit rating is expected to improve pricing and reduce interest costs over the life of the new obligation. In May 2012, the Board of Supervisors approved Port capital appropriations of $58.7 million supported by $45.0 million in City COPs, $4.5 million from funds available for appropriation and $9.2 million through re-appropriation (de-funding certain projects). In June 2013, the Board of Supervisors authorized the issuance of Port revenue bonds in an aggregate principal amount not to exceed $25.3 million to finance certain capital improvements including the James R. Herman Cruise Terminal. Recently authorized debt had not yet been issued and, as discussed in Note 8, the Port has borrowed funds on an interim basis through the City's commercial paper program. At June 30, 2013, $26,785,000 related to such interim borrowing is reported as Due to the General Fund.

The public sale of City COPs in the total amount of $37.7 million was completed on October 17, 2013 (Note 20). The revenue bonds authorized in June 2013 are expected to be issued in 2014.

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 the recession and slow recovery have certainly affected many tenants, the Port's overall monthly rental revenue stream has remained somewhat stable. Revenue loss to the Port during recent down periods has generally resulted in an increase in greater write-offs, more delinquencies and 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 certain uncertainties and potential challenges 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 environment.

Other factors

Ten-year capital plan. City Administrative Code Section 3.20 requires a Ten-Year Capital Plan that is updated every two years in concert with the City's current biennial budget process. The Port continues to update its ten-year capital plan annually. The most recent update, adopted by the Port Commission in March 2013, presents a total Plan of $2.74 billion, wherein the primary components consist of $1.59 billion for deferred maintenance and subsystem renewals required on Port facilities, $0.45 billion for conditional seismic work and $0.70 billion in planned capital enhancements. Potential funding sources have been identified for approximately $1.07 billion, covering the planned enhancements of $0.70 billion and $0.37 billion toward deferred maintenance. Approximately $1.22 billion is left in unfunded projects – 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. Private developers remain very sensitive to the state of the real estate market as well as the significance of legislative and other imposed requirements.

State legislation. The Port has pursued State legislative changes to increase funding options to address future capital requirements. Senate Bill No. 1085, signed by Governor Arnold Schwarzenegger in September 2005, amended the California Government Code to authorize public trust grantees in San Francisco to form infrastructure financing districts (IFD) pursuant to Section 53395 et seq (IFD Law). 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. This 2005 legislative change 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 Board of Supervisors will next conduct a public hearing on the proposed 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 following the public hearing. 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 also adopted the draft guidelines for Port IFDs, "Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission." Other actions are pending in the local legislative process.

Assembly Bill No. 1199 was subsequently 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 twenty-year period the portion of property tax increment (with certain limitations) that would otherwise go into a State fund. In September 2011, Governor Jerry Brown signed Assembly Bill No. 664, which 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, including the Pier 27 cruise terminal, shoreside power installations at Port facilities, other Port improvements, and open space improvements to areas under National Park Service, California State Parks, and San Francisco Recreation and Parks Department jurisdiction to be used as spectator venues for the America's Cup events.

In October 2007, Governor Arnold Schwarzenegger signed Senate Bill No. 815, which authorizes the lifting of public trust use restrictions on specified seawall lots for a period of time to expire on January 1, 2094 and the removal of the public trust on certain paper streets. The lifting of public trust use restrictions on the lots increases the options for capital investment and future revenue. Revenues from "nontrust" leases beyond a defined baseline must be expended for the preservation of historic piers and structures or the construction and maintenance of certain waterfront plazas and open space. Assembly Bill No. 418, which Governor Brown signed in October 2011, authorizes 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.

San Francisco Waterfront Special Area Plan. 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 (Special Area Plan). Among other things, the Special Area Plan 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. Until sufficient funding from other sources is secured, the Port may need to commit its own capital funds for Special Area Plan projects. As of June 30, 2013, $46.6 million has been appropriated and $27.1 million has been disbursed for projects under this BCDC agreement, including four pier removals (Piers ½, 24, 34 and 36) and construction of the Brannan Street Wharf.

The 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. Current information concerning major development projects and opportunities can be found at the Port's website, www.sfport.com.

Recent development project activities and events include:

> ***James R. Herman Cruise Terminal at Pier 27*** – The Port is building a modern cruise terminal to better meet current cruise industry, passenger, and security requirements and to also allow for special event and meeting uses when the facility is not occupied for cruise purposes. Construction of the cruise terminal is being carried out in two phases, in coordination with the AC34 events. After completion of the AC34 racing events in 2013, the Port will proceed with the final build-out of the permanent cruise terminal facility. Among other things, the final work includes the installation of exterior maritime equipment, finishing the ground transportation area, and build-out of interior space for the U.S. Customs and Border Protection. It is projected that the cruise terminal will be in operation sometime during the 2014 cruise season. The Northeast Wharf Plaza (a 2.5 acre public park) will also be completed in 2014.
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> ***Seawall Lot 337 and Pier 48*** – 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 finding the proposed development fiscally feasible under the Administrative Code, Chapter 29. Following these approvals, the ENA allows the developer three years to complete the project entitlement process.
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> ***Seawall Lot 351*** –The Port issued a RFP in 2008 for a mixed-use project for this two-thirds of an acre parking lot area located at Embarcadero and Washington Streets. In 2009, the Port

Commission authorized exclusive negotiations with a developer (San Francisco Waterfront Partners II, LLC) who intends to combine the site with a contiguous tennis and swim club property. The development of the combined properties would consist of a residential and commercial condominium development on privately-owned property and public and commercial improvements on Port-owned property. Negotiations and CEQA review were completed. The final environmental impact report was certified by the City Planning Commission on March 22, 2012, and following appeal, was upheld by the Board of Supervisors on May 15, 2012. The Board of Supervisors then considered and approved the development transaction agreements on June 12, 2012. A voter referendum to overturn the Board of Supervisors approval of the project is on the ballot in November 2013. Proponents of the project have qualified a competing ballot measure on the ballot to allow voters to approve the project in its entirety. Project work is suspended at least until after the required vote. Subsequent to the Port and City approvals of the project, several suits were filed in Superior Court to challenge those approvals, alleging violation of the California Environmental Quality Act.

GSW Arena LLC and Piers 30-32 – In May 2012, Mayor Edwin M. Lee along with the Golden State Warriors basketball team organization announced a proposal to build a new privately financed state-of-the-art multi-purpose facility that would be used for the Warriors' home games and other purposes, including conventions, concerts and cultural events, at Piers 30-32. In June 2012, the Port Commission added its endorsement of the authorization granted by the Board of Supervisors for sole source negotiations between the City and GSW Arena LLC, a wholly owned subsidiary of GSW Sports LLC and an affiliate of the entity that owns the Warriors; and, in August 2012, the Port Commission authorized an exclusive negotiation agreement with GSW Arena LLC, for the lease and development of Piers 30-32 bounded by the Embarcadero roadway and San Francisco Bay, and the sale or lease and development of SWL 330 bounded by the Embarcadero roadway, Beale and Bryant Streets. During the exclusive negotiating period, Port and Office of Economic and Workforce Development staff intend to work with GSW to define the proposed development concept and develop a feasible economic structure for consideration by the Port Commission and the Board of Supervisors.

Pier 70 Area – Pier 70 is located on San Francisco's Central Waterfront, an approximately 65-acre site, generally between 18^{th} and 22^{nd} 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. Port staff continues to work with the State Lands Commission on public trust matters that impact the Pier 70 area. The Port Commission authorized two developer solicitations: Request for Qualifications for a 25-acre waterfront site, and Request for Interest for 20^{th} Street Historic Buildings.

Waterfront Site. Following a competitive process, the Port Commission selected a developer for the Waterfront Site and on July 12, 2011 authorized an ENA. The ENA provides for a five-year period to develop plans for the project, negotiate required agreements, and secure required approvals. This project area includes 2.5 million square feet of new development and 260,000 square feet of historic buildings. This 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.

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. With these approvals, environmental review of the project commenced. 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.

Historic Buildings. 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. In March 2013, the Port Commission approved extension of the initial ENA term to December 20, 2013, allowing additional time for the developer and Port to finalize negotiation of the lease disposition and development agreement and other transaction documents.

Pier 38 Bulkhead Rehabilitation. The Port is in the final stage of a solicitation process to select a master tenant/developer with experience in rehabilitating, developing and operating facilities similar to Pier 38. The request for proposals was issued in November 2012, seeking a development entity to rehabilitate the Pier 38 bulkhead building and limited shed improvements for re-occupancy in the short-term and qualifying the entity to redevelop the entire facility over the long-term, if desired. Responses were received in March 2013 and informational presentations have been made to the Port Commission. It is anticipated that final evaluation, selection and award will be completed in December 2013.

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, Tulare Park and improvements to Heron's Head Park. Significant project completions were noted above among the 2013 capital asset events, including the Brannan Street Wharf, Pier 43 Bay Trail Link (including promenade work) and the improvements to Heron's Head Park. Additional information concerning the park and open space projects can also be found on the Port's website, at: http://www.sfport.com/index.aspx?page=60. Through June 30, 2013, approximately $40.6 million has been expended for these park projects, including $16.9 million from the 2008 park bond, $4.6 million from grants and $19.1 million from other Port 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, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Assets		
Current assets:		
Unrestricted:		
Cash and investments, held in City Treasury (Note 3)	$ 80,366	$ 92,408
Cash held outside of City Treasury (Note 3)	5	5
Accounts and grants receivable, net (Note 4)	5,823	18,060
Due from other City funds (Note 14)	435	274
Accrued interest receivable	30	83
Materials and supplies	1,192	1,032
Prepaid charges and advances (Note 5)	147	150
Total unrestricted current assets	87,998	112,012
Restricted:		
Cash and investments, held in City Treasury (Note 3)	43,234	41,534
Deposits and investments outside of City Treasury (Note 3)	3,258	3,262
Total restricted current assets	46,492	44,796
Total current assets	134,490	156,808
Noncurrent assets:		
Capital assets (Note 6):		
Nondepreciable	115,354	149,621
Depreciable, net	293,678	145,097
Capital assets, net	409,032	294,718
Unrestricted other noncurrent assets (Note 7)	1,853	1,745
Total noncurrent assets	410,885	296,463
Total assets	545,375	453,271

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, 2013 and 2012
(dollar amounts in thousands)

		2013		2012
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	$	12,740	$	13,516
Due to General Fund (Notes 8 and 14)		26,785		-
Accrued interest payable		815		829
Accrued payroll		2,098		2,341
Accrued vacation and sick leave pay (Note 8)		1,239		1,200
Accrued workers' compensation (Notes 8 and 19)		390		425
Estimated claims payable (Notes 8, 18 and 19)		1,332		1,276
Current maturities of long-term obligations (Note 8)		840		805
Current portion of loan from City department (including accrued interest payable of $14 and $8, respectively) (Notes 8 and 14)		242		195
Pollution remediation obligation (Notes 8 and 18)		163		116
Other liabilities (Notes 8 and 18)		4,898		6,516
Unearned revenues		2,575		1,667
Lessee and other deposits		7,132		7,052
Total current liabilities		61,249		35,938
Noncurrent liabilities:				
Accrued vacation and sick leave pay (Note 8)		1,091		1,114
Accrued workers' compensation (Notes 8 and 19)		2,325		2,372
Estimated claims payable (Notes 8, 18 and 19)		350		350
Long-term obligations - net of current maturities (Note 8)		36,325		37,157
Loan from City department, net of current portion (Notes 8 and 14)		276		128
Pollution remediation obligation (Notes 8 and 18)		10,670		13,480
Other postemployment benefits obligation (Notes 8 and 12)		16,056		13,390
Other liabilities		411		3,480
Deferred credits		53,456		10,386
Total noncurrent liabilities		120,960		81,857
Total liabilities		182,209		117,795
Net position				
Net investment in capital assets		319,829		257,919
Restricted for capital projects		27,139		16,193
Unrestricted		16,198		61,364
Total net position	$	363,166	$	335,476

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, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Operating revenues (Note 9):		
Commercial and industrial	$ 43,266	$ 42,883
Parking	17,774	17,159
Cargo	4,886	5,442
Fishing	2,012	2,024
Cruise	2,825	2,266
Harbor services	2,018	1,964
Ship repair	1,553	1,706
Other maritime	1,556	1,517
Other	5,622	2,299
Total operating revenues	81,512	77,260
Operating expenses:		
Personal services	32,894	32,318
Contractual services	6,630	5,347
Utilities	2,040	2,111
Materials and supplies	1,548	1,051
Depreciation and amortization	16,367	15,070
General and administrative	3,618	3,518
Services provided by other City departments (Note 14)	17,221	16,395
Pollution remediation (Note 18)	(2,810)	(8,050)
Other	2,474	2,780
Total operating expenses	79,982	70,540
Operating income	1,530	6,720
Nonoperating revenues (expenses):		
Interest and investment income	24	2,559
Operating grants	1,469	4,675
Gain from fire insurance settlement (Note 16)	4,296	4,500
Disposition of Drydock #1 (Note 18)	1,800	(1,000)
Other asset disposition expenses	(5,821)	(6,673)
Interest expense	(1,440)	(1,767)
Total net nonoperating revenues (expenses)	328	2,294
Change in net position before capital contributions	1,858	9,014
Capital contributions -		
Grants from government agencies and other contributions	25,832	16,955
Change in net position	27,690	25,969
Net position, beginning of the year	335,476	309,507
Net position, end of the year	$ 363,166	$ 335,476

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, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Cash flows from operating activities:		
Cash received from tenants for rent	$ 63,886	$ 62,406
Cash received from customers and others	15,126	12,065
Deposits received from tenants and customers	656	660
Cash paid to employees for services	(30,471)	(29,016)
Cash paid to suppliers for goods and services	(15,550)	(13,935)
Cash paid to City for services	(17,249)	(16,434)
Customer deposits returned	(583)	(676)
Net cash provided by operating activities	15,815	15,070
Cash flows from noncapital financing activities:		
Insurance proceeds	4,296	-
Operating grants	2,329	654
Net cash provided by noncapital financing activities	6,625	654
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(82,597)	(32,425)
Demolition and other dispositions	(4,827)	-
Dredging	(3,175)	(5,428)
Payments of long-term debt	(1,033)	(957)
Interest payments on long-term debt	(2,334)	(2,316)
Advances received from City commerical paper program	26,785	-
Capital contribution from City - proceeds from Parks Bond	18,255	10,395
Capital contribution from City for cruise terminal project	4,900	-
Insurance proceeds	3,520	-
Capital grants received	6,650	831
Other capital contributions	565	550
Loan from Public Utilities Commission for HVAC project	417	-
Proceeds from sale of equipment and materials	9	25
Net cash used in capital and related financing activities	(32,865)	(29,325)
Cash flows from investing activities:		
Interest and investment income	77	2,476
Net cash provided by investing activities	77	2,476
Change in cash and cash equivalents	(10,348)	(11,125)
Cash and cash equivalents, beginning of year	136,798	147,923
Cash and cash equivalents, end of year	$ 126,450	$ 136,798

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, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,530	$ 6,720
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,367	15,070
Change in allowance for doubtful accounts	(295)	(1,406)
Net effects of (increase) decrease in:		
Receivables	656	(561)
Tenant deposits held outside City Treasury	(2)	4
Materials and supplies	(160)	51
Prepaid charges, advances and other assets	(126)	196
Due from City General Fund	274	(274)
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	(80)	1,991
Accrued payroll	(243)	618
Accrued vacation and sick leave payable	16	168
Accrued workers' compensation	(82)	1
Estimated claims payable	56	300
Pollution remediation obligations	(2,763)	(8,188)
Other postemployment benefits obligation	2,666	2,684
Deferred credits and other liabilities	(1,999)	(2,304)
Net cash provided by operating activities	$ 15,815	$ 15,070
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	$ 8,484	$ 9,180
Tenant improvements financed by rent credits	45,670	-
Accrued capitalized interest	305	559
Accrued fire insurance settlement, net of related liabilities	-	4,500
In-kind contribution for pier demolition	22	4,100
Change in estimate of the disposition of Drydock #1	1,800	(1,000)
Accrued proceeds from sale of asset	-	(3)
Reduce advance payment for pier demolition	3	(1,963)
Abandoned capital improvement projects	-	(389)
Amortization of bond discount/issue cost	(26)	(27)
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	$ 80,366	$ 92,408
Restricted	43,234	41,534
Cash held outside City Treasury		
Unrestricted	5	5
Restricted	3,258	3,262
Cash and equivalents	126,863	137,209
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	(413)	(411)
Total cash and cash equivalents	$ 126,450	$ 136,798

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), including GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AIPCA Pronouncements*. The Port does not use private sector standards issued after November 30, 1989. 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. The Port currently has no amounts that are required to be reported as deferred outflows of resources separate from assets and no deferred inflows of resources required to be reported separate from liabilities. 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 Issuance Costs and Discounts

Bond issue costs are amortized using the straight-line method over the life of the bond. Original bond issue discounts are offset against the related debt and amortized using the straight-line method, which approximates the effective interest method over the life of the bonds.

Deferred Credits

Deferred credits consist primarily of rent credits issued to tenants. Rent credits are recognized in accordance with the lease agreements.

Pollution Remediation Obligations

Pollution remediation 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.

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

2. Significant Accounting Policies (Continued)

Operating Revenues and Expenses (continued)

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 2013, the City and Port implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The adoption of these statements did not have a material impact on the Port's financial statements.

The Port is currently analyzing its 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. 65, *Items Previously Reported as Assets and Liabilities*, issued in March 2012, GASB Statement No. 66, Technical Corrections-2012: an amendment of GASB Statements No. 10 and No. 62, issued in March 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, issued in January 2013, and GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013.

2. Significant Accounting Policies (Continued)

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, 2013 and 2012 are as follows (in thousands):

	2013	2012
Cash and investments in City Treasury	$ 80,366	$ 92,408
Cash outside of City Treasury	5	5
Restricted assets:		
Cash and investments in City Treasury	43,234	41,534
Deposits and investments outside of City Treasury:		
Cash and investments held by bond trustee	2,845	2,851
Lessee deposits	413	411
	$ 126,863	$ 137,209

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, 2013 and 2012. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee, established under California Government Code Sections 27130 to 27137, is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The provisions of the City's investment policy also address interest rate risk, credit risk, and concentration of credit risk and provides for additional restrictions related to investments.

3. Cash and Investments (Continued)

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

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

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in 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, 2013 and 2012, all of the banks with funds deposited by the Treasurer secure those deposits with sufficient collateral.

3. Cash and Investments (Continued)

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

	Investment maturities (in months)			
	Under 1	**1-6**	**6-12**	**12-60**
FY 2013	9.1%	4.9%	9.4%	76.6%
FY 2012	1.9%	11.1%	8.0%	79.0%

At June 30, 2013 and 2012, the City's pooled investments have a weighted average maturity of 2.40 years and 2.65 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.

Bond Interest and Redemption Held by Trustee

At June 30, 2013 and 2012, cash and investments held in reserve by trustee consisted of (in thousands):

	2013	**2012**
Reserve Account -		
Cash	$ 2,833	$ 2,851
Debt Service Account -		
Cash	12	-
	$ 2,845	$ 2,851

Investment of all funds and accounts held by the bond trustee are governed by the Bond Indenture (Indenture) rather than the general provisions of the California Government Code or the City's investment policy.

4. Receivables

Receivables consisted of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Trade accounts receivable	$ 3,385	$ 4,280
Less allowance for doubtful accounts	(730)	(1,025)
Trade accounts receivable, net	2,655	3,255
Grants receivable	1,364	7,219
Insurance claims receivable (Note 16)	980	7,000
Other	824	586
	$ 5,823	$ 18,060

Other receivables typically consist of miscellaneous receivables from tenants and cost recoveries due from others pursuant to development and other agreements.

5. Prepaid Charges and Advances

In September 2010, the Port and United States Army Corps of Engineers (USACE) entered into a cooperative agreement for the USACE to carry out the removal of Pier 36. Under the cost-sharing arrangement for the project's design and construction services, the Port was required to pay its estimated one-third cost share of $2,212,600 in advance to the USACE. The pier removal work has been completed and the final close-out is pending at June 30, 2013. The final project cost was just over $6.5 million, including $112,000 of in-kind services provided by the Port. Approximately $147,000 from the original advance may be refunded to the Port or transferred to an upcoming project with the USACE.

6. Capital Assets

A summary of changes in capital assets for years ended June 30, 2013 and 2012 are as follows (in thousands):

	Balance July 1, 2012	**Increases**	**Decreases**	**Balance June 30, 2013**
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	44,039	128,482	162,749	9,772
Total capital assets, not being depreciated	149,621	128,482	162,749	115,354
Capital assets, being depreciated:				
Facilities and improvements	351,302	159,458	1,128	509,632
Machinery and equipment	16,922	2,172	1,019	18,075
Intangible assets	2,075	-	-	2,075
Dredging	5,428	3,174	2,762	5,840
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	27,937	1,119	-	29,056
Total capital assets, being depreciated	406,443	165,923	4,909	567,457
Less accumulated depreciation for:				
Facilities and improvements	238,558	10,503	153	248,908
Machinery and equipment	11,864	993	1,019	11,838
Intangible Assets	913	295	-	1,208
Dredging	2,196	3,052	2,762	2,486
Waterfront Land Use Plan	1,914	165	-	2,079
Infrastructure	5,901	1,359	-	7,260
Total accumulated depreciation	261,346	16,367	3,934	273,779
Total capital assets, being depreciated, net	145,097	149,556	975	293,678
Capital assets, net	$ 294,718	$ 278,038	$ 163,724	$ 409,032

6. Capital Assets (Continued)

	Balance July 1, 2011	Increases	Decreases	Balance July 1, 2012
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	12,744	41,159	9,864	44,039
Total capital assets, not being depreciated	118,326	41,159	9,864	149,621
Capital assets, being depreciated:				
Facilities and improvements	345,557	7,515	1,770	351,302
Machinery and equipment	16,361	827	266	16,922
Intangible assets	968	1,107	-	2,075
Dredging	2,332	5,428	2,332	5,428
Waterfront Land Use Plan	2,779	-	-	2,779
Infrastructure	27,912	25	-	27,937
Total capital assets, being depreciated	395,909	14,902	4,368	406,443
Less accumulated depreciation for:				
Facilities and improvements	230,608	9,720	1,770	238,558
Machinery and equipment	11,060	827	23	11,864
Intangible assets	704	209	-	913
Dredging	1,744	2,784	2,332	2,196
Waterfront Land Use Plan	1,749	165	-	1,914
Infrastructure	4,536	1,365	-	5,901
Total accumulated depreciation	250,401	15,070	4,125	261,346
Total capital assets, being depreciated, net	145,508	(168)	243	145,097
Capital assets, net	$ 263,834	$ 40,991	$ 10,107	$ 294,718

The Port received proceeds from sales of equipment and materials of $9,000 in 2013 and $25,000 in 2012.

The decreases in construction in progress for fiscal year 2012 included $389,000 for abandoned capital improvement projects. There were no project abandonments in 2013.

Total interest expense was $2,354,000 and $2,325,000 for fiscal years 2013 and 2012, of which $914,000 and $558,000 was capitalized, respectively.

Facilities and improvements include pier substructures, which have an estimated useful life greater than 50 years. Such long-lived assets totaled $21,915,000 as of June 30, 2013 and 2012. The cost of fully depreciated assets still in use was approximately $152,917,000 and $149,486,000 at June 30, 2013 and 2012, respectively.

7. Other Assets

Other assets consisted of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Issuance costs	$ 486	$ 504
Noncurrent tenant accounts receivable	1,296	1,162
Other deferred costs	71	79
Total other assets	$ 1,853	$ 1,745

Noncurrent tenant accounts receivable represent the long-term portion of lease or other agreement obligations from tenants that will be collected in future years.

8. Bonds, Loans and Other Payables

The changes in bonds, loans and other payables for the years ended June 30, 2013 and 2012 are as follows (in thousands):

	July 1, 2012	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2013	Amounts Due Within One Year
Bonds payable:					
Revenue bonds	$ 35,495	$ -	$ 695	$ 34,800	$ 725
Less deferred amounts:					
For issuance discounts	(246)	-	(8)	(238)	-
Total bonds payable	35,249	-	687	34,562	725
Other payables:					
Loan payable	2,713	-	110	2,603	115
Loan from City department	315	417	228	504	228
Accrued vacation and sick leave pay	2,314	620	604	2,330	1,239
Accrued workers' compensation	2,797	809	891	2,715	390
Other postemployment benefits obligation	13,390	4,002	1,336	16,056	-
Estimated claims payable	1,626	411	355	1,682	1,332
Pollution remediation obligations (Notes 2 and 18)	13,596	83	2,846	10,833	163
Other liabilities - Pier 29 Fire (Note 18)	2,500	-	2,500	-	-
Other liabilities - Drydock#1 (Note 18)	6,000	-	1,800	4,200	4,200
Long-term obligations	$ 80,500	$ 6,342	$ 11,357	$ 75,485	$ 8,392

8. Bonds, Loans and Other Payables (Continued)

	July 1, 2011	Additional Obligations and Net Increases	Retirements and Net Decreases	June 30, 2012	Amounts Due Within One Year
Bonds payable:					
Revenue bonds	$ 36,165	$ -	$ 670	$ 35,495	$ 695
Less deferred amounts:					
For issuance discounts	(255)	-	(9)	(246)	-
Total bonds payable	35,910	-	661	35,249	695
Other payable:					
Loan payable	2,819	-	106	2,713	110
Loan from City department	496	-	181	315	187
Accrued vacation and sick leave pay	2,146	1,212	1,044	2,314	1,200
Accrued workers' compensation	2,796	537	536	2,797	425
Other postemployment benefits obligation	10,706	3,962	1,278	13,390	-
Estimated claims payable	1,326	305	5	1,626	1,276
Pollution remediation obligations (Notes 2 and 18)	21,784	38	8,226	13,596	116
Other liabilities - Pier 29 Fire (Note 18)	-	2,500	-	2,500	2,500
Other liabilities - Drydock#1 (Note 18)	5,000	1,000	-	6,000	3,000
Long-term obligations	$ 82,983	$ 9,554	$ 12,037	$ 80,500	$ 9,509

Annual debt service requirements for all bonds and loans outstanding as of June 30, 2013 are as follows (in thousands):

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Loans Payable Principal	Loans Payable Interest
2014	$ 725	$ 2,122	$ 115	$ 117
2015	755	2,088	120	112
2016	795	2,051	125	107
2017	835	2,008	131	101
2018	885	1,960	136	95
2019-2023	5,330	8,898	781	377
2024-2028	7,450	6,769	974	185
2029-2033	7,350	3,896	221	10
2034-2038	7,235	2,031	-	-
2039-2040	3,440	266	-	-
Total	$ 34,800	$ 32,089	$ 2,603	$ 1,104

8. Bonds, Loans and Other Payables (Continued)

Fiscal Year Ending June 30	Loan from City Department Principal	Loan from City Department Interest	Total Principal	Total Interest
2014	$ 229	$ 13	$ 1,069	$ 2,252
2015	104	8	979	2,208
2016	107	4	1,027	2,162
2017	64	1	1,030	2,110
2018	-	-	1,021	2,055
2019-2023	-	-	6,111	9,275
2024-2028	-	-	8,424	6,954
2029-2033	-	-	7,571	3,906
2034-2038	-	-	7,235	2,031
2039-2040	-	-	3,440	266
Total	$ 504	$ 26	$ 37,907	$ 33,219

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 totaling $14,220,000 matures March 2040 and carries a coupon rate of 5.125%. The series was sold at a price of 98.115% to yield an interest rate of 5.25%. Series 2010B totaling $22,430,000 carries coupon rates ranging from 2.72% to 7.408% and matures from March 2011 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.

The bonds are solely repayable from the net revenues of the Port and are not an obligation of the City. The Port has pledged future net revenues to repay the $36,650,000 in revenue bonds issued in February 2010. Annual principal and interest payments through 2040 are expected to require less than 16% 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 $66,889,000. The principal and interest payments made in 2013 were $2,846,000 and pledged revenues (total net revenues calculated in accordance with the bond indenture) were $18,602,000. The principal and interest payments made in 2012 were $2,845,000 and pledged revenues were $17,487,000.

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 of the 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 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, 2013, the Port was in compliance with these reserve requirements.

8. Bonds, Loans and Other Payables (Continued)

While the 2010 Port 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 bond indenture, in each fiscal year will be at least equal to 130% of aggregate annual debt service for such fiscal year. For purposes of calculating net revenues, the Port may take into account as a credit the amount on deposit in a revenue stabilization fund on June 30 of each fiscal year; provided that the Port must maintain net revenue coverage equal to at least 100% of aggregate annual debt service for such fiscal year without regard to any credit for such funds in the revenue stabilization fund. At June 30, 2013, the Port was in compliance with such bond covenants; and, in so doing, did not rely on any amounts on deposit in a revenue stabilization fund.

The Revenue Bonds, Series 2010A 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 Series 2010A as of June 30, 2013.

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 $3,707,000. Annual principal and interest payments were $232,000 in 2013 and 2012 and pledged harbor revenues were $135,000 and $97,000 for the years ended June 30, 2013 and 2012, respectively.

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. 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. At June 30, 2013, the Due to General Fund of $26,785,000 represents the total amount of commercial paper draws used to fund the expenditures incurred to date on authorized Port projects and related costs. The Port pays interest on the advance equal to the interest rate on the commercial paper. The interest rates on the commercial paper drawn during the fiscal year ended June 30, 2013 ranged from 0.14% to 0.25%. As discussed in Note 20 Subsequent Event, a public sale of $37.7 million in COPs occurred on October 17, 2013.

8. Bonds, Loans and Other Payables (Continued)

At the outset, the property ("Leased Property") securing the City COPs will be a specified portion of the City's Laguna Honda Hospital and Rehabilitation Center. Upon completion of Phase 2 construction of the James R. Herman Cruise Terminal at Pier 27 in 2014, the Laguna Honda Hospital and Rehabilitation Center will be 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. 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 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, 2013 and 2012, property rental revenues were comprised as follows (in thousands):

	2013	2012
Minimum rentals, all revenue types	$ 49,775	$ 50,519
Percentage rentals	14,161	14,009
Total	$ 63,936	$ 64,528

The future minimum rent revenues under noncancellable operating leases having terms in excess of one year as of June 30, 2013 are as follows (in thousands):

Year Ending June 30	
2014	$ 39,344
2015	34,507
2016	29,974
2017	23,639
2018	21,459
2019-2023	94,017
2024-2028	70,844
2029-2033	63,111
2034-2038	54,439
2039-2043	39,678
2044-2048	34,715
2049-2053	20,895
2054-2058	16,055
2059-2063	16,014
2064-2068	12,894
2069-2073	8,991
2074-2077	6,011
Total	$ 586,587

9. Operating Revenues – Property Rentals (Continued)

Property subject to operating leases and property held for lease at June 30, 2013 and 2012 consisted of the following (in thousands):

	2013	2012
Land	$ 52,546	$ 52,546
Facilities and improvements at cost, net of accumulated depreciation	130,818	65,324
Total	$ 183,364	$ 117,870

The Exploratorium

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 related deferred credits upon the certified completion and acceptance of the agreed work. The lease with The Exploratorium for Piers 15-17 commenced on November 3, 2010. Project construction, including substructure repair and seismic work valued in excess of $65 million, has been completed. In consideration for performing certain substructure repair and other work, the Port has 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. The Exploratorium opened to the public in April 2013. The Port recorded approximately $45 million in substructure improvements, together with the associated deferred credits to offset future minimum rents. The tenant improvements and related deferred credit will be amortized on a straight-line basis over the remaining term of the lease.

Trans Bay Cable Project

In 2007, the City acting through the Port Commission entered into a 25-year license agreement that allows a licensee to maintain and use a mostly subterranean high-voltage direct current transmission cable that the licensee installed across San Francisco Bay between the City of Pittsburg and the Potrero Substation in San Francisco. The transmission cable runs through a submerged area and certain real property that the Port owns or has jurisdiction or control. Construction activities were completed in 2011 and the operations license commenced. Among the fees called for in the license agreement, the Port receives an annual license payment commencing at $1,331,000 and annually adjusted or recalculated based on the prevailing market rate in accordance with the agreement ($1,385,000 for 2013 and $1,358,000 for 2012). During the first ten years, the Port also receives an additional annual payment of $550,000 to fund, at the discretion of the Port, public trust public benefit projects, including open space and public access improvements, and energy efficiency or renewable energy projects. Other fees are due to the SFPUC. Under specified terms and conditions, the licensee has been granted one option to extend the term for ten years. At any time during the term of the license, the licensee may terminate the license with written notice not less than eighteen months prior to a proposed termination date.

10. Retirement Plans

Plan Description **-** The City has a single-employer defined benefit retirement plan (the Plan), which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan substantially covers all full-time employees of the Port along with other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan.

In June 2010, the voters of the City approved a charter amendment to create new benefit plans for City employees who are hired on or after July 1, 2010. The new benefit plan covering non-safety employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member’s final compensation (highest two-year average monthly compensation) multiplied by the member’s years of credited service times the member’s age factor up to a maximum of 75% of the member’s final compensation.

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, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102 or by calling (415) 487-7020.

Funding Policy **-** Contributions are made to the basic plan by both the Port and its employees. Employee contributions are mandatory. Employee contribution rates for 2013 varied from 7.5% to 11.0% and for 2012 and 2011 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 20.71% for the year ended June 30, 2013, 18.09% for the year ended June 30, 2012, and 13.56% for the year ended June 30, 2011. The Port’s employer contributions amounted to $3,599,000, $3,551,000, and $2,559,000 for 2013, 2012 and 2011, respectively. Since 2005, substantially all required employee contributions were paid to the Retirement System by such affected employees.

The City’s basic financial statements 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.

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 $4,545,000, $4,460,000 and $4,244,000 in fiscal years 2013, 2012 and 2011, 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, 2013 and 2012, 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 $1,336,000, $1,278,000 and $1,256,000 for 2013, 2012 and 2011, respectively, to provide postretirement benefits for retired employees in the City Health Service System, largely on a pay-as-you-go basis.

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):

	2013	2012
Annual required contribution	$ 3,908	$ 3,884
Interest on Net OPEB Obligation	548	456
Adjustment to annual required contribution	(454)	(378)
Annual OPEB cost (expense)	4,002	3,962
Contribution made	(1,336)	(1,278)
Increase in net OPEB obligation	2,666	2,684
Net OPEB obligation - beginning of year	13,390	10,706
Net OPEB obligation - end of year	$ 16,056	$ 13,390

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. 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%.

12. Other Postemployment Benefits (OPEB) (Continued)

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.

In June 2012, Assembly Bill No. 1484 (AB1484) was adopted by the California Legislature. AB1484, signed by the Governor on June 27, 2012, 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, anticipate completing, in fiscal 2013-2014, 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.

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 2013, the $17,221,000 in services provided by other City departments included $1,787,000 of insurance premiums and $809,000 in workers' compensation expense. In 2012, the $16,395,000 in services provided by other City departments included $1,703,000 of insurance premiums and $537,000 in workers' compensation expense.

14. Related Party Transactions (continued)

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, supplemental plan check services from the Department of Building Inspection, 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 $1,205,000 and $1,227,000 in 2013 and 2012, respectively.

Rental revenues from City departments included in operating revenues were approximately $3,567,000 and $4,719,000 in 2013 and 2012, respectively. In connection with a memorandum of understanding, the General Fund reimbursed the Port $1,310,000 for certain lost revenues (payment in lieu of rents) during the America's Cup events. The General Fund also contributed $4,900,000 towards the construction of the cruise terminal project at Pier 27.

At June 30, 2013, the Due to General Fund of $26,785,000 represents the total amounts advanced to the Port from the City's commercial paper program (Note 8). At June 30, 2013, the Due from Other City Funds of $435,000 is for a capital project reimbursement due from the San Francisco County Transportation Authority and, at June 30, 2012, the Due from Other City Funds of $274,000 is a reimbursement due from the General Fund for certain 34th America's Cup costs.

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. 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). It is anticipated that retrofit costs will be recovered through future energy cost savings. The Port is committed to repay such advances 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. The realizable or earned rebate amount is not reasonably estimable and no accrued revenue has been recorded as of June 30, 2013.

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	
2014	$ 2,861
2015	2,861
2016	2,794
2017	2,702
2018	2,702
2019-2023	13,508
2024-2028	13,508
2029-2033	13,508
2034-2038	13,508
2039-2043	13,508
2044-2048	13,508
2049-2050	2,927
Total	$ 97,895

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 $2,818,000 in 2013 and $2,861,000 in 2012.

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. The total value of the insured loss has not yet been determined and the Port is involved in discussions with its insurer as to additional insurance proceeds which the Port believes it should be entitled. Insurance proceeds totaling $11.4 million have been received pursuant to preliminary claims filed by the Port through June 30, 2013. Interim insurance payments of $7.0 million were previously accrued as receivable at June 30, 2012 (Note 4) and the insurance gain recognized in 2012 represented the insurance proceeds receivable less $2.5 million in accrued costs for clean-up, temporary stabilization and other emergency protective measures. Approximately $1.0 million is accrued as of June 30, 2013.

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.

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, 2013.

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 is committed to fund and expend up to $30 million over a 20-year period for pier removal, construction of parks and plazas and other public access improvements. As of June 30, 2013, $46.6 million has been appropriated and $27.1 million has been expended or disbursed for projects under the agreement. In addition to work directly funded 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, 2013 for approximately $11.0 million for capital projects and $3.1 million for general operations.

18. Contingencies

Litigation

The Port is a defendant in various lawsuits and claims; 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. In one action, a former tenant alleges wrongful partial eviction and significant economic losses, but has failed to produce evidence to support such losses. This action is subject to possible further discovery, and the Port's insurer has acknowledged partial insurance coverage (for the eviction claim only), subject to a reservation of rights. Due to insufficient information, no reasonable estimate of this loss contingency can be made.

Grants

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

Redevelopment Agency's South Beach Harbor Project Obligations

A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the Agency held leasehold interests to certain Port properties (Note 13). Prior to additional 2012 dissolution-related legislation, it was planned for the Port to immediately resume management and control of its property, including the South Beach Harbor and other leasehold improvements completed by the Agency. The Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, are in discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and associated obligations, if any.

South Beach Harbor revenues are pledged to a 1986 revenue bond issue that pre-dates the Port's 2010 Revenue Bonds. South Beach Harbor project funds, including certain tax increments, are available to pay current debt service, but berthing rate increases are required to cover future debt service and to meet the required level of debt service coverage specified in the bond indenture. Certain public access and other improvements required under BCDC Permit Amendment No. 17 for the South Beach Harbor Project have not been completed. The required improvements, last estimated in 2004 to cost $6.2 million, must be completed by December 31, 2017.

Construction Debris

There has been abandoned construction debris at two industrial sites in the Southern Waterfront. Pier 94 and Seawall Lot 352 had approximately 140,000 tons of material, consisting primarily of concrete and asphalt debris, left behind by a bankrupt construction material recycling operation. In 2009, the Port entered into a $605,000 service contract with a new recycling operator to process the stockpile into fill material or other construction products for use or sale. Crushing activities commenced in May 2009 and were completed in July 2009. The usable crushed material remains stored at the site until the material is sold or used in accordance with the terms of the service contract.

18. Contingencies (Continued)

Construction Debris (continued)
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).

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. Until 2013 the recovered drydock had been moored at a safer harbor location. The likely cost for final disposition has been estimated by management to be in the range of $4.3 million to $6.4 million. Engineering consultants have assessed 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 is most likely only salvageable for scrap metal.

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 to perform the work and has reported to the Port that, through June 30, 2013, approximately $1.8 million of the federal funds had been expended on the Port project. The federal-funded work was completed in September 2013. Based on the information from various consultants and internal engineering estimates, the Port had accrued a total of $6.0 million for the complete disposition of the drydock. The remaining accrued liability at June 30, 2013 is $4.2 million. The Port is assessing viable alternatives and planning for final disposition in fiscal 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.

18. Contingencies (Continued)

Environmental (continued)
It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

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

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

Yosemite Slough – In 2012, the United States Environmental Protection Agency (USEPA) identified the Port as a property owner for much of a site known as Yosemite Slough. Yosemite Slough is within a noncontiguous parcel, located south of Hunter's Point, covered by the Burton Act (Note 1). USEPA 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 identified as one of approximately seventy potentially responsible parties (PRPs) and, together with other PRPs, has been working with USEPA since the late-1990's to cooperatively address the necessary cleanup. Even though 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. This project is not presently listed on the National Priority List. SFPUC is the lead City agency working with USEPA on the site cleanup.

Potrero Power Plant – In January 1998, 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. PG&E believes that the contaminants are related to historical operations and demolition of a manufactured gas plant that was previously located on the site, and are not from current releases. PG&E continues to work

18. Contingencies (Continued)

Potrero Power Plant (continued) – cooperatively with the Regional Water Quality Control Board (RWQCB) to develop remediation plans for the land portion of the site. Because PG&E accepted responsibility for the contamination on land and initiated a voluntary clean-up action, it is unlikely that the Port will be required to bear any of the cost for the landside remediation. However, it is possible that the Port, as a property owner, could be named as a secondarily responsible party if a regulatory order is issued for the clean-up and abatement. PG&E is separately conducting San Francisco Bay sediment investigations under oversight of the RWQCB. The highest concentrations of PAH center around the outfall for cooling water for the existing power plant and along the shoreline extending northward onto Port property (Pier 70). The contaminated sediments appear to be directly related to the historical activities of the power plant site. As the property owner of the seawall and offshore area, the Port could be named as a secondarily responsible party in a regulatory order for clean-up and abatement of Bay sediments. The Port has engaged an independent consultant to observe the PG&E sediment investigations and to conduct a separate analytical program, providing the Port an independent data set. Independent analysis costs of $573,000 were incurred, including $14,000 paid in 2011. Port-initiated contract work has not been required since 2011.

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, the Port threatened to sue ExxonMobil in accordance with the provisions of the Resource Recovery and Conservation Act. ExxonMobil subsequently agreed to perform an environmental investigation at the Pier 90 site and Port staff is working with ExxonMobil and its consultants to complete that investigation. Potential liability associated with the site is unknown, as the extent of contamination has yet to be determined. No pollution remediation obligation was accrued as of June 30, 2013 and 2012. However at June 30, 2013, $9,000 has been accrued for technical consultants to assist in the evaluation of ExxonMobil's work results ($10,000 at June 30, 2012).

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

18. Contingencies (Continued)

Fuel Terminal at Fisherman's Wharf (continued) – 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 in April 2009. While ExxonMobil continues to maintain that it is not solely responsible for subsurface petroleum in the vicinity of the former Wharf J10, it proposed to excavate and remove petroleum contaminated soil and sediment in an effort to stop petroleum discharge from the shoreline. The corrective action work was completed in May 2011. ExxonMobil subsequently continued to monitor petroleum in groundwater, and periodically extracted petroleum from selected groundwater monitoring wells. ExxonMobil submitted a final report of post-remediation monitoring to the RWQCB in May 2013. It appears that ExxonMobil will likely obtain regulatory closure, via rescission of the RWQCB Order, within one to three years.

To the extent that contamination beneath Wharf J10 cannot be conclusively attributed to a viable responsible party (i.e. historic contamination may result from entities that no longer exist or from contaminants indigenous to the fill material placed to construct Port facilities), 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, 2013 and 2012.

Pier 70 – The Port undertook a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". 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. The 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. 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 early 2007, the Port started a multi-year community-based master planning process to produce a plan to rehabilitate and reuse many of the historic buildings, enable new development, create parks, open space and other public amenities, complete environmental remediation where required, and preserve the existing ship repair facilities. 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.

18. Contingencies (Continued)

Pier 70 (continued) – 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 to date 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. 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 contractor prepared an earlier report in 2009 describing potential remediation scenarios for the Pier 70 site and the probability of certain contamination being encountered in soil, soil vapor or groundwater. The report also described the various types and degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between $15.0 million and $50.0 million, with a most likely probability-weighted estimated cost of $27.5 million. Port management adopted the environmental consultant's model calculation as a reasonable estimate of an existing brownfield pollution remediation obligation and recorded the $27.5 million as a noncurrent pollution remediation obligation as of July 1, 2008.

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. After stakeholder and regulatory reviews, the final report, "Feasibility Study and Remedial Action Plan, Pier 70 Master Plan Area", was issued on May 31, 2012.

18. Contingencies (Continued)

Pier 70 (continued) – In August 2012, the Port received the RWQCB's official approval of the final report and its direction to proceed with preparing a risk management plan to implement the remedial action alternative that consisted of durable covers and institutional controls as described in the report. Using the two most likely discrete remediation scenarios (that entail the use of durable covers), Port management was able to reduce the probability-weighted remediation cost estimated as of June 30, 2012 to $13.5 million. The public comment period for the draft Risk Management Plan concluded on March 29, 2013. The final draft plan contemplates the selection of one specific remedial action alternative. Final approval by the RWQCB is pending. At June 30, 2013, the accrued cost for pollution remediation is reduced to $10.7 million based on likely acceptance and implementation of that alternative.

Previous investigation of the northeast shoreline of Pier 70, in an area slated in the Master Plan 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. Further study of sediment contamination in the Crane Cove Park area is necessary to enable determination of scope sediment contamination and preliminary cost estimation.

The net local share of the grant funded work, $70,000 and $83,000 as of June 30, 2013 and 2012, respectively, is accrued as a current net obligation of the Port at this stage. 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. In 2012, a contract order for $137,000 was issued to excavate contaminated soil and to install groundwater wells to monitor for contamination. The excavation work has been completed and $83,000 has been accrued at June 30, 2013 for the installation and monitoring of groundwater wells for a three-year period.

18. Contingencies (Continued)

Environmental (continued)

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. Certain Port facility projects in 2013 included costs for remediation or mitigation work, including $600,000 for the removal of various transformers at Pier 70 in connection with shoreside power project, over $650,000 in connection with the insurance-funded Pier 29 fire repair building stabilization work, and $217,000 in connection with Pier 36 demolition and removal. Before releasing facilities for use under AC34 venue leases, the Port completed approximately $237,000 of lead abatement work. During the year ended June 30, 2012, the Port expended over $475,000 for the removal of asbestos and lead-based paint at Piers 27-29 and other sites in advance of construction work or tenant occupancy.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2013 and 2012, is as follows (in thousands):

	Environmental Remediation	Miscellaneous Compliance	Total
Environmental liabilities at July 1, 2011	$ 21,650	$ 134	$ 21,784
Current year claims and changes in estimates	(8,032)	(17)	(8,049)
Vendor payments	(115)	(24)	(139)
Environmental liabilities at June 30, 2012	$ 13,503	$ 93	$ 13,596
Environmental liabilities at July 1, 2012	$ 13,503	$ 93	$ 13,596
Current year claims and changes in estimates	(2,811)	83	(2,728)
Vendor payments	(22)	(13)	(35)
Environmental liabilities at June 30, 2013	$ 10,670	$ 163	$ 10,833

Successive Defense Option for the 35th America's Cup (AC35)

Under conditions specified in the Lease Disposition Agreement (LDA) between the City and the America's Cup Event Authority, LLC, the Authority has the option to extend its use of various venue sites for future America's Cup events. The local Golden Gate Yacht Club succeeded in defending the America's Cup and the City, through the Mayor's Office, has 90 days from September 25, 2013 to propose usable options for the AC35 team base and event village sites that are functionally equivalent to those used for AC34. The LDA also sets a goal for the completion of negotiations for the AC35 Host Agreement by March 31, 2014 (or as it may be extended). After these negotiations, the AC35 Host Agreement will be subject to environmental review under CEQA and approvals by the Port Commission and by the Board of Supervisors.

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: i) marine general liability coverage of $50.0 million, subject to a deductible of $75,000 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 $500,000 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.

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, 2013 and 2012 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, 2013 and 2012. 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.

19. Risk Management (continued)

Insurance (continued)

Changes in the reported liability reserves for June 30, 2013 and 2012 resulted from the following activity (in thousands):

	General Liability		Workers' Compensation	
	2013	**2012**	**2013**	**2012**
Beginning of year	$ 1,626	$ 1,326	$ 2,797	$ 2,796
Current year claims & changes in estimate	411	305	809	537
Settlements	(355)	(5)	(891)	(536)
End of year	$ 1,682	$ 1,626	$ 2,715	$ 2,797

20. Subsequent Event

A public sale of the City COPs in the total amount of $37,700,000 was completed on October 17, 2013. The closing or issue date is scheduled for October 31, 2013. The COPs are being 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 COPs are being issued to finance the construction, reconstruction, equipping and improvement and rehabilitation of certain facilities to be operated by the Port, as well as to refinance commercial paper previously issued by the City for the same purpose (Note 8). Pursuant to a memorandum of understanding between the Port and the City, 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.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

The Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Port Commission of the City and County of San Francisco (the "Port Commission") in connection with the issuance of $22,675,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A and Series 2014B (collectively, the "Series 2014 Bonds"). The Series 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2010, between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2010 and a Second Supplement to Indenture of Trust dated as of May 1, 2014, between the Port Commission and the Trustee (collectively, the "Indenture").

The Port Commission covenants and agrees in this Disclosure Certificate as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Port Commission for the benefit of the Holders and Beneficial Owners of the Series 2014 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Port Commission pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2014 Bonds (including persons holding Series 2014 Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Series 2014 Bonds or to dispose of ownership of any Series 2014 Bonds; or (b) is treated as the owner of any Series 2014 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Port Commission, acting in its capacity as Dissemination Agent under the Disclosure Certificate, or any successor Dissemination Agent designated in writing by the Port Commission and which has filed with the Port Commission a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Series 2014 Bonds, or, if the Series 2014 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at http://emma.msrb.org.

"Official Statement" shall mean the final Official Statement, dated May 15, 2014, prepared in connection with the sale and offering of the Series 2014 Bonds.

"Participating Underwriter" shall mean any of the original underwriters or purchasers of the Series 2014 Bonds required to comply with the Rule in connection with offering of the Series 2014 Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Port Commission shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the Port Commission's Fiscal Year (which currently ends June 30), commencing March 31, 2015, with the report for the 2013-14 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Certificate. If the Dissemination Agent is not the Port Commission, the Port Commission shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of the Disclosure Certificate; provided, that if the audited financial statements of the Port Commission are not available by the date required above for the filing of the Annual Report, the Port Commission shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the Port Commission's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) If the Port Commission is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Port Commission shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Port Commission) file a report with the Port Commission certifying the date that the Annual Report was provided to the MSRB pursuant to the Disclosure Certificate.

SECTION 4. Content of Annual Reports. The Port Commission's Annual Report shall contain or incorporate by reference the following information:

(a) Audited Financial Statements of the Port Commission for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the Port Commission from time to time. If the Port Commission's audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Updated information in Table 1 of the Official Statement captioned "PORT OF SAN FRANCISCO, REAL ESTATE LEASES, REMAINING LEASE TERMS";

(c) Updated information in Table 2 of the Official Statement captioned "TOP 10 REAL ESTATE TENANTS";

(d) Updated information in Table 9 of the Official Statement captioned "MAJOR PORT OPERATING REVENUES";

(e) Updated information in Table 11 of the Official Statement captioned "PORT OF SAN FRANCISCO, HISTORICAL OPERATION & MAINTENANCE EXPENSES";

(f) Updated information in Table 12 of the Official Statement captioned "PORT OF SAN FRANCISCO, HISTORICAL RESULTS OF OPERATIONS"; and

(g) Updated information in Table 13 of the Official Statement captioned "PORT OF SAN FRANCISCO HISTORIC DEBT SERVICE COVERAGE."

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the Port Commission or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The Port Commission shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the Port Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds:

(1) Principal and interest payment delinquencies;
(2) Nonpayment related defaults, if material;
(3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds;
(7) Modifications to the rights of Bondholders, if material;
(8) Bond calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Series 2014 Bonds, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the Port Commission obtains knowledge of the occurrence of a Listed Event, the Port Commission will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Series 2014 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Port Commission's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2014 Bonds. If such termination occurs prior to the final maturity of the Series 2014 Bonds, the Port Commission shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The Port Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Port Commission may amend or waive the Disclosure Certificate or any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2014 Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2014 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount the Series 2014 Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Port Commission shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port Commission. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Port Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Port Commission chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Port Commission shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Remedies. In the event of a failure of the Port Commission to comply with any provision of the Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Series 2014 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Port Commission to comply with its obligations under the Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. Failure by the Port Commission to comply with any provision of the Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under the Disclosure Certificate in the event of any failure of the Port Commission to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Port Commission, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2014 Bonds, and shall create no rights in any other person or entity.

Date: May 29, 2014.

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

By________________________________
Executive Director

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: ________________________________
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
Name of Issue:	PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO REVENUE BONDS, SERIES 2014A AND SERIES 2014B
Date of Issuance:	May 29, 2014

NOTICE IS HEREBY GIVEN that the Port Commission has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Port Commission of the City and County of San Francisco, dated the Date of Issuance. The Port Commission anticipates that the Annual Report will be filed by _____________.

Dated:_______________

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

By: ________[to be signed only if filed]_______

Title ______________________________________

APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Series 2014 Bonds, payment of principal, interest and other payments on the Series 2014 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2014 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the Port Commission nor the Trustee take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2014 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2014 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2014 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current Rules applicable to DTC are on file with the Series 2014 Bonds and Exchange Commission and the current Procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Series 2014 Bonds"). The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Series 2014 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Bonds Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2014A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. If less than all of the Series 2014B Bonds are being redeemed, DTC will determine pro rata the amount of the interest of each Direct Participant in such issue to be redeemed as notified by the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Port Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Port Commission or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Trustee, or Port Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Port Commission or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to Port Commission or Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Port Commission may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

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APPENDIX E

PROPOSED FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL

May 29, 2014

Port Commission of the City and County of San Francisco
San Francisco, California

OPINION: $19,880,000 Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt)

$2,795,000 Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable)

Members of the Commission:

We have acted as co-bond counsel to the Port Commission of the City and County of San Francisco (the "Commission") in connection with the issuance by the Commission of (i) the $19,880,000 initial principal amount Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt) (the "Series 2014A Bonds") and (ii) the $2,795,000 initial principal amount Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable) (the "Series 2014B Bonds"; together with the Series 2014A Bonds, the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Section 9.107 of the Charter of the City and County of San Francisco and Chapter 43, Article XII of the San Francisco Administrative Code (the "Bond Law"), the Indenture of Trust, dated as of February 1, 2010 (the "Master Indenture"), by and between the Commission and U.S. Bank National Association as successor trustee (the "Trustee"), as supplemented, including as supplemented by a Second Supplement to Indenture of Trust, dated as of May 1, 2014 (the "Second Supplement"; together with the Master Indenture, as previously supplemented, the "Indenture"), Resolution No. 13-53 duly adopted by the Commission on December 12, 2013 and Resolution No. 14-18 duly adopted by the Commission on March 25, 2014 (collectively, the "Commission Resolution") and Resolution No. 134-14, duly adopted by the Board of Supervisors of the City and County of San Francisco on April 29, 2014 and signed by Mayor Edwin Lee on May 8, 2014 (the "Board of Supervisors Resolution"). Under the Indenture, the City has pledged certain revenues (the "Revenues") for the payment of principal, premium (if any), and interest on the Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the Commission contained in the Commission Resolution and in the Indenture, of the Board of Supervisors in the Board of Supervisors Resolution, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Commission is a duly constituted public commission of the City and County of San Francisco duly organized and validly existing pursuant to the Charter of the City and County of San Francisco and the Constitution and laws of the State.

2. The Commission has the power under the Bond Law to adopt the Commission Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.

3. The Indenture has been duly authorized, executed and delivered by the Commission, and constitutes a valid and binding obligation of the Commission, enforceable against the Commission.

4. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture.

5. The Bonds have been duly authorized and executed by the Commission, and are valid and binding limited obligations of the Commission, payable solely from the Revenues and other funds provided therefor in the Indenture.

6. Interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except for any period during which the Series 2014A Bonds are held by a "substantial user" of the facilities financed by the Series 2014A Bonds or a "related person" within the meaning of section 147(a) of the Internal Revenue Code of 1986 (the "Code"). It should be noted, however, that, such interest is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the Commission comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Series 2014A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Commission has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2014A Bonds in gross income for federal income tax purposes to be retroactive to the date of delivery of the Series 2014A Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014A Bonds.

7. Interest on the Series 2014B Bonds is not intended to be excluded from gross income for federal income tax purposes. **To ensure compliance with requirements imposed by the IRS, Co-Bond Counsel informs owners of the Series 2014B Bonds with respect to any U.S. federal tax advice contained herein for the Series 2014B Bonds (including any attachments), as follows: (a) the advice was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (b) the advice was written to support the promotion or marketing of the transactions or matters addressed by the official statement for the Series 2014B Bonds; and(c) each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.**

8. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,