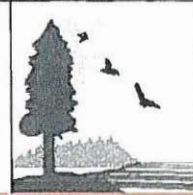


**DUE DECEMBER 31**

Pursuant to Public  
Resources Code § 6306

# Granted Public Trust Lands Standardized Reporting Form



**Fiscal/Calendar Year:** Fiscal Year 2017-2018

**Grantee Name:** San Francisco Port District  
**Contact Person:** Katharine Petrucione, Deputy Director of Finance & Administration  
**Contact Phone:** 415-274-0481  
**Mailing Address:** Port of San Francisco  
Pier 1, The Embarcadero  
San Francisco, CA 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)
- 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 & County of San Francisco, dba Port of San Francisco

## 2. Revenue

- a. What was the gross revenue received or generated from trust land or trust assets during the past fiscal year? Total Revenues \$118,858,000 (pg 4); Operating Revenues \$109,769,000 (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) 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 \$102,648,000 (pg 4); Operating Expenses \$96,804,000 (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 (pgs 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 another entity or under the management of another political subdivision of the grantee per an agreement, settlement, or Memorandum of Understanding.  
No other notable dispositions. See discussion of related party transactions in Note 14 (pg 57-58).

## 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 \$385,742,000 and ending balance \$401,952,000 (pgs 4, 21, 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.**

**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Management's Discussion and Analysis (Unaudited)  
For the Years Ended June 30, 2018 and 2017

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

**Comparative Net Position (in thousands)**

	June 30,			2018-2017 Change	2017-2016 Change
	2018	2017	2016		
Current and other assets	\$ 214,424	\$ 208,502	\$ 191,839	\$ 5,922	\$ 16,663
Capital assets	434,702	427,742	430,850	6,960	(3,108)
Total assets	649,126	636,244	622,689	12,882	13,555
Deferred outflows of resources	14,672	20,916	6,467	(6,244)	14,449
Current liabilities	32,221	26,505	23,454	5,716	3,051
Noncurrent liabilities	226,424	238,705	210,874	(12,281)	27,831
Total liabilities	258,645	265,210	234,328	(6,565)	30,882
Deferred inflows of resources	3,201	2,210	7,158	991	(4,948)
Net position:					
Net investment in capital assets	305,609	298,928	304,396	6,681	(5,468)
Restricted	20,738	24,365	26,152	(3,627)	(1,787)
Unrestricted	75,605	66,447	57,122	9,158	9,325
Total net position	\$ 401,952	\$ 389,740	\$ 387,670	\$ 12,212	\$ 2,070

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

	Year Ended June 30,			2018-2017 Change	2017-2016 Change
	2018	2017	2016		
Revenues:					
Operating revenues	\$ 109,769	\$ 113,353	\$ 99,733	\$ (3,584)	\$ 13,620
Nonoperating revenues	6,463	5,288	2,737	1,175	2,551
Capital contributions	2,626	1,822	24,081	804	(22,259)
Total revenues	118,858	120,463	126,551	(1,605)	(6,088)
Expenses:					
Operating expenses	96,804	114,075	86,820	(17,271)	27,255
Nonoperating expenses	5,844	4,318	4,656	1,526	(338)
Total expenses	102,648	118,393	91,476	(15,745)	26,917
Change in net position	16,210	2,070	35,075	14,140	(33,005)
Net position, beginning of year, as restated	385,742	387,670	352,595	(1,928)	35,075
Net position, end of the year	\$ 401,952	\$ 389,740	\$ 387,670	\$ 12,212	\$ 2,070

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

Statements of Net Position (Continued)

June 30, 2018 and 2017

(dollar amounts in thousands)

	<b>2018</b>	<b>2017</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 9,551	\$ 4,746
Payable to the City General Fund	-	100
Accrued interest payable	1,535	1,580
Accrued payroll	1,667	1,612
Accrued vacation and sick leave pay (Note 8)	1,346	1,285
Accrued workers' compensation (Notes 8 and 18)	454	461
Estimated claims payable (Notes 8, 17 and 18)	200	775
Current maturities of long-term obligations (Note 8)	2,693	2,567
Pollution remediation obligations (Notes 8 and 17)	44	231
Prepaid rents and advance payments	4,077	2,326
Rent credits due to tenants	1,986	2,566
Lessee and other deposits	8,668	8,256
Total current liabilities	32,221	26,505
<b>Noncurrent liabilities:</b>		
Accrued vacation and sick leave pay (Note 8)	909	882
Accrued workers' compensation (Notes 8 and 18)	2,546	2,445
Estimated claims payable (Notes 8, 17 and 18)	250	350
Long-term obligations - net of current maturities (Note 8)	83,622	86,377
Pollution remediation obligations (Notes 8 and 17)	3,000	11,211
Net pension liability (Note 10)	43,730	51,608
Net OPEB liability (Note 12)	30,750	23,864
Prepaid rents, advance payments and other liabilities	13,981	14,369
Rent credits due to tenants	47,636	47,599
Total noncurrent liabilities	226,424	238,705
Total liabilities	258,645	265,210
<b>Deferred inflows of resources</b>		
Deferred inflows of resources related to pensions (Note 10)	3,151	2,210
Deferred inflows of resources related to OPEB (Notes 2 and 12)	50	-
Total deferred inflows of resources	3,201	2,210
<b>Net position</b>		
Net investment in capital assets	305,609	298,928
Restricted for capital projects	20,738	24,365
Unrestricted	75,605	66,447
Total net position	\$ 401,952	\$ 389,740

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 Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2018 and 2017  
(dollar amounts in thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues (Note 9):		
Commercial and industrial	\$ 57,336	\$ 54,510
Parking	22,281	21,900
Cruise	7,901	7,406
Cargo	8,685	6,248
Ship repair	-	1,398
Fishing	2,184	2,402
Harbor services	1,847	1,827
Other maritime	2,652	1,739
Other	6,883	15,923
Total operating revenues	<u>109,769</u>	<u>113,353</u>
Operating expenses:		
Personal services	40,930	47,998
Contractual services	18,038	11,660
Utilities	2,859	2,833
Materials and supplies	1,001	1,853
Depreciation and amortization	17,778	24,191
General and administrative	3,585	4,345
Services provided by other City departments (Note 14)	19,310	19,009
Pollution remediation (Note 17)	(8,211)	242
Other	1,514	1,944
Total operating expenses	<u>96,804</u>	<u>114,075</u>
Operating income (loss)	<u>12,965</u>	<u>(722)</u>
Nonoperating revenues (expenses):		
Interest and investment income	2,231	1,502
Operating grants and transfers	4,232	3,786
Dispositions, net (Note 14)	(1,383)	(56)
Interest expense	(4,461)	(4,262)
Total net nonoperating revenues (expenses)	<u>619</u>	<u>970</u>
Change in net position before capital contributions	<u>13,584</u>	<u>248</u>
Capital contributions:		
Grants from government agencies and other contributions	2,626	1,822
Change in net position	<u>16,210</u>	<u>2,070</u>
Net position, beginning of the year, as previously reported	389,740	387,670
Cumulative effect of change in accounting principle due to implementation of GASB 75 (Note 2)	(3,998)	-
Net position, beginning of the year, as restated	<u>385,742</u>	<u>387,670</u>
Net position, end of the year	<u>\$ 401,952</u>	<u>\$ 389,740</u>

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, 2018 and 2017  
(dollar amounts in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from tenants for rent	\$ 78,499	\$ 74,154
Cash received from customers and others	27,400	28,578
Deposits received from tenants and customers	608	835
Cash paid to employees for services	(38,631)	(34,529)
Cash paid to suppliers for goods and services	(22,542)	(21,029)
Cash paid to City for services	(19,345)	(18,629)
Customer deposits returned	(364)	(778)
Net cash provided by operating activities	<u>25,625</u>	<u>28,602</u>
Cash flows from noncapital financing activities:		
Contribution from other City Departments	4,250	1,000
Operating grants	730	2,624
Net cash provided by noncapital financing activities	<u>4,980</u>	<u>3,624</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of facilities and equipment	(15,498)	(17,123)
Dredging	(4,920)	(3,098)
Payments of long-term debt	(2,567)	(2,521)
Interest payments on long-term debt	(4,587)	(4,688)
Capital grants received	443	644
Other capital contributions	550	550
Proceeds from sale of equipment and materials	30	2
Net cash (used in) capital and related financing activities	<u>(26,549)</u>	<u>(26,234)</u>
Cash flows from investing activities:		
Interest and investment income	1,709	1,436
Net cash provided by investing activities	<u>1,709</u>	<u>1,436</u>
Change in cash and cash equivalents	5,765	7,428
Cash and cash equivalents, beginning of year	190,651	183,223
Cash and cash equivalents, end of year	<u>\$ 196,416</u>	<u>\$ 190,651</u>

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, 2018 and 2017  
(dollar amounts in thousands)

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 12,965	\$ (722)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	17,778	24,191
Change in allowance for doubtful accounts	(180)	188
Net effects of (increase) decrease in:		
Receivables	763	(5,653)
Tenant deposits held outside City Treasury	-	39
Materials and supplies	240	(129)
Prepaid charges, advances and other assets	428	(2,251)
Net effects of increase (decrease) in:		
Accounts payable and accrued expenses	1,580	1,085
Accrued payroll	55	328
Accrued vacation and sick leave pay	88	(24)
Accrued workers' compensation	94	179
Estimated claims payable	(675)	150
Pollution remediation obligations	(8,398)	413
OPEB and related deferred outflows/inflows of resources	1,252	2,220
Rent credits, prepaid rent and other liabilities	(1,358)	(2,332)
Net pension liability and related deferred outflows/inflows of resources	993	10,920
Net cash provided by operating activities	<u>\$ 25,625</u>	<u>\$ 28,602</u>
Noncash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued expenses	\$ 5,033	\$ 1,908
Tenant improvements financed by rent credits	2,590	613
Reclassification of construction improvement materials to inventory	-	573
Capitalized interest	18	326
Asset disposals and abandoned capital improvement projects	(1,413)	(58)
Reconciliation of cash and equivalents to the statement of net position:		
Cash and investments held in City Treasury		
Unrestricted	\$ 155,722	\$ 146,019
Restricted	30,877	34,748
Cash and investments held outside City Treasury		
Unrestricted	5	5
Restricted	10,077	10,144
Cash and equivalents	<u>196,681</u>	<u>190,916</u>
Less: Investment outside of City Treasury not meeting the definition of cash equivalents	<u>(265)</u>	<u>(265)</u>
Total cash and cash equivalents	<u>\$ 196,416</u>	<u>\$ 190,651</u>

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

**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

**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***

In 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB 75), which is intended to improve accounting and financial reporting for OPEB. GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The Port did not restate the financial statements for the year ended June 30, 2017 because the actuarial information was not available. As such, the Port included the OPEB disclosures under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). As of July 1, 2017, the Port restated its net position by (\$3,998,000) to restate beginning Net OPEB Liability from (\$23,864,000) to (\$29,383,000) and record beginning Deferred Outflows of Resources of \$1,521,000.

**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

**6. Capital Assets**

A summary of changes in capital assets for years ended June 30, 2018 and 2017 are as follows (in thousands):

	<b>Balance July 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2018</b>
Capital assets, not being depreciated/amortized:				
Land	\$ 105,582	\$ -	\$ 1,413	\$ 104,169
Construction in progress	13,655	25,850	13,294	26,211
Total capital assets, not being depreciated/ amortized	<u>119,237</u>	<u>25,850</u>	<u>14,707</u>	<u>130,380</u>
Capital assets, being depreciated/amortized:				
Facilities and improvements	582,568	7,891	-	590,459
Machinery and equipment	25,426	767	359	25,834
Intangible assets	2,264	-	-	2,264
Dredging	4,539	4,921	-	9,460
Waterfront Land Use Plan	2,779	16	-	2,795
Infrastructure	30,682	-	-	30,682
Total capital assets, being depreciated/ amortized	<u>648,258</u>	<u>13,595</u>	<u>359</u>	<u>661,494</u>
Less accumulated depreciation/amortization for:				
Facilities and improvements	302,598	12,528	-	315,126
Machinery and equipment	15,887	1,211	359	16,739
Intangible assets	2,198	36	-	2,234
Dredging	3,454	2,627	-	6,081
Waterfront Land Use Plan	2,739	56	-	2,795
Infrastructure	12,877	1,320	-	14,197
Total accumulated depreciation/amortization	<u>339,753</u>	<u>17,778</u>	<u>359</u>	<u>357,172</u>
Total capital assets, being depreciated/amortized, net	<u>308,505</u>	<u>(4,183)</u>	<u>-</u>	<u>304,322</u>
Capital assets, net	<u>\$ 427,742</u>	<u>\$ 21,667</u>	<u>\$ 14,707</u>	<u>\$ 434,702</u>



**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

**6. Capital Assets (Continued)**

	<b>Balance July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
Capital assets, not being depreciated/amortized:				
Land	\$ 105,582	\$ -	\$ -	\$ 105,582
Construction in progress	13,906	18,003	18,254	13,655
Total capital assets, not being depreciated/ amortized	<u>119,488</u>	<u>18,003</u>	<u>18,254</u>	<u>119,237</u>
Capital assets, being depreciated/amortized:				
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
Total capital assets, being depreciated/ amortized	<u>633,328</u>	<u>21,392</u>	<u>6,462</u>	<u>648,258</u>
Less accumulated depreciation/amortization for:				
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
Total accumulated depreciation/amortization	<u>321,966</u>	<u>24,191</u>	<u>6,404</u>	<u>339,753</u>
Total capital assets, being depreciated/amortized, net	<u>311,362</u>	<u>(2,799)</u>	<u>58</u>	<u>308,505</u>
Capital assets, net	<u>\$ 430,850</u>	<u>\$ 15,204</u>	<u>\$ 18,312</u>	<u>\$ 427,742</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, 2018 and 2017. The cost of fully depreciated assets still in use was approximately \$187,571,000 and \$175,335,000 at June 30, 2018 and 2017, respectively. The Port received proceeds from sales of equipment and materials of \$30,000 in 2018 and \$2,000 in 2017. Total interest expense was \$4,479,000 and \$4,588,000 for fiscal years 2018 and 2017, of which \$18,000 and \$326,000 was capitalized, respectively. Depreciation and amortization expense in 2018 included a (\$4,732,000) adjustment derived from calculations using updated estimated useful lives for certain capital assets.

**7. Other Assets**

Other unrestricted noncurrent assets represent the long-term portion of lease or other agreement obligations from tenants and customers. The Port and a developer entered into a promissory note for \$1,500,000 to cover the cost of certain improvements. Repayment is scheduled to commence at a future date following the Developer Equity Repayment Date, as defined in the master lease. Account balance includes interest receivable of \$69,000 on the principal balance disbursed and outstanding at the rate of 4.41% per annum, simple interest.

**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

**13. Redevelopment Agency (Continued)**

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 on 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 2018, services provided by other City departments included \$2,696,000 of insurance premiums and \$544,000 in workers' compensation expense. In fiscal year 2017, services provided by other City departments included \$2,695,000 of insurance premiums and \$612,000 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 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 \$1,929,000 and \$2,113,000 in fiscal years 2018 and 2017, respectively. Rental revenues from City departments included in operating revenues were approximately \$2,776,000 and \$2,435,000 in fiscal years 2018 and 2017, respectively.

In support of the three-year planning phase of the Seawall Earthquake Safety and Disaster Prevention Program, the Port received \$500,000 from SFMTA and \$250,000 from the Planning Department in 2018. The Port received \$500,000 from SFMTA and \$500,000 from the Planning Department for project planning in 2017. Also in 2018, the City provided \$3,500,000 to support 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 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 \$332,000 has been accrued at June 30, 2018 and \$324,000 has been accrued at June 30, 2017 as a noncurrent receivable, a component of unrestricted other noncurrent assets.

The Port and SFMTA entered into a 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.

**PORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**PORT OF SAN FRANCISCO**  
Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

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

Pursuant to the MOU, SFMTA paid to the Port \$29.7 million in 2001 for the perpetual use and the future jurisdictional transfer of this property, subject to the satisfaction of various conditions. With the 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 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. The property cost of \$1.4 million was recorded as an asset disposition in fiscal year 2018.

In December 2017, the Port and San Francisco Fire Department (SFFD) entered into a MOU for the use of water, apron, shed and office space at Pier 26 for berthing and servicing of fire boats 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, 2018, rent credits of \$2.2 million have been approved by the Port based on completed work.

**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>	
2019	\$ 2,728
2020	2,728
2021	2,728
2022	2,728
2023	2,728
2024-2028	13,640
2029-2033	13,640
2034-2038	13,640
2039-2043	13,640
2044-2048	13,640
2049-2053	13,640
2054-2058	13,640
2059-2063	13,640
2064-2065	<u>2,955</u>
Total	<u>\$ 125,715</u>

The master lease, as amended in fiscal year 2016, allows the master tenant an option to extend the lease term for an additional 15 years. Among other things, the amended 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 \$2,704,000 in fiscal year 2018 and \$2,702,000 in fiscal year 2017.