

DUE DECEMBER 31 Pursuant to Public Resources Code § 6306

Fiscal/Calendar Year: FY 2018-2019

Grantee Name: San Francisco Port District

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1. Funds

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

YES NO

If "Yes", please list the name(s) of the fund(s).

See FY2018-2019 audited financial statements (pg 3 & pg 26)

If "No", under what fund are they accounted for?

b. Are separate financial statements prepared for the trust?

YES NO

If "Yes," describe the organization of the separate financial statement.

Port Commission, City & County of San Francisco, dba Port of San Francisco

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

2. Revenue

a. What was the gross revenue received or generated from trust land or trust assets during the past fiscal year?

Total Revenues \$151,802,000 (pg 4); Operating Revenues \$122,033,000 (pg 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, etc.).

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 \$123,116,000 (pg 4); Operating Expenses \$112,108,000 (pg 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 on pg 35-36).

- 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 entity or under the management of another political subdivision of the grantee under an agreement, settlement, or memorandum of understanding.

See discussion of capital assets in Note 6 (pg 35) and related party transactions in Note 14 (pg 60-61). Also refer to attached Staff Report.

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 as restated \$401,952,000 and ending balance \$430,638,000 (pgs 4, 21, 23)

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Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2019 and 2018

Introduction

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

The Port is a self-supporting enterprise department of the City and County of San Francisco (City), and its financial statements are included in the City's basic financial statements. Only the accounts of the Port are included in the financial statements that follow. The Port Commission is responsible for seven and one-half miles of waterfront property, which was transferred in trust from the State of California to the City in 1969. The Port's revenue is derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities. Additional information concerning the Port's organization and the basis of presentation for this financial report is contained in Note 1 and Note 2 to the financial statements (pages 26 to 31).

Financial Statement Overview

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

The statements of revenues, expenses and changes in net position present information that shows 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. This statement also reports revenues and expenses 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 funding.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes follow the financial statements and can be found on pages 26 to 68 of this report.

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

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Condensed Financial Information – Port of San Francisco

Comparative Net Position (in thousands)

	June 30,			2019-2018 Change	2018-2017 Change
	2019	2018	2017		
Current and other assets	\$ 227,819	\$ 214,424	\$ 208,502	\$ 13,395	\$ 5,922
Capital assets	464,272	434,702	427,742	29,570	6,960
Total assets	692,091	649,126	636,244	42,965	12,882
Deferred outflows of resources	14,547	14,672	20,916	(125)	(6,244)
Current liabilities	31,925	32,221	26,505	(296)	5,716
Noncurrent liabilities	234,166	226,424	238,705	7,742	(12,281)
Total liabilities	266,091	258,645	265,210	7,446	(6,565)
Deferred inflows of resources	9,909	3,201	2,210	6,708	991
Net position:					
Net investment in capital assets	334,188	305,609	298,928	28,579	6,681
Restricted	14,467	20,738	24,365	(6,271)	(3,627)
Unrestricted	81,983	75,605	66,447	6,378	9,158
Total net position	\$ 430,638	\$ 401,952	\$ 389,740	\$ 28,686	\$ 12,212

Changes in Net Position (in thousands)

	Year Ended June 30,			2019-2018 Change	2018-2017 Change
	2019	2018	2017		
Revenues:					
Operating revenues	\$ 122,033	\$ 109,769	\$ 113,353	\$ 12,264	\$ (3,584)
Nonoperating revenues	27,860	6,463	5,288	21,397	1,175
Capital contributions	1,909	2,626	1,822	(717)	804
Total revenues	151,802	118,858	120,463	32,944	(1,605)
Expenses:					
Operating expenses	112,108	96,804	114,075	15,304	(17,271)
Nonoperating expenses	11,008	5,844	4,318	5,164	1,526
Total expenses	123,116	102,648	118,393	20,468	(15,745)
Change in net position	28,686	16,210	2,070	12,476	14,140
Net position, beginning of year, as restated	401,952	385,742	387,670	16,210	(1,928)
Net position, end of the year	\$ 430,638	\$ 401,952	\$ 389,740	\$ 28,686	\$ 12,212

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Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018
(dollar amounts in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenues (Note 9):		
Commercial and industrial	\$ 60,034	\$ 57,336
Parking	21,793	22,281
Cruise	7,947	7,901
Cargo	7,843	8,685
Fishing	2,273	2,184
Harbor services	2,672	1,847
Other maritime	2,559	2,652
Other	16,912	6,883
Total operating revenues	<u>122,033</u>	<u>109,769</u>
Operating expenses:		
Personal services	37,905	40,930
Contractual services	19,129	18,038
Utilities	2,961	2,859
Materials and supplies	1,353	1,001
Depreciation and amortization	24,608	17,778
General and administrative	3,847	3,585
Services provided by other City departments (Note 14)	18,718	19,310
Pollution remediation (Note 17)	1,105	(8,211)
Other	2,482	1,514
Total operating expenses	<u>112,108</u>	<u>96,804</u>
Operating income	<u>9,925</u>	<u>12,965</u>
Nonoperating revenues (expenses):		
Interest and investment income	6,189	2,231
Operating grants and transfers	3,331	4,232
Dispositions, net	(174)	(1,383)
Interest expense	(4,334)	(4,461)
Other contributions (Note 6)	(6,500)	-
Total net nonoperating revenues (expenses)	<u>(1,488)</u>	<u>619</u>
Change in net position before capital contributions and special item	<u>8,437</u>	<u>13,584</u>
Capital contributions:		
Grants from government agencies and other contributions	<u>1,909</u>	<u>2,626</u>
Special item:		
Receipt of operations - South Beach Harbor (Note 13)	<u>18,340</u>	<u>-</u>
Change in net position	<u>28,686</u>	<u>16,210</u>
Net position, beginning of the year, as previously reported	401,952	389,740
Cumulative effect of change in accounting principle due to implementation of GASB 75 (Note 2)	<u>-</u>	<u>(3,998)</u>
Net position, beginning of the year, as restated	<u>401,952</u>	<u>385,742</u>
Net position, end of the year	<u>\$ 430,638</u>	<u>\$ 401,952</u>

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

PORT COMMISSION
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Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

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 the organization's 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 a department of the City, and the accompanying financial statements are included in the City's basic financial statements.

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

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

2. Significant Accounting Policies

Basis of Accounting

The Port's financial statements are prepared using the economic resources measurement focus and the accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred. The statement of net position presents the residual difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as the net position. Net position is reported in three broad components, as applicable – net investment in capital assets; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net position, all Port revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net position.

Cash Equivalents

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

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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, 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 measuring unit (e.g. lineal feet of the 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 the construction of waterfront facilities and improvements. The funds are reported as capital contributions on the statement of revenues, expenses and changes in net position.

Special Item

Special items are significant transactions or events within the control of management that are either (1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) or (2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The Port received South Beach Harbor (SBH) operations and assets from the Office of Community Investment and Infrastructure (OCII) on May 1st, 2019. This transaction qualifies as a special item since this action was under the control of the Port's and OCII's Commissioners and met the criteria of infrequency (see Note 13).

Effects of New Pronouncements

In 2019, the City adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83) and No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The City's adoption of GASB 83 did not have a material impact on the Port's financial statements. GASB 88 establishes additional financial

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6. Capital Assets

A summary of changes in capital assets for years ended June 30, 2019 and 2018 are as follows (in thousands):

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Receipt of operations South Beach Harbor (Note 13)</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated/amortized:					
Land	\$ 104,169	\$ -	\$ 188	\$ -	\$ 103,981
Construction in progress	26,211	32,955	30,398	-	28,768
Total capital assets, not being depreciated/ amortized	<u>130,380</u>	<u>32,955</u>	<u>30,586</u>	<u>-</u>	<u>132,749</u>
Capital assets, being depreciated/amortized:					
Facilities and improvements	590,459	25,330	-	19,966	635,755
Machinery and equipment	25,834	3,948	468	-	29,314
Intangible assets	2,264	-	-	-	2,264
Dredging	9,460	2,565	-	-	12,025
Waterfront Land Use Plan	2,795	-	2,795	-	-
Infrastructure	30,682	-	-	-	30,682
Total capital assets, being depreciated/ amortized	<u>661,494</u>	<u>31,843</u>	<u>3,263</u>	<u>19,966</u>	<u>710,040</u>
Less accumulated depreciation/amortization for:					
Facilities and improvements	315,126	18,074	-	-	333,200
Machinery and equipment	16,739	1,419	468	-	17,690
Intangible assets	2,234	32	-	-	2,266
Dredging	6,081	3,647	-	-	9,728
Waterfront Land Use Plan	2,795	-	2,795	-	-
Infrastructure	14,197	1,436	-	-	15,633
Total accumulated depreciation/amortization	<u>357,172</u>	<u>24,608</u>	<u>3,263</u>	<u>-</u>	<u>378,517</u>
Total capital assets, being depreciated/amortized, net	<u>304,322</u>	<u>7,235</u>	<u>-</u>	<u>19,966</u>	<u>331,523</u>
Capital assets, net	<u>\$ 434,702</u>	<u>\$ 40,190</u>	<u>\$ 30,586</u>	<u>\$ 19,966</u>	<u>\$ 464,272</u>

The Pier 70 Mixed-Use District Project is a mixed-use development on the Port's central and southern waterfront areas. In October 2017, the Board of Supervisors approved the formation of the Pier 70 Special Use District (SUD) and a disposition and development agreement (DDA) with the Pier 70 developer. Under the terms of the DDA, the Port agreed to sell Parcel K North (PKN), a Port-owned parcel free from the public trust restrictions, to a developer. On February 13, 2019, the Port sold PKN to a developer in exchange for a promissory note of \$24,230,000. However, the execution of the promissory note and the resulting gain on the sale of PKN is contingent on the pending formation of the Pier 70 Community Facility District scheduled to be complete in fiscal year 2020. Accordingly, the Port wrote off the book value of the parcel and recognized a loss on disposal of \$188,000 in fiscal year 2019. The Port also made a \$6,500,000 contribution to the Pier 70 development area as an investment to fund early-stage development costs.

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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, 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 service provided by the San Francisco Public Utilities Commission (SFPUC), included in utilities on the statements of revenues, expenses and changes in net position, were \$2,074,000 and \$1,929,000 in fiscal years 2019 and 2018, respectively. Rental revenues from City departments included in operating revenues were approximately \$2,688,000 and \$2,776,000 in fiscal years 2019 and 2018, respectively.

In support of the three-year planning phase of the Embarcadero Seawall Program, the Port received \$250,000 from the Planning Department in 2019. Also, in 2019, the City provided \$250,000 for the Resiliency Plan and Improvement project. The Port received \$500,000 from SFMTA and \$250,000 from the Planning Department for project planning in 2018. In 2018, the City also provided \$3,500,000 to support the planning and design of the Mission Bay Ferry Landing.

In 2012, the Port and the SFPUC entered into a memorandum of understanding (MOU) to facilitate the installation of a shoreside power system at the Pier 70 ship repair facility. Among other things, the SFPUC committed to provide the Port a project rebate of \$1.5 million, or a pro-rata amount, based on a pre-established threshold for metered electricity consumption by the shoreside power system during the first ten years of operation. A prorated rebate amount of \$350,000 has been accrued at June 30, 2019 and \$332,000 has been accrued at June 30, 2018 as an advance receivable, a component of unrestricted other noncurrent assets.

The Port and SFPUC entered into an MOU dated September 1, 2018 to construct certain improvements to the Mariposa Pump Station and associated sewer work on the Port premises located within Seawall Lot 345. The SFPUC will use the premises for an initial term of 30 years and pay the Port rent payment of \$0.45 per square foot per month with a 3% annual increase for a total rent of \$1,242,000. In fiscal year 2019, SFPUC paid the Port a lump sum of \$502,000 as the net present value of the total rent for the initial term of 30 years.

On September 27, 2018, the Port and Mayor's Office of Housing and Community Development (MOHCD) entered into a Memorandum of Understanding to implement the affordable housing development project at the Seawall Lot 322-1 ("88 Broadway"). MOHCD agreed to pay the Port the fair market value for the property in the amount of \$14,900,000 from any source funds available to MOHCD. If MOHCD does not pay the Port the full fair market value as of the date of Ground Lease closing, interest will accrue on the unpaid amounts at a rate of 1.5% simple interest per annum during the first two (2) years and at a rate of 3% per annum thereafter until the date of payment in full. At June 30, 2019, the Port is due a total of \$14,958,000 from MOHCD. In March 2019, the Port entered into a Ground Lease with a developer. The Ground Lease has a term of fifty-seven years plus one eighteen extension option (a 75-year maximum term but with expiration

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14. Related Party Transactions (Continued)

no later than December 31, 2105). The lease revenues are being amortized over the 75-year maximum term of the lease. At June 30, 2019, the Port has a noncurrent unearned revenue balance in the amount of \$14,500,000 related to this Ground Lease. In addition to the payment by MOHCD, the Developer will be required to make lease payments representing a share of any cash flow generated by commercial activities.

The Port and Department of Building Inspection (DBI) entered into an MOU dated May 7, 2018 to provide plan review and field inspection in accordance with San Francisco Building Code on projects enforced by the Port. As of June 30, 2019, the Port accrued a liability payable to DBI in the amount of \$585,000 for the 88 Broadway project.

In December 2017, the Port and San Francisco Fire Department (SFFD) entered into an MOU for the use of water, apron, shed and office space at Pier 26 for berthing and servicing of fireboats for five years and on a month-to-month basis afterward. To facilitate these uses, SFFD repaired apron decking, replaced the fender system within the leasehold area and upgraded electrical services to Pier 26. In return, the Port allowed SFFD to apply hundred percent rent credits toward the lease payments until all required capital improvements, approximately \$2.3 million, are fully offset. As of June 30, 2019, rent credits of \$366,000 have been provided to SFFD.

15. Operating Lease Commitment

The Port has a noncancelable 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	
2020	\$ 2,726
2021	2,726
2022	2,726
2023	2,726
2024	2,726
2025-2029	13,628
2030-2034	13,628
2035-2039	13,628
2040-2044	13,628
2045-2049	13,628
2050-2054	13,628
2055-2059	13,628
2060-2064	13,628
2065	227
Total	<u>\$ 122,881</u>