

**DUE DECEMBER 31**

Pursuant to Public  
Resources Code § 6306

# Granted Public Trust Lands Standardized Reporting Form



**Fiscal/Calendar Year:** FY ended June 30, 2017

**Grantee Name:** San Francisco Port District  
**Contact Person:** Katharine Petrucione, Deputy Director, Finance & Administration / CFO  
**Contact Phone:** 415-274-0481  
**Mailing Address:** Port of San Francisco  
Pier 1, The Embarcadero  
San Francisco, California 94111

## 1. Funds

- a. Is a separate fund maintained for trust assets, liabilities, revenues and expenditures?

YES  NO

If "No", under what fund are they accounted for? If "Yes," please list the name(s) of the fund(s)

Port of San Francisco, an enterprise fund of the City and County of San Francisco

- b. Are separate financial statements prepared for the trust?

YES  NO

If "No," in which financial statements are they included? (Name of the document(s) and the applicable page number(s)) If "Yes," describe the organization of the separate financial statement.

Port Commission, City and County of San Francisco, dba Port of San Francisco ( more information at [sfport.com](http://sfport.com) )

## 2. Revenue

- a. What was the gross revenue received or generated from trust land or trust assets during the past fiscal year? Total revenues \$120,463,000 (pg 4); Operating revenues \$113,353,000 (pgs 4 and 23)

- b. Please list all sources of revenue and the amount of revenue generated from each source (e.g. permits, rentals, percentage of lease) See Income Statement (pg 23) and Note 2 descriptions (pg 29)

## 3. Expenses

- a. What was the total expenditure of funds received or generated from trust land or assets during the past fiscal year? Total expenses \$118,393,000 (pg 4); Operating expenses \$114,075,000 (pgs 4 and 23)

- b. What expenses were allocated or charged directly to the trust? Please list the source of the expenditure and the amount expended. See Income Statement for Operating and Nonoperating Expenses (pg 23) and Statement of Cash Flows (pgs 24-25)

- c. Have there been any capital improvements over \$250,000 within the current fiscal year? Are any capital improvements over \$250,000 expected in the next fiscal year?

Yes, see capital asset discussions (pgs 9-10) and Note 6 (pgs 35-36); Yes, major improvements are expected in the next year.

- d. Describe any other disposition of trust funds or assets or any other disposition of the trust lands or trust assets themselves. Include any internal funds that were transferred to other grantees, to the management of another entity or under the management of another political subdivision of the grantee per an agreement, settlement, or Memorandum of Understanding.

Jurisdiction transfers of property and other related party transactions are described in Note 14 (pgs 52-54)

## 4. Beginning and Ending Balance

Please list the beginning and ending balances for the tidelands trust fund(s) for this past fiscal year.

Net Position beginning balance of \$387,670,000 and ending balance of \$389,740,000 (pgs 4, 21 and 23)

**For all questions, please give the page number where the information can be found in your accompanying financial document. Please use additional pages as necessary.**

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**Condensed Financial Information – Port of San Francisco**

**Comparative Net Position (in thousands)**

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

**Changes in Net Position (in thousands)**

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

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

### **Capital Asset and Debt Administration**

#### **Capital Assets**

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

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

Major capital asset related events of 2017 included the following:

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

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

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

Major capital asset related events of 2016 included the following:

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

#### **Debt Administration**

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

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Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2017 and 2016  
(dollar amounts in thousands)

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

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

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Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016  
(dollar amounts in thousands)

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

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

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 Statements of Cash Flows (Continued)  
 For the Years Ended June 30, 2017 and 2016  
 (dollar amounts in thousands)

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

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

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**2. Significant Accounting Policies (Continued)**

***Operating Revenues and Expenses***

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

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

***Capital Contributions***

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

***Effects of New Pronouncements***

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

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



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**6. Capital Assets**

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

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

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**6. Capital Assets (Continued)**

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

Facilities and improvements include pier substructures, which have an estimated useful life greater than 50 years. The cost of such long-lived assets totaled \$21,915,000 as of June 30, 2017 and 2016. The cost of fully depreciated assets still in use was approximately \$175,335,000 and \$171,631,000 at June 30, 2017 and 2016, respectively. The Port received proceeds from sales of equipment and materials of \$2,000 in 2017 and 2016. Total interest expense was \$4,588,000 and \$4,688,000 for fiscal years 2017 and 2016, of which \$326,000 and \$32,000 was capitalized, respectively.

**7. Other Assets**

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

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**13. Redevelopment Agency**

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

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

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

**14. Related Party Transactions**

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

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

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**14. Related Party Transactions (Continued)**

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

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

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

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

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

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

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**14. Related Party Transactions (Continued)**

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

**15. Operating Lease Commitment**

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

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

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

**16. Commitments**

***Development and Capital Projects***

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